



Essay on the Nature of Commerce

Richard Cantillon

[1755 / Part 1 of 7 (abridged)]

Chapter One

On Wealth

The land is the source or matter from whence all wealth is produced. The labour of man is the form which produces it: and wealth in itself is nothing but the maintenance, conveniencies, and superfluities of life.

Land produces herbage, roots, corn, flax, cotton, hemp, shrubs and timber of several kinds, with divers sorts of fruits, bark, and foliage like that of the mulberry-tree for silkworms; it supplies mines and minerals. To all this the labour of man gives the form of wealth.

Rivers and seas supply fish for the food of man, and many other things for his enjoyment. But these seas and rivers belong to the adjacent lands or are common to all, and the labour of man extracts from them the fish and other advantages.

Chapter Two

Of Human Societies

Which way soever a society of men is formed the ownership of the land they inhabit will necessarily belong to a small number among them ...

In the more settled societies: if a prince at the head of an army has conquered a country, he will distribute the lands among his officers or favourites according to their merit or his pleasure (as was originally the case in France): he will then establish laws to vest the property in them and their descendants: or he will reserve to himself the ownership of the land and employ his officers or favourites to cultivate it: or will grant the land to them on condition that they pay for it an annual quit rent or due: or he will grant it to them while reserving his freedom to tax them every year according to his needs and their capacity. In all these cases these officers or favourites, whether absolute owners or dependents, whether stewards or bailiffs of the produce of the land, will be few in number in proportion to all the inhabitants.

Even if the prince distribute the land equally among all the inhabitants it will ultimately be divided among a small number. One man will have several children and cannot leave to each of them a portion of land equal to his own; another will die without children, and will leave his portion to some one who has land already rather than to one who has none; a third will be lazy, prodigal, or sickly, and be obliged to sell his portion to another who is frugal and industrious, who will continually add to his estate by new purchases and will employ upon it the labour of those who having no land of their own are compelled to offer him their labour in order to live.

At the first settlement of Rome each citizen had two journaux of land allotted to him. Yet there was soon after as great an inequality in the estates as that which we see today in all the countries of Europe. The land was divided among a few owners.

Supposing then that the land of a new country belongs to a small number of persons, each owner will manage his land himself or let it to one or more farmers: in this case it is essential that the farmers and labourers should have a living whether they cultivate the land for the owner or for the farmer. The overplus of the land is at the disposition of the owner: he pay part of it to

the prince or the government, or else the farmer does so directly at the owner's expense.

As for the use to which the land should be put, the first necessity is to employ part of it for the maintenance and food of those who work upon it and make it productive: the rest depends principally upon the humour and fashion of living of the prince, the lords, and the owner: if these are fond of drink, vines must be cultivated; if they are fond of silks, mulberry-trees must be planted and silkworms raised, and moreover part of the land must be employed to support those needed for these labours; if they delight in horses, pasture is needed, and so on.

If however we suppose that the land belongs to no one in particular, it is not easy to conceive how a society of men can be formed there: we see, for example, in the village commons a limited fixed to the number of animals that each of the commoners may put upon them; and if the land were left to the first occupier in a new conquest or discovery of a country it would always be necessary to fall back upon a law to settle ownership in order to establish a society, whether the law rested upon force or upon policy.

Chapter Three

Of Villages

To whatever cultivation land is put, whether pasture, corn, vines, etc. the farmers or labourers who carry on the work must live near at hand; otherwise the time taken in going to their fields and returning to their houses would take up too much of the day. Hence the necessity for villages established in all the country and cultivated land, where there must also be enough farriers and wheelwrights for the instruments, ploughs, and carts which are needed; especially when the village is at a distance from the towns. The size of a village is naturally proportioned in number of inhabitants to what the land dependent on it requires for daily work, and to the artisans who find enough employment there in the service of the farmers and labourers: but these artisans are not quite so necessary in the neighbourhood of towns to which the labourers can resort without much loss of time.

If one or more of the owners of the land dependent on the village reside there the number of inhabitants will be greater in proportion to the domestic servants and artisans drawn thither, and the inns which will be established there for the convenience of the domestic servants and workmen who are maintained by the landlords.

If the lands are only proper for maintaining sheep, as in the sandy districts and moorlands, the villages will be fewer and smaller since only a few shepherds are required on the land.

If the lands only produce woods in sandy soils where there is no grass for beasts, and if they are distant from towns and rivers which makes the timber useless for consumption as one sees in many cases in Germany, there will be only so many houses and villages as are needed to gather acorns and feed pigs in season: but if the lands are altogether barren there will be neither villages nor inhabitants.

Chapter Four

Of Market Towns

There are some villages where markets have been established by the interest of some proprietor or gentleman at court. These markets, held once or twice a week, encourage several little undertakers and merchants to set themselves up there. They buy in the market the products brought from the surrounding villages in order to carry them to the large towns for sale. ...

The size of the market town is naturally proportioned to the number of farmers and labourers needed to cultivate the lands dependent on it, and to the number of artisans and small merchants that the villages bordering on the market town employ with their assistants and horses, and finally to the number of persons whom the landowners resident there support.

When the villages belonging to a market town (i.e. whose people ordinarily bring their produce to market there) are considerable and have a large output the market town will become considerable and large in proportion; but when the neighbouring villages have little produce the market town also is poor and insignificant.

Chapter Five

Of Cities

The landlords who have only small estates usually reside in market towns and villages near their land and farmers. The transport of the produce they derive from them into distant cities would not enable them to live comfortably there. But the landlords who have several large estates have the means to go and live at a distance from them to enjoy agreeable society with other landowners and gentlemen of the same condition.

If a prince or nobleman who has received large grants of land on the conquest or discovery of a country fixes his residence in some pleasant spot, and several other noblemen come to live there to be within reach of seeing each other frequently and enjoying agreeable society, this place will become a city. Great houses will be built there for the noblemen in question, and an infinity of others for the merchants, artisans, and people of all sorts of professions whom the residence of these noblemen will attract thither. For the service of these noblemen, bakers, butchers, brewers, wine merchants, manufacturers of all kinds, will be needed. These will build houses in the locality or will rent houses built by others. There is no great nobleman whose expense upon his house, his retinue and servants, does not maintain merchants and artisans of all kinds, as may be seen from the detailed calculations which I have caused to be made in the supplement of this essay.

As all these artisans and undertakers serve each other as well as the nobility it is overlooked that the upkeep of them all falls ultimately on the nobles and landowners. It is not perceived that all the little houses in a city such as we have described depend upon and subsist at the expense of the great houses. It will, however, be shown later that all the classes and inhabitants of a state live at the expense of the proprietors of land. The city in question will increase still further if the king or the government establish in it law courts to which the people of the market towns and villages of the province must have recourse. An increase of undertakers and artisans of every sort will be needed for the service of the legal officials and lawyers.

If in this same city workshops and manufactories be set up apart from home consumption for export and sale abroad, the city will be large in proportion to the workmen and artisans who live there at the expense of the foreigner.

But if we put aside these considerations so as not to complicate our subject, we may say that the assemblage of several rich landowners living together in the same place suffices to form what is called a city, and that many cities in Europe, in the interior of the country, owe the number of their inhabitants to this assemblage: in which case the size of a city is naturally proportioned to the number of landlords who live there, or rather to the produce of the land which belongs to them after deduction of the cost of carriage to those whose land is the furthest removed, and the part which they are obliged to furnish to the king or the government, which is usually consumed in the capital.

Chapter Six

Of Capital Cities

A capital city is formed in the same way as a provincial city with this difference that the largest landowners in all the state reside in the capital, that the king or supreme government is fixed in it and spends there the government revenue, that the supreme courts of justice are fixed there, that it is the centre of the fashions which all the provinces take for a model, that the landowners who reside in the provinces do not fail to come occasionally to pass some time in the capital and to send their children thither to be polished. Thus all the lands in the state contribute more or less to maintain those who dwell in the capital.

If a sovereign quits a city to take up his abode in another the nobility will not fail to follow him and to make its residence with him in the new city which will become great and important at the expense of the first. We have seen quite a recent example of this in the city of Petersburg to the disadvantage of Moscow, and one sees many old cities which were important fall into ruin and others spring from their ashes. Great cities are usually built on the seacoast or on the banks of large rivers for the convenience of transport; because water carriage of the produce and merchandise necessary for the subsistence and comfort of the inhabitants is much cheaper than carriages and land transport.

Chapter Seven

The Labour of the Husbandman is of less Value than that of the Handicrafts Man

A labourer's son at seven or twelve years of age begins to help his father either in keeping the flocks, digging the ground, or in other sorts of country labour which require no art or skill. ...

Those who employ artisans or craftsmen must needs therefore pay for their labour at a higher rate than for that of a husbandman or common labourer; and their labour will necessarily be dear in proportion to the time lost in learning the trade and the cost and risk incurred in becoming proficient.

The craftsmen themselves do not make all their children learn their own mystery: there would be too many of them for the needs of a city or a state; many would not find enough work; the work, however, is naturally better paid than that of husbandmen.

Chapter Eight

Some Handicrafts Men earn more, others less, according to the different Cases and Circumstances

The crafts which require the most time in training or most ingenuity and industry must necessarily be the best paid. A skillful cabinet maker must receive a higher price for his work than an ordinary carpenter, and a good watchmaker more than a farrier. ... By these examples and a hundred others drawn from ordinary experience it is easily seen that the difference of price paid for daily work is based upon natural and obvious reasons.

Chapter Nine

The Number of Labourers, Handicraftsmen and others, who work in a State is naturally proportioned to the Demand for them

If all the labourers in a village breed up several sons to the same work there will be too many labourers to cultivate the lands belonging to the village, and the surplus adults must go to seek a livelihood elsewhere, which they generally do in cities: if some remain with their fathers, as they will not all find sufficient employment they will live in great poverty and will not marry for lack of means to bring up children, or if they marry, the children who come will soon die of starvation with their parents, as we see every day in France.

Therefore if the village continue in the same situation as regards employment, and derives its living from cultivating the same portion of land, it will not increase in population in a thousand years. ...

By the same process of reasoning it is easy to conceive that the labourers, handicraftsmen and others who gain their living by work, must proportion themselves in number to the employment and demand for them in market towns and cities.

Chapter Ten

The Price and Intrinsic Value of a Thing in general is the measure of the Land and Labour which enter into its Production

One acre of land produces more corn or feeds more sheep than another. The work of one man is dearer than that of another, as I have already explained, according to the superior skill and occurrences of the times. If two acres of land are of equal goodness, one will feed as many sheep and produce as much wool as the other, supposing the labour to be the same, and the wool produced by one acre will be the same, and the wool produced by one acre will sell at the same price as that produced by the other.

If the wool of the one acre is made into a suit of coarse cloth and the wool of the other into a suit of fine cloth, as the latter will require more work and dearer workmanship it will be sometimes ten times dearer, though both contain the same quantity and quality of wool. The quantity of the produce of the land and the quantity as well as the quality of the labour, will of necessity enter into the price. ...

The price of a pitcher of Seine water is nothing, because there is an immense supply which does not dry up; but in the streets of Paris people give a sol for it -- the price or measure of the labour of the water carrier.

By these examples and inductions it will, I think, be understood that the price or intrinsic value of a thing is the measure of the quantity of land and of labour entering into its production, having regard to the fertility or produce of the land and to the quality of the labour.

But it often happens that many things which have actually this intrinsic value are not sold in the market according to that value: that will depend on the humours and fancies of men and on their consumption.

If a gentleman cuts canals and erects terraces in his garden, their intrinsic value will be proportionable to the land and labour; but the price in reality will not always follow this proportion. If he offers to sell the garden possibly no one will give him half the

expense he has incurred. It is also possible that if several persons desire it he may be given double the intrinsic value, that is twice the value of the land and the expense he has incurred.

If the farmers in a state sow more corn than usual, much more than is needed for the year's consumption, the real and intrinsic value of the corn will correspond to the land and labour which enter into its production; but as there is too great an abundance of it and there are more sellers than buyers the market price of the corn will necessarily fall below the intrinsic price of value. If on the contrary the farmers sow less corn than is needed for consumption there will be more buyers than sellers and the market price of corn will rise above its intrinsic value.

There is never a variation in intrinsic values, but the impossibility of proportioning the production of merchandise and produce in a state to their consumption causes a daily variation, and a perpetual ebb and flow in market prices. However in well organized societies the market prices of articles whose consumption is tolerably constant and uniform do not vary much from the intrinsic value; and when there are no years of too scanty or too abundant production the magistrates of the city are able to fix the market prices of many things, like bread and meat, without any on having cause to complain.

Land is the matter and labour the form of all produce and merchandise, and as those who labour must subsist on the produce of the land it seems that some relation might be found between the value of labour and that of the produce of the land: this will form the subject of the next chapter.

Chapter Eleven

Of the Par or Relation between the Value of Land and Labour

It does not appear that Providence has given the right of the possession of land to one man preferably to another: the most ancient titles are founded on violence and conquest. The lands of Mexico now belong to the Spaniards and those at Jerusalem to the Turks. But howsoever people come to the property and possession of land we have already observed that it always falls into the hands of a few in proportion to the total inhabitants.

If the proprietor of a great estate keeps it in his own hands he will employ slaves or free men to work upon it. If he has many slaves he must have overseers to keep them at work: he must likewise have slave craftsmen to supply the needs and conveniencies of life for himself and his workers, and must have trades taught to others in order to carry on the work.

In this economy he must allow his labouring slaves their subsistence and wherewithal to bring up their children. The overseers must allow advantages proportionable to the confidence and authority which he gives them. The slaves who have been taught a craft must be maintained without any return during the time of their apprenticeship and the artisan slaves and their overseers who should be competent in the crafts must have a better subsistence than the labouring slaves, etc. since the loss of an artisan would be greater than that of a labourer and more care must be taken of him having regard to the expense of training another to take his place. ...

If the proprietor employ the labour of vassals or free peasants he will probably maintain them upon a better foot than slaves according to the custom of the place he lives in, yet in this case also the labour of a free labourer ought to correspond in value to double the produce of land needed for his maintenance. But it will always be more profitable to the proprietor to keep slaves than to keep free peasants, because when he has brought up a number too large for his requirements he can sell the surplus slaves as he does his cattle and obtain for them a price proportionable to what he has spent in rearing them to manhood or working age, except in cases of old age or infirmity. ...

For this reason I have not determined to how much land the labour of the meanest peasant corresponds in value when I laid down that it is worth double the produce of the land which serves to maintain him: because this varies according to the mode of living in different countries. In some provinces of France the peasant keeps himself on the produce of one acre and a half of land and the value of his labour may be reckoned equal to the product of three acres. But in the county of Middlesex the peasant usually spends the produce of 5 to 8 acres of land and his labour may be valued at twice as much as this.

In the country of the Iroquois where the inhabitants do not plough the land and live entirely by hunting, the meanest hunter may consume the produce of 50 acres of land since it probably requires so much to support the animals he eats in one year, especially as these savages have not the industry to grow grass by cutting down the trees but leave everything to nature. The labour of this hunter may then be reckoned equal in value to the product of 100 acres of land. In the southern provinces of China the land yields rice up to three crops in one year and a hundred times as much as is sown, owing to the great care which they have of agriculture and the fertility of the soil which is never fallow. The peasants who work there almost naked live only on rice and drink only rice water, and it appears that one acre will support there more than ten peasants. It is not surprising, therefore, that the population is prodigious in number. In any case it seems from these examples that nature is altogether

indifferent whether that earth produce grass, trees, or grain, or maintains a large or small number of vegetables, animals, or men.

Farmers in Europe seem to correspond to overseers of labouring slaves in other countries, and the master tradesmen who employ several journeymen to the overseers of artisan slaves. These masters know pretty well how much work a journeyman artisan can do in a day in each craft, and often pay them in proportion to the work they do, so that the journeymen work for their own interest as hard as they can without further inspection.

As the farmers and masters of crafts in Europe are all undertakers working at a risk, some get rich and gain more than a double subsistence, others are ruined and become bankrupt, as will be explained more in detail in treating of undertakers; but the majority support themselves and their families from day to day, and their labour or superintendence may be valued at about thrice the produce of the land which serves for their maintenance. ...

By these examples and others which might be added in the same sense, it is seen that the value of the day's work has a relation to the produce of the soil, and that the intrinsic value of any thing may be measured by the quantity of land used in its production and the quantity of labour which enters into it, in other words by the quantity of land of which the produce is allotted to those who have worked upon it; and as all the land belongs to the prince and the landowners all things which have this intrinsic value have it only at their expense.

The money or coin which finds the proportion of values in exchange is the most certain measure for judging of the par between land and labour and the relation of one to the other in different countries where this par varies according to the greater or less produce of the land allotted to those who labour.

If, for example, one man earn an ounce of silver every day by his work, and another in the same place earn only half an ounce, one can conclude that the first has as much again of the produce of the land to dispose of as the second.

Sir William Petty, in a little manuscript of the year 1685, considers this par, or equation between land and labour, as the most important consideration in political arithmetic, but the research which he has made into it in passing is fanciful and remote from natural laws, because he has attached himself not to causes and principles but only to effects, as Mr Locke, Mr Davenant and all the other English authors who have written on this subject have done after him.

[Part 2](#) * [Part 3](#) * [Part 4](#)

[Part 5](#) * [Part 6](#) * [Part 7](#)



Essay on the Nature of Commerce

Richard Cantillon

[Part 2 of 7]

Chapter Twelve

All Classes and Individuals in a State subsist or are enriched at the Expense of the Proprietors of Land.

There are none but the prince and the proprietors of land who live independent; all other classes and inhabitants are hired or are undertakers. The proof and detail of this will be developed in the next chapter.

If the prince and proprietors of land close their estates and will not suffer them to be cultivated it is clear that there would be neither food nor rayment for any of the inhabitants; consequently all the individuals are supported not only by the produce of the land which is cultivated for the benefit of the owners but also at the expense of these same owners from whose property they derive all that they have.

The farmers have generally two thirds of the produce of the land, one for their costs and the support of their assistants, the other for the profit of their undertaking; on these two thirds the farmer provides generally directly or indirectly subsistence for all those who live in the country, and also mechanics or undertakers in the city in respect of the merchandise of the city consumed in the country.

The proprietor has usually one third of the produce of his land and on this third he maintains all the mechanics and others whom he employs in the city as well, frequently, as the carriers who bring the produce of the country to the city.

It is generally calculated that one half of the inhabitants of a kingdom subsist and make their abode in cities, and the other half live in the country; on this supposition the farmer who has two thirds or four sixth of the produce of the land, pays either directly or indirectly one sixth to the citizens in exchange for the merchandise which he takes from them. This sixth with the one third or two sixths which the proprietor spends in the city makes three sixths or one half of the produce of the land. This calculation is only to convey a general idea of the proportion; but in fact, if half of the inhabitants live in the cities they consume more than half of the land's produce, as they live better than those who reside in the country and spend more of the produce of the land being all mechanics or dependents of the proprietors and consequently better maintained than the assistants and dependents of the farmers.

But let this matter be how it will, if we examine the means by which an inhabitant is supported it will always appear in returning back to the fountain head, that these means arise from the land of the proprietor either in the two thirds reserved by the farmer, or the one third which remains to the landlord.

If a proprietor had only the amount of land which he lets out to one farmer the farmer would get a better living out of it than himself; but the nobles and large landowners in the cities have sometimes several hundreds of farmers and are themselves very few in number in proportion to all the inhabitants of a state.

True there are often in the cities several undertakers and mechanics who live by foreign trade, and therefore at the expense of foreign landowners; but at present I am considering only a state in regard to its own produce and industry, not to complicate my argument by accidental circumstances.

The land belongs to the proprietors but would be useless to them if it were not cultivated. The more labour is expended on it, other things being equal, the more it produces; and the more its products are worked up, other things being equal, the more value they have as merchandise. Hence the proprietors have need of the inhabitants as these have of the proprietors; but in this

economy it is for the proprietors, who have the disposition and the direction of the landed capital, to give the most advantageous turn and movement to the whole. Also everything in a state depends on the fancy, methods, and fashions of life of the proprietors of land in especial, as I will endeavour to make clear later in this essay.

It is need and necessity which enable farmers, mechanics of every kind, merchants, officers, soldiers, sailors, domestic servants and all the other classes who work or are employed in the state, to exist. All these working people serve not only the prince and the landowners but each other, so that there are many of them who do not work directly for the landowners, and so it is not seen that they subsist on the capital of these proprietors and live at their expense. As for those who exercise professions which are not essential, like dancers, actors, painters, musicians, etc. they are only supported in the state for pleasure or for ornament, and their number is always very small in proportion to the other inhabitants.

Chapter Thirteen

The circulation and exchange of goods and merchandise as well as their production are carried on in Europe by Undertakers, and at a risk

The farmer is an undertaker who promises to pay to the landowner, for his farm or land, a fixed sum of money (generally supposed to be equal in value to the third of the produce) without assurance of the profit he will derive from this enterprise. He employs part of the land to feed flocks, produce corn, wine, hay, etc. according to his judgment without being able to foresee which of these will pay best. The price of these products will depend partly on the weather, partly on the demand; if corn is abundant relatively to consumption it will be dirt cheap, if there is scarcity it will be dear. Who can foresee the increase or reduction of expense which may come about in the families? And yet the price of the farmer's produce depends naturally upon these unforeseen circumstances, and consequently he conducts the enterprise of his farm at an uncertainty. ...

By all these inductions and many others which might be made in a topic relating to all the inhabitants of a state, it may be laid down that expect the prince and the proprietors of land, all the inhabitants of a state are dependent; that they can be divided into two classes, undertakers and hired people; and that all the undertakers are as it were on unfixed wages and the others on wages fixed so long as they receive them though their functions and ranks may be very unequal. The general who has his pay, the courtier his pension and the domestic servant who has wages all fall into this last class. All the rest are undertakers, whether they set up with a capital to conduct their enterprise, or are undertakers of their own labour without capital, and they may be regarded as living at uncertainty; the beggars even and the robbers are undertakers of this class. Finally all the inhabitants of a state derive their living and their advantages from the property of the landowners and are dependent.

It is true, however, that if some person on high wages or some large undertaker has saved capital or wealth, that is if he have stores of corn, wool, copper, gold, silver or some produce or merchandise in constant use or vent in a state, having an intrinsic or a real value, he may be justly considered independent so far as this capital goes. He may dispose of it to acquire a mortgage, and interest from land and from public loans secured upon land: he may live still better than the small landowners and even buy the property of some of them.

But produce and merchandise, even gold and silver, are much more subject to accident and loss than the ownership of land; and however one may have gained or saved them they are always derived from the land of actual proprietors either by gain or by saving of the wages destined for one's subsistence.

The number of proprietors of money in a large state is often considerable enough; and though the value of all the money which circulates in the state barely exceeds the ninth or tenth part of the value of the produce drawn from the soil yet, as the proprietors of money lend considerable amounts for which they receive interest either by mortgage or the produce and merchandise of the state, the sums due to them usually exceed all the money in the state, and they often become so powerful a body that they could in certain cases rival the proprietors of lands if these last were not often equally proprietors of money, and if the owners of large sums of money did not always seek to become landowners themselves.

It is nevertheless always true that all the sums gained or saved have been drawn from the land of the actual proprietors; but as many of these ruin themselves daily in a state and the others who acquire the property of their land take their place, the independence given by the ownership of land applies only to those who keep the possession of it; and as all land has always that it is from their property that all the inhabitants of the state derive their living and all their wealth. If these proprietors confined themselves to living on their rents it would be beyond question, and in that case it would be much more difficult for the other inhabitants to enrich themselves at their expense.

I will then lay it down as a principle that the proprietors of land alone are naturally independent in a state: that all the other classes are dependent whether undertakers or hired, and that all the exchange and circulation of the state is conducted by the

medium of these undertakers.

Chapter Fourteen

The Fancies, the Fashions, and the Modes of Living of the Prince, and especially of the Landowners, determine the use to which Land is put in a State and cause the variations in the Market price of all things

If the owner of a large estate (which I wish to consider here as if there were no other in the world) has it cultivated himself he will follow his fancy in the use of which he will put it. (1) He will necessarily use part of it for corn to feed the labourers, mechanics and overseers who work for him, another part to feed the cattle, sheep and other animals necessary for their clothing and food or other commodities according to the way in which he wishes to maintain them. (2) He will turn part of the land into parks, gardens, fruit trees or vines as he feels inclined and into meadows for the horses he will use for his pleasure, etc. ...

The owner, who has at his disposal the third of the produce of the land, is the principal agent in the changes which may occur in demand. Labourers and mechanics who live from day to day change their mode of living only from necessity. If a few farmers, master craftsmen or other undertakers in easy circumstances vary their expense and compensation they always take as their model the lords and owners of the land. They imitate them in their clothing, meals, and mode of life. If the landowners please to wear fine linen, silk, or lace, the demand for these merchandises will be greater than that of the proprietors for themselves.

If a lord or owner who has let out all his lands to farm, take the fancy to change considerably his mode of living; if for instance he decreases the number of his domestic servants and increases the number of his horses: not only will his servants be forced to leave the estate in question but also a proportionate number of artisans and of labourers who worked to maintain them. The portion of land which was used to maintain these inhabitants will be laid down to grass for the new horses, and if all landowners in the state did the like they would soon increase the number of horses and diminish the number of men.

When a landowner has dismissed a great number of domestic servants, and increased the number of his horses, there will be too much corn for the needs of the inhabitants, and so the corn will be cheap and the hay dear. In consequence the farmers will increase their grass land and diminish their corn to proportion it to the demand. In this way the fancies or fashions of landowners determine the use of the land and bring about the variations of demand which cause the variations of market prices. If all the landowners of a state cultivated their own estates they would use them to produce what they want; and as the variations of demand are chiefly caused by their mode of living the prices which they offer in the market decide the farmers to all the changes which they make in the employment and use of the land.

I do not consider here the variations in market prices which may arise from the good or bad harvest of the year, or the extraordinary consumption which may occur from foreign troops or other accidents, so as not to complicate my subject, considering only a state in its natural and uniform condition.

Chapter Fifteen

The Increase and Decrease of the Number of People in a State chiefly depend on the taste, the fashions, and the modes of living of the proprietors of land

Experience shows that trees, plants and other vegetables can be increased to any quantity which the extent of ground laid out for them can support.

The same experience shows that all kinds of the animal creation are to be multiplied to any quantity which the land allotted to them can support. ...In a word, we can multiply all sorts of animals in such numbers as we wish to maintain even to infinity if we could find lands to infinity to nourish them; and the multiplication of animals has no other bounds than the greater or less means allotted for their subsistence. It is not to be doubted that if all land were devoted to the simple sustenance of man the race would increase up to the number that the land would support in the manner to be explained. ...

If the proprietors of land had at heart the increase of population, if they encouraged the peasants to marry young and bring up children by promising to provide them with subsistence, devoting their land entirely to that purpose, they would doubtless increase the population up to the point which the land could support, according to the produce they allotted for each person whether an acre and a half or four to five acres a head.

But if instead of that the prince, or the proprietors of land, cause the land to be used for other purposes than the upkeep of the people: if by the prices they offer in the market for produce and merchandise they determine the farmers to employ the land for other purposes than the maintenance of man (for we have seen that the prices they offer in the market and their consumption determine the use made of the land just as if they cultivated it themselves) the people will necessarily diminish in number. Some will be forced to leave the country for lack of employment, others not seeing the necessary means of raising children, will not marry or will only marry late, after having put aside somewhat for the support of the household.

If the proprietors of land who live in the country go to reside in the cities far away from their land, horses must be fed for the transport into the city both of their food and that of all the domestic servants, mechanics and others whom their residence in the city attracts thither. ...

But when the nobility and proprietors of land draw from foreign manufactures their cloths, silks, laces, etc. and pay for them by sending to the foreigner their native produce they diminish extraordinary the food of the people and increase that of foreigners who often become enemies of the state. ...

When I said that the proprietors of land might multiply the population as far as the land would support them, I assumed that most men desire nothing better than to marry if they are set in a position to keep their families in the same style as they are content to live themselves. That is, if a man is satisfied with the produce of an acre and a half of land he will marry if he is sure of having enough to keep his family in the same way. But if he is only satisfied with the produce of five to ten acres he will be in hurry to marry unless he thinks he can bring up his family in the same manner. ...

In Europe the children of the nobility are brought up in affluence; and as the largest share of the property is usually given to the eldest sons, the younger sons are in no hurry to marry. They usually live as bachelors, either in the army or in the cloisters, but will seldom be fond unwilling to marry if they are offered heiresses and fortunes, or the means of supporting a family on the footing which they have in view and without which they would consider themselves to make their children wretched. ...

If the proprietors of land help to support the families, a single generation suffices to push the increase of population as far as the produce of the land will supply means of subsistence. ...

The increase of population can be carried furthest in the countries where the people are content to live the most poorly and to consume the least produce of the soil. In countries where all the peasants and labourers are accustomed to eat meat and drink wine, beer, etc. so many inhabitants cannot be supported. ...

Men multiply like mice in a barn if they have unlimited means of subsistence; and the English in the colonies will become more numerous in proportion in three generations than they would be in thirty in England, because in the colonies they find for cultivation new tracts of land from which they drive the savages.

In all countries at all times men have waged wars for the land and the means of subsistence. When wars have destroyed or diminished the population of a country, the savages and civilised nations soon repopulate in times of peace; especially when the prince and the proprietors of land lend their encouragement.

A state which has conquered several provinces may, by tribute imposed on the vanquished, acquire an increase of subsistence for its own people. The Romans drew a great part of their subsistence from Egypt, Sicily and Africa and that is why Italy then contained so many inhabitants.

A state where mines are found, having manufactures which do not require much of the produce of the land to send them into foreign countries, and drawing from them in exchange plentiful merchandise and produce of the land, acquires an increased fund for the subsistence of its subjects. ...

But all these advantages are refinements and exceptional cases which I mention only incidentally. The natural and constant way of increasing population in a state is to find employment for the people there, and to make the land serve for the production of their means of support.

It is also a question outside of my subject whether it is better to have a great multitude of inhabitants, poor and badly provided, than a smaller number, much more at their ease: a million who consume the produce of 6 acres per head or 4 million who live on the product of an acre and a half.

[Part 5](#) * [Part 6](#) * [Part 7](#)

Essay on the Nature of Commerce

Richard Cantillon

[Part 3 of 7]

Chapter Sixteen

The more Labour there is in a State the more naturally rich the State is esteemed

In a long calculation worked out in the supplement it is shown that the labour of 25 grown persons suffices to provide 100 others, also grown up, with all the necessaries of life according to the European standard. In these estimates it is true the food, clothing, housing, etc. are coarse and rather elementary, but there is ease and plenty. It may be assumed that a good third of the people of state are too young or too old for daily work and that another sixth are proprietors of land, sick, or undertakers of different sorts who do not by the labour of their hands, contribute to the different needs of men. ...

It is true that it is of little difference in a state whether people are accustomed to wear coarse or fine clothes if both are equally lasting, and whether people eat nicely or coarsely if they have enough and are in good health, since drink, food, clothing, etc. are equally consumed whether fine or coarse, and that nothing is left in the state of this sort of wealth. ...

It will be so especially if these people are employed in drawing from the earth gold and silver which metals are not only durable but so to speak permanent, which fire itself cannot destroy, which are generally accepted as the measure of value, and which can always be exchanged for any of the necessaries of life: and if these inhabitants work to draw gold and silver into a state in exchange for the manufactures and work which they produce and send abroad, their labour will be equally useful and will in reality improve the state.

The point which seems to determine the comparative greatness of states is their reserve stock above the yearly consumption, like magazines of cloth, linen, corn, etc. to answer in bad years, or war. And as gold and silver can always buy these things, even from the enemies of the state, gold and silver are the true reserve stock of a state, and the larger or smaller actual quantity of this stock necessarily determines the comparative greatness of kingdoms and states.

If it the custom to draw gold and silver from abroad by exporting merchandises and produce of the state, such as corn, wine, wool, etc. this will not fail to enrich the state at the cost of a decrease of the population; but if gold and silver be attracted from abroad in exchange for the labour of the people, such as manufactures and articles which contain little of the produce of the soil, this will enrich the state in a useful and essential manner. ...

It is always the inspiration of the proprietors of land which encourages or discourages the different occupations of the people and the different kinds of labour which they invent.

The example of the prince, followed by his court, is generally capable of determining the inspiration and tastes of the other proprietors of land, and the example of these last naturally influences all the lower ranks. A prince, then, without doubt is able by his own example and without any constraint to give such a turn as he likes to the labour of his subjects.

If each proprietor in a state had only a little piece of land, like that which is usually leased to a single farmer, there would be hardly any cities. The people would be more numerous and the state very rich if every proprietor employed on some useful work the inhabitants supported on his land.

But when the nobles have great landed possessions, they of necessity bring about luxury and idleness. Whether an Abbot at the head of a hundred monks live on the produce of several fine estates, or a nobleman with 50 domestic servants, and horses kept only for his service, live on these estates, would be indifferent to the state if it could remain in constant peace.

But a nobleman with his retinue and his horses is useful to the state in time of war; he can always be useful in the magistracy and the keeping of order in the state in peace time; and in every case he is a great ornament to the country, while the monks are, as people say, neither useful nor ornamental in peace or war on this side of heaven. ...

If it were desired to make use of everything in a state it might be possible, it seems, to diminish the number of mendicants by incorporating them into the monasteries as vacancies or deaths occur there, without forbidding these retreats to those who can give no evidence of their skill in speculative sciences, who are capable of advancing the practical arts, i.e. in some section of mathematics. The celibacy of churchmen is not so disadvantageous as is popularly supposed, as is shown in the preceding chapter, but their idleness is very injurious.

Chapter Seventeen

Of Metals and Money, and especially of gold and silver

As land produces more or less corn according to its fertility and the labour spent upon it, so the mines of iron, lead, tin, gold, silver, etc. produce more or less of these metals according to the richness of the mines and the quantity and quality of the labour spent upon them, in digging, draining, smelting, refining, etc. Work in silver mines is dear on account of the mortality in causes, since rarely more than five or six years are spent in that labour.

The real or intrinsic value of metals is like everything else proportionable to the land and labour that enters into their production. The outlay on the land for this production is considerable only so far as the owner of the mine can obtain a profit from the work of the miners when the veins are unusually rich. The land needed for the subsistence of the miners and workers, that is the mining labour, is often the principal expense and the ruin of the proprietor.

The market value of metals, as of other merchandise or produce, is sometimes above, sometimes below, the intrinsic value, and varies with their plenty or scarcity according to the demand.

If the proprietors of land and the lower orders in a state who imitate them, rejected the use of time and copper, wrongly supposing that they are injurious to health, and if they all made use of dishes and utensils of earthenware, these metals would be at a very low price in the markets and the work that was carried on to extract them from the mine would be discontinued. But as these metals are found useful, and are employed in the service of life, they will always have a market value corresponding to their plenty or rarity and the demand for them; and they will always be mined to replace what is lost by daily use.

Iron is not merely serviceable for the daily use of common life but may be said to be in a certain sense necessary; and if the Americans, who did not make use of it before the discovery of their continent, had found mines of it and known how to use it, they would doubtless have laboured to produce it at any cost.

Gold and silver are capable of serving not only the same purpose as tin and copper but most of the purposes of lead and iron. They have this further advantage over other metals that they are not consumed by fire and are so durable that they may be esteemed permanent bodies. It is not surprising, therefore, that men who found the other metals useful should have esteemed gold and silver even before they are used in exchange. The Romans prized them from the foundation of Rome and yet only used them as money 500 years later. Perhaps all other nations did the like and only adopted these metals as money long after using them for other purposes. However we find from the oldest historians that from time immemorial gold and silver were used as money in Egypt and Asia, and we learn in the Book of Genesis that silver monies were made in the time of Abraham. ...

Pure silver is hardly ever found in the mines. The ancients did not know the art of refining to perfection. They always made their silver coins of fine silver, and yet those which remain to us of the Greeks, Romans, Jews and Asiatics are never perfectly pure. Today there is more skill, the secret of making silver pur has been discovered. The different methods of refining it are not part of my subject. Many authors have treated of it, Mr Boizard among others. I will only observe that there is a good deal of expense in refining silver and for this reason an ounce of fine silver is generally preferred to two ounces which contain one half of copper or other alloy. It is expensive to separate the alloy and extract the one ounce of pure silver which is in these two ounces, while by simple melting any other metal can be combined with silver in any proportion desired. If copper is sometimes used as an alloy to fine silver it is only to render it more malleable and more suitable for the objects made of it. But in the valuation of all silver the copper or alloy is reckoned at nothing and only the amount of fine pure silver is considered. For this reason an assay is always made to ascertain the amount of pure silver. ...

Usage has conferred upon gold and silver the title intrinsic value, to designate and signify the quantity of true gold or silver contained in a bar; but in this essay I have always used the term intrinsic value to signify the amount of land and labour which enter into production, not having found any term more suitable to express my meaning. I mention this only to avoid misunderstanding. When gold and silver are not in question the term will always hold good without any confusion.

We have seen that the metals such as gold, silver, iron, etc. serve several purposes and have a value proportionable to the land and labour which enter into their production. We shall see in part II of this essay that men have been forced of necessity to employ a common measure to find in their dealings the proportion and the value of the products and merchandise they wished to exchange. The only question is what product or merchandise would be most suitable for this common measure, and whether it has not been necessity rather than fancy which has given this preference to gold, silver and copper which are generally in use today for this purpose.

Ordinary products like corn, wine, meat, etc. have a real value and serve the needs of life, but they are all perishable and difficult to be transported, and therefore hardly suitable to serve as a common measure.

Merchandise such as cloth, linen, leather, etc. is perishable also and cannot be subdivided without in some sort changing their value for the service of man. Like raw produce they cost a good deal for carriage; they even cause expense for storage, and consequently are unsuitable for a common measure.

Diamonds and other precious stones, even if they had no intrinsic value and were esteemed only from fancy, would be suitable for a common measure if they were not susceptible of imitation and if they could be divided without loss. With these defects and that of being unserviceable in use they cannot serve as a common measure. ...

Copper alone served as money to the Romans until 484 years after the founding of Rome, and in Sweden it is still used even in large payments: but it is too bulky for very considerable payments, and the Swedes themselves prefer payment in gold or silver rather than in copper.

In the American Colonies tobacco, sugar, and cocoa have been used as money: but these commodities are too bulky, perishable, and of unequal quality: they are therefore hardly suitable to serve as money or a common measure of value.

Gold and silver alone are of small volume, equal goodness, easily transported, divisible without loss, convenient to keep, beautiful and brilliant in the articles made of them and durable almost to eternity. All who have used other articles as money return to these as soon as they can get enough of them for exchange. It is only in the smallest purchases that gold and silver are unsuitable. Gold or even silver coins of the value of a liard or a denier would be too small to be handled easily. It is said that the Chinese, in small transactions, cut off little pieces with scissors from their plates of silver, and weighed the pieces. But since their trade with Europe they have begun to use copper for such occasions.

It is then not surprising that all countries have arrived at using gold and silver as money or a common measure of value and copper for small payments. Utility and need have decided them, and not fancy or consent. Silver requires much labour and dear labour for its production. Silver miners are highly paid because they rarely live more than five or six years at this work, which causes a high mortality: and so a little silver coin corresponds to as much land and labour as a large copper coin.

Money or the common measure of value must correspond in fact and reality in terms of land and labour to the articles exchanged for it. Otherwise it would have only an imaginary value. If for example a prince or a republic gave currency in the state to something which had not such a real and intrinsic value, not only would the other states refuse to accept it on that footing but the inhabitants themselves would reject it when they perceived its lack of real value. When towards the end of the first Punic War the Romans wished to give the copper as, weighing two ounces, the same value as the as of 1 pound or 12 ounces had before, it could not long be maintained in exchange. The history of all times shews that when princes have debased their money, keeping it at the same nominal value, all raw produce and manufacturers have gone up in price in proportion to the debasement of the coinage.

Mr Locke says that the consent of mankind has given its value to gold and silver. This cannot be doubted since absolute necessity had no share in it. It is the same consent which has given and does give every day a value to lace, line, fine cloths, copper, and other metals. Man could subsist without any of these things, but it must not be concluded that they have but an imaginary value. They have a value proportionable to the land and labour which enter into their production. Gold and silver, like other merchandise and raw produce, can only be produced at costs roughly proportionable to the value set upon them, and whatever man produces by labour, this labour must furnish his maintenance. It is the great principle that one hears every day from the mouths of the humble classes who have no part in our speculations, and who live by their labour or their undertakings. "Everybody must live."

End of the first part.

[Part 1](#) * [Part 2](#) * [Part 4](#)

[Part 5](#) * [Part 6](#) * [Part 7](#)

Essay on the Nature of Commerce

Richard Cantillon

[Part 4 of 7]

Part Two

Chapter One

Of Barter

In Part I an attempt was made to prove that the real value of everything used by man is proportionate to the quantity of Land used for its production and for the upkeep of those who have fashioned it. In this second part, after summing up the different degrees of fertility of the land in several countries and the different kinds of produce it can bring forth with greater abundance according to its intrinsic quality, and assuming the establishment of towns and their markets to facilitate the sale of these products, it will be shown by comparing exchanges which may be made, wine for cloth, corn for shoes, hats, etc. and by the difficulty which the transport of these different products or merchandises would involve, that it was impossible to fix their respective intrinsic value, and there was absolute necessity for man to find a substance easily transportable, not perishable, and having by weight a proportion or value equal to the different products and merchandises, necessary or convenient. Thence arose the choice of gold and silver for large business and of copper for small traffic.

These metals are not only durable and easily transported but correspond to the employment of a large area of land for their production, which gives them the real value desirable in exchange.

Mr Locke who, like all the English writers on this subject, has looked only to market prices, lays down that the value of all things is proportionable to their abundance or scarcity, and the abundance or scarcity of the silver for which they are exchanged. It is generally known that the prices of produce and merchandise have been raised in Europe since so great a quantity of silver has been brought thither from the West Indies.

But I consider that we must not suppose as a general rule that the market prices of things should be proportionable to their quantity and to that of the silver actually circulating in one place, because the products and merchandise sent away to be sold elsewhere do not influence the price of those which remain. If, for example, in a market town where there is twice as much corn as is consumed there, we compared the whole quantity of corn to that of silver, the corn would be more abundant of corn to that of silver, the corn would be more abundant in proportion than the silver destined for its purchase; the market price, however, will be maintained just as if there were only half the quantity of corn, since the other half can be and even must be, sent into the city, and the cost of transport will be included in the city price which is always higher than that of the town. But apart from the case of hoping to sell in another market, I consider that Mr Locke's idea is correct in the sense of the following chapter, and not otherwise.

Chapter Two

Of Market Prices

Suppose the butchers on one side and the buyers on the other. The price of meat will be settled after some altercations, and a pound of beef will be in value to a piece of silver pretty nearly as the whole beef offered for sale in the market is to all the silver brought there to buy beef.

This proportion is come at by bargaining. ...It is clear that the quantity of produce or of merchandise offered for sale, in proportion to the demand or number of buyers, is the basis on which is fixed or always supposed to be fixed the actual market prices; and that in general these prices do not vary much from the intrinsic value. ...

It often happens that sellers who are too obstinate in keeping up their price in the market, miss the opportunity of selling their produce or merchandise to advantage and are losers thereby. It also happens that by sticking to their prices they may be able to sell more profitably another day.

Distant markets may always effect the prices of the market where one is: if corn is extremely dear in France it will go up in England and in other neighbouring countries.

Chapter Three

Of the Circulation of Money

It is the general opinion in England that a farmer must make three rents. (1) The principal and true rent which he pays to the proprietor, supposed equal in value to the produce of one third of his farm, a second rent for his maintenance and that of the men and horses he employs to cultivate the farm, and a third which ought to remain with him to make his undertaking profitable.

The same idea obtains generally in the other countries of Europe, though in some, like the Milanese state, the farmer gives the landlord half the produce instead of a third, and many landlords in all countries try to let their farms at the highest rent they can; but when this is above a third of the produce the farmers are generally very poor. I doubt not that the Chinese landowner extracts from his farmer more than three fourths of the produce.

However when a farmer has some capital to carry on the management of this farm the proprietor who lets him the farm for a third of the produce will be sure of payment and will be better off by such a bargain than if he let his land at a higher rate to a beggarly farmer at the risk of losing all his rent. The larger the farm the better off the farmer will be. This is seen in England where the farmers are generally more prosperous than in other countries where the farms are small.

The assumption I shall make in this enquiry as to the circulation of money is that farmers earn three rents and spend the third rent on living more comfortably instead of saving it. It is in fact the case with the greatest number of farmers in all countries.

All the produce of the country comes directly or indirectly from the hands of the farmers as well as all the materials from which commodities are made. It is the land which produces everything but fish, and even then the fishermen who catch the fish must be maintained on the produce of the land.

The three rents of the farmer must therefore be considered as the principal sources or so to speak the mainspring of circulation in the state. The first rent must be paid to the landowner in ready money: for the second and third rents ready money is needed for the iron, tin, copper, salt, sugar, cloth and generally all the merchandise of the city consumed in the country; but all that hardly exceeds the sixth part of the total or three rents. As for the food and drink of the country folk ready money is not necessary to obtain it. ...

The only cash needed in the country is that for the principal rent of the landlord and for the manufactures which the country necessarily draws from the city, such as knives, scissors, pins, needles, cloths for some farmers or other well-to-do people, the kitchen utensils, plates, and generally all that is got from the city. I have already observed that it is reckoned that half the inhabitants of a state live in the cities, and consequently the citizens spend more than half the produce of the land. Cash is therefore necessary, not only for the rent of the landlord, corresponding to one third of the produce, but also for the city merchandise consumed in the country, which may amount to something more than one sixth of the produce of the soil. But one third and one sixth amount to half the produce. The cash circulating in the country must therefore be equal to at least one half the produce of the land, by which means the other half or somewhat less may be consumed in the country without need of cash.

The circulation of this money takes place when the landlords spend in detail in the city the rents which the farmers have paid them in lump sums, and when the undertakers of the cities, butchers, bakers, brewers, etc. collect little by little this same money to buy from the farmers in lump sums cattle, wheat, barley, etc. In this way all the large sums of money are distributed in small amounts, and all the small amounts are then collected to make payments in large amounts, directly or indirectly, to the farmers, and this money large or small always passes in return for services.

When I stated that for the country circulation there is needed a quantity of money often equal in value to half the produce of the land, this is the minimum; and in order that the country circulation should be easily conducted I will suppose that the ready cash which conducts the circulation of the three rents, is equal in value to two of these rents, or two thirds of the produce of the land. It will be seen later that this supposition is not far from the truth. ...

It will be seen from this that the proportion of the amount of money needed for circulation in a state is not incomprehensible, and that this amount may be greater or less in a state according to the mode of living and the rapidity of payments. But it is very difficult to lay down anything definite as regards this quantity in general, as the proportion may differ in different countries, and it is only conjectural when I say that "the real cash or money necessary to carry on the circulation and exchange in a state is about equal in value to one third of all the annual rents of the proprietors of the said state."

Supposing the money in circulation equal to the third of all the rents of the landowners and these rents equal to the third of the annual produce of the land, it follows that "the money circulating in a state is equal in value to the ninth part of all the annual produce of the soil."

Sir William Petty, in a manuscript of 1685, supposes frequently that the money in circulation is equal to one tenth of the produce of the soil. He gives no reason. I suppose it is an opinion which he formed from experience and from his practical knowledge both of the money circulating in Ireland (a great part of the land of which country he had measured as a surveyor) and of the produce which he estimated roughly from observation. I am not far removed from his conclusion to the landlords' rents which are ordinarily paid in money and easily ascertainable by a uniform land tax, rather than to the products of the soil, the prices of which vary daily in the markets, and a large part of which is consumed without entering into the market. In the next chapter I shall give several reasons, supported by examples, to confirm my conclusion. I think it useful, even if not mathematically exact in each country. It is enough if it is near the truth and if it prevents the governors of states from forming extravagant ideas of the amount of money in circulation. There is no branch of knowledge in which one is more subject to error than statistics when they are left to imagination, and none more demonstrable when they are based upon detailed facts. ...

As to the cash needed to carry on foreign trade it seems that no more is required than what is in circulation in the state when the balance of foreign trade is equal, that is when the products and merchandise sent abroad are equal in value to those imported. ...

It may even occur that when the balance with the foreigner is equal to the trade with him may retard the circulation of ready money and therefore require a greater quantity of money by reason of this commerce. ...

After all, the principle rent of the landowner must be considered to be the most necessary and considerable branch of the money in regard to circulation. If he lives in the city and the farmer sells in the same city all his produce and buys there all the merchandise necessary for country use, the ready money may always remain in the city. The farmer will sell there produce exceeding half the output of his farm; he will pay his landlord in the same city the money value of one third of his produce and the rest to merchants or undertakers for merchandise to be consumed in the country. Even here, however, as the farmer sells his produce for lump sums, which are subsequently distributed in retail purchases, and are again collected to serve for lump payments to the farmers, the circulation has always the same effect (subject to its rapidity) as if the farmer took to the country the money received for his produce and sent it back again to the city.

The circulation consists always of this, that the large sums which the farmer receives on the sale of his produce are split up in detail and then brought together again to make large payments. Whether this money go partly out of the city or remain there entirely it may be regarded as the circulating medium between city and country. All the circulation takes place between the inhabitants of the state, and they are all fed and maintained in every way from the produce of the soil and raw materials of the country.

It is true that the wool, for example, which is brought from the country, when made up into cloth in the city is worth four times its former value. But this increase of value, which is the price of the labour of the workmen and manufactures in the city, is exchanged for the country produce which serves for their maintenance.

Chapter Four

Further Reflection on the Rapidity or Slowness of the Circulation of Money in Exchange

...[I]t rarely happens that the landlords spend their rents in a fixed and regular proportion. In London as soon as a landlord receives his rent he puts most of it into the hands of a goldsmith or banker, who lends it at interest, so that this part is in circulation. Or else the landlord spends a good part of it upon various things needful for his household, and before he gets his next quarter's rent he will perhaps borrow money. ...

The goldsmiths and public bankers, whose notes pass current in payment like ready money, contribute also to the speed of circulation, which would be retarded if money were needed in all the payments for which these notes suffice: and although these goldsmiths and bankers always keep in hand a good part of the actual money they have received for their notes, they also put into circulation a considerable amount of this actual money as I shall explain later in dealing with public banks.

All these reflections seem to prove that the circulation of a state could be conducted with much less actual money than I have supposed necessary; but the following inductions appear to counterbalance them and to contribute to the slowing down of the circulation.

I will first observe that all country produce is furnished by labour which may possibly, as already often suggested, be carried on with little or no actual money. But all merchandise is made in cities or market towns by the labour of men who must be paid in actual money. ...

The consumption of the inhabitants of a state is, in a sense, entirely for food. Lodging, clothing, furniture, etc. correspond to the food of the men who have worked upon them; and in the cities all drink and food are of necessity paid for in hard cash. In the families of landowners in the city food is paid for every day or every week: wine in their families is paid for every week or every month; hats, stockings, shoes, etc. are ordinarily paid for in actual money, at least the payments correspond to cash for the men who have worked upon them. All the sums which serve to pay large amounts are divided, distributed, and spread in small payments corresponding to the maintenance of the workmen, manservants, etc. and all these sums are necessarily collected and reunited by the undertakers and retailers who are employed on the subsistence of the inhabitants to make large payments when they buy the products of the farmers. ...One cannot imagine anything is bought for ready money in a state, like furniture, merchandise, etc. the value of which does not correspond to the maintenance of those who have worked upon it.

Circulation in the cities is carried out by undertakers and always corresponds directly or indirectly to the subsistence of the menservants, workmen, etc. It is not conceivable that it can be effected in small detail without cash. Notes may serve as counters in large payments for a certain time; but when the large sums come to be distributed and spread into small transactions, as is always the case sooner or later in the course of circulation in a city, notes cannot serve the purpose and cash is needed.

All this being presupposed, all the classes in a state who practice some economy, save and keep out of circulation small amounts of cash till they have enough to invest at interest or profit. Many miserly and timid people bury and hoard cash for considerable periods.

Many landowners, undertakers and others, always keep some cash in their pockets or safes against unforeseen emergencies and not to be run out of money. ...One does not like to spend up to the last sou, one is glad not to be completely denuded, and to receive a new instalment before paying even a debt with the money one has.

The capital of minors and of suitors is often deposited in cash and kept out of circulation.

Beside the large payments which pass through the hands of the farmers in the quarterly terms of the year there are many others from one undertaker to another in the same terms, and others at different times from borrowers to lenders of money. All these sums are collected in retail trade, are spread abroad anew and come back sooner or later to the farmer: but they seem to require a more considerable amount of cash for circulation than if these large payments were made in different times from those when the farmers are paid for their produce.

In fine there is so great a variety in the different orders of the inhabitants of the state and in the corresponding circulation of actual money, that it seems impossible to lay down anything precise or exact as to the proportion of money sufficient for the circulation. I have adduced so many examples and inductions only to make it clear that I am not far out of the truth in my conclusion "that the actual money necessary for the circulation of the state corresponds nearly to the value of the third of all the annual rents of the landlords." When the landlords have a rent which amounts to half the produce or more than a third, a greater quantity of actual money is needed for circulation, other things being equal. When there is great confidence in the banks and in book credits less money will suffice, as also when the rapidity of circulation is accelerated in any other way. But I shall show later that public banks do not afford so many advantages as is usually supposed.

Chapter Five

Of the Inequality of the circulation of hard money in a state

The city always supplies various merchandises to the country, and the landowners who reside in the city should always receive

there about a third of the produce of their land. The country thus owes to the city more than half the produce of the land. This debt would always exceed one half if all landowners lived in the city, but as several of the least important live in the country I suppose that the balance or debt which continually returns from the country to the city is equal to half the produce of the land and is paid in the city by half the products of the country transported to it and sold to pay this debt.

But all the countryside of a state or kingdom owes a constant balance to the capital, as well for the rents of the more considerable landowners who reside there as for the taxes of the state or crown, most of which are spent in the capital. ...

It may therefore be said that all the countryside and all the cities of a state owe regularly and annually a balance or debt to the capital. But as it is all paid in money it is evident that the provinces always owe considerable sums to the capital; for the products and commodities which the provinces send to the capital are sold there for money, and with this money the debt or balance in question is paid. ...

It would be easy to make an infinite number of inductions of the same kind to justify by experience the necessity of an inequality in the circulation of money in the different provinces of a great state or kingdom, and to show that this inequality is always relative to the balance or debt which belongs to the capital.

If we suppose that the balance due to the capital amounts to one fourth of the produce of the land of all the provinces of the state the best use that can be made of the land would be to employ the country bordering on the capital to produce the kinds of produce which could not be drawn from distant provinces without much expense or deterioration. This is in fact what always takes place. The market prices of the capital serving as a standard for the farmers to employ the land for such or such a purpose they use the nearest, when suitable, for market gardens, pasture, etc. ...

...[W]hen a distant province has no manufactory and produces only ordinary raw materials without water communication with the capital or the ocean, it is astonishing how scarce money is there compared with that which circulates in the capital and how little the best lands produce to the prince and to the proprietors who reside in the capital. ...

At present if a state or kingdom which supplies all foreign countries with work of its own manufacture does so much of this commerce that it draws every year a constant balance of money from abroad, the circulation will become more considerable there than in foreign countries, money will be more plentiful there, and consequently land and labour will gradually become dearer there. It will follow that in all the branches of commerce the state in question will exchange a smaller amount of land and labour with the foreigner for a larger amount, so long as these circumstances continue.

But if some foreigner reside in the state in question he will be in about the same situation and circumstances as the proprietor at Paris who has his land in distant provinces. ...The inequality of the circulation of money in the different states constitutes the inequality of their respective power, other things being equal; and this inequality of circulation is always respective to the balance of foreign trade.

It is easy to judge from what has been said in this chapter that the assessment by taxes of the royal tithe, made by Mr de Vauban, would be neither advantageous nor practicable. If the taxes on land were levied in money proportionable to the rents of the proprietors, it would be fairer. But I must not wander from my subject to show the inconvenience and impossibility of Mr de Vauban's proposal.

Chapter Six

Of the increase and decrease in the quantity of hard money in a State

If mines of gold or silver be found in a state and considerable quantities of minerals drawn from them, the proprietors of these mines, the undertaker, and all those who work there, will not fail to increase their expenses in proportion to the wealth and profit they make: they will also lend at interest the sums of money which they have over and above what they need to spend.

All this money, whether lent or spent, will enter into circulation and will not fail to raise the price of products and merchandise in all the channels of circulation which it enters. Increased money will bring about increased expenditure and this will cause an increase of market prices in the highest years of exchange and gradually in the lowest.

Everybody agrees that the abundance of money or its increase in exchange, raises the price of everything. The quantity of money brought from America to Europe for the last two centuries justifies this truth by experience.

Mr Locke lays it down as a fundamental maxim that the quantity of produce and merchandise in proportion to the quantity of money serves as the regulator of market price. I have tried to elucidate his idea in the preceding chapters: he has clearly seen

that the abundance of money makes everything dear, but he has not considered how it does so. The great difficulty of this question consists in knowing in what way and in what proportion the increase of money raises prices.

I have already remarked that an acceleration or greater rapidity in circulation of money in exchange, is equivalent to an increase of actual money up to a point. I have also observed that the increase or decrease of prices in a distant market, home or foreign, influences the actual market prices. On the other hand money flows in detail through so many channels that it seems impossible not to lose sight of it seeing that having been amassed to make large sums it is distributed in little rills of exchange, and then gradually accumulated again to make large payments. For these operations it is constantly necessary to change coins of gold, silver and copper according to the activity of exchange. It is also usually the case that the increase or decrease of actual money in a state is not perceived because it flows abroad, or is brought into the state, by such imperceptible means and proportions that it is impossible to know exactly the quantity which enters or leaves the state.

However all these operations pass under our eyes and everybody takes part in them. I may therefore venture to offer a few observations on the subject, even though I may not be able to give an account which is exact and precise.

I consider in general that an increase of actual money causes in a state a corresponding increase of consumption which gradually brings about increased prices.

If the increase of actual money comes from mines of gold or silver in the state the owner of these mines, the adventurers, the smelters, refiners, and all the other workers will increase their expenses in proportion to their gains. They will consume in their households more meat, wine, or beer than before, will accustom themselves to wear better cloths, finer linen, to have better furnished houses and other choicer commodities. They will consequently give employment to several mechanics who had not so much to do before and who for the same reason will increase their expenses: all this increase of expense in meat, wine, wool, etc. diminishes of necessity the share of the other inhabitants of the state who do not participate at first in the wealth of the mines in question. The alterations of the market, or the demand for meat, wine, wool, etc. being more intense than usual, will not fail to raise their prices. These high prices will determine the farmers to employ more land to produce them in another year: these same farmers will profit by this rise of prices and will increase the expenditure of their families like the others. Those then who will suffer from this dearness and increased consumption will be first of all the landowners, during the term of their leases, then their domestic servants and all the workmen or fixed wage-earners who support their families on their wages. All these must diminish their expenditure in proportion to the new consumption, which will compel a large number of them to emigrate to seek a living elsewhere. The landowners will dismiss many of them, and the rest will demand an increase of wages to enable them to live as before. It is thus, approximately, that a considerable increase of money from the mines increases consumption, and by diminishing the number of inhabitants entails a greater expense among those who remain.

If more money continues to be drawn from the mines all prices will owing to this abundance rise to such a point that not only will the landowners raise their rents considerably when the leases expire and resume their old style of living, increasing proportionably the wages their servants, but the mechanics and workmen will raise the prices of their articles so high that there will be a considerable profit in buying them from the foreigner who makes them much more cheaply. This will naturally induce several people to import many articles made in foreign countries, where found very cheap: this will gradually ruin the mechanics and manufacturers of the state who will not be maintain themselves there by working at such low owing to the dearness of living.

When the excessive has diminished the inhabitants of a state, those who remain to a too large expenditure, raised produce of the land and the labour of workmen to excessive prices, ruined the manufactures of the state by use of foreign productions on the part of landlords and mine workers, the money produced by the mines will necessarily go abroad to pay for the imports: this will gradually impoverish the state and render it in some sort dependent on the Foreigner to whom it is obliged to send money every year as it is drawn from the mines. The great circulation of money, which was general at the beginning, ceases: poverty and misery follow and the labour of the mines appears to be only to the advantage of those employed upon them and the Foreigners who profit thereby. ...

Now if the increase of money in the state proceeds from a balance of foreign trade (i.e. from sending abroad articles and manufactures in greater value and quantity than is imported and consequently receiving the surplus in money) this annual increase of money will enrich a great number of merchants and Undertakers in the state, and will give employment to numerous mechanics and workmen who furnish the commodities sent to the foreigner from whom the money is drawn. This will increase gradually the consumption of these industrial inhabitants and will raise the price of land and labour. But the industrious who are eager to acquire property will not at first increase their expense: they will wait till they have accumulated a good sum from which they can draw an assured interest, independently of their trade. When a large number of the inhabitants have acquired considerable fortunes from this money, which enters the state regularly and annually, they will, without fail, increase their consumption and raise the price of everything. Though this dearness involves them in a greater expense than they at first contemplated they will for the most part continue so long as their capital lasts; for nothing is easier or more agreeable than to increase the family expenses, nothing more difficult or disagreeable than to retrench them.

If an annual and continuous balance has brought about in a state a considerable increase of money it will not fail to increase

consumption, to raise the price of evening and even to diminish the number of inhabitants unless additional produce is drawn from abroad proportionable to the increased consumption. Moreover it is usual in states which have acquired a considerable abundance of money to draw many things from neighbouring countries where money is rare and consequently everything is cheap: but as money must be sent for this the balance of trade will become smaller. The cheapness of land and labour in the foreign countries where money is rare will naturally cause the erection of manufactories and works similar to those of the state, but which will not at first be so perfect nor so highly valued.

In this situation the state may subsist in abundance of money, consume all its own produce and also much foreign produce and over and above all this maintain a small balance of trade against the foreigner or at least keep the balance level for many years, that is import in exchange for its work and manufactures as much money from these foreign countries as it has to send them for the commodities or products of the land it takes from them. If the state is a maritime state the facility and cheapness of its shipping for the transport of its work and manufactures into foreign countries may compensate in some sort the high price of labour caused by the too great abundance of money; so that the work and manufactures of this state, dear though they be, will sell in foreign countries cheaper sometimes than the manufactures of another state where labour is less highly paid.

The cost of transport increases a good deal the prices of things sent to distant countries; but these costs are very moderate in maritime states, where there is regular shipping to all foreign ports so that Ships are nearly always found there ready to sail which take on board all cargoes confided to them at a very reasonable freight.

It is not so in states where navigation does not flourish. There it is necessary to build ships expressly for the carrying trade and this sometimes absorbs all the profit; and navigation there is always very expensive, which entirely discourages trade. ...

The increased quantity of money in circulation in a state may also be caused, without balance of trade, by subsidies paid to this state by foreign powers, by the expenses of several ambassadors, or of travellers whom political reasons or curiosity or pleasure may induce to reside there for some time, by the transfer of the property and fortune of some Families who from motives of religious liberty or other causes quit their own country to settle down in this state. In all these cases the sums which come into the state always cause an increased expense and consumption there and consequently raise the prices of all things in the channels of exchange into which money enters. ...

When the consumption of meat increases the farmers add to their pastures to get more meat, and this diminishes the arable land and consequently the amount of corn. But what generally causes meat to become dearer in proportion than Bread is that ordinarily the free import of foreign corn is permitted while the import of Cattle is absolutely forbidden, as in England, or heavy import duties are imposed as in other states. This is the reason why the rents of meadows and pastures go up in England, in the abundance of money, to three times more than the rents of arable land.

There is no doubt that Ambassadors, Travellers, and Families who come to settle in the state, increase consumption there and that prices rise in all the channels of exchange where money is introduced.

As to subsidies which the state has received from foreign powers, either they are hoarded for state necessities or are put into circulation. If we suppose them hoarded they do not concern my argument for I am considering only money in circulation. Hoarded money, plate, Church treasures, etc. are wealth which the state turns to service in extremity, but are of no present utility. If the state puts into circulation the subsidies in question it can only be by spending them and this will very certainly increase consumption and send up all prices. Whoever receives this money will set it in motion in the principal affair of life, which is the food, either of himself or of some other, since to this everything corresponds directly or indirectly.

[Part 1](#) * [Part 2](#) * [Part 3](#)

[Part 5](#) * [Part 6](#) * [Part 7](#)

Essay on the Nature of Commerce

Richard Cantillon

[Part 5 of 7]

Chapter Seven

Continuation of the same subject

As gold, silver, and copper have an intrinsic value proportionable to the land and labour which enter into their production at the mines added to the cost of their importation or introduction into states which have no mines, the quantity of money, as of all other commodities, determines its value in the bargaining of the market against other things. ...

From all this I conclude that by doubling the quantity of money in a state the prices of products and merchandise are not always doubled. A River which runs and winds about in its bed will not flow with double the speed when the amount of its water is doubled.

The proportion of the dearness which the increased quantity of money brings about in the state will depend on the turn which this money will impart to consumption and circulation. Through whatever hands the money which is introduced may pass it will naturally increase the consumption; but this consumption will be more or less great according to circumstances. It will be directed more or less to certain kinds of products or merchandise according to the idea of those who acquire the money. Market prices will rise more for certain things than for others however abundant the money may be. In England the price of meat might be tripled while the price of corn went up only one fourth. ...

Increase of money only increases the price of products and merchandise by the difference of the cost of transport, when this transport is allowed. ...

I conclude that an increase of money circulating in a state always causes there an increase of consumption and a higher standard of expense. But the dearness caused by this money does not affect equally all the kinds of products and merchandise, proportionably to the quantity of money, unless what is added continues in the same circulation as the money before, that is to say unless those who offer in the market one ounce of silver be the same and only ones who now offer two ounces when the amount of money in circulation is doubled in quantity, and that is hardly ever the case. I conceive that when a large surplus of money is brought into a state the new money gives a new turn to consumption and even a new speed to circulation. But it is not possible to say exactly to what extent.

Chapter Eight

Further Reflections on the same subject

We have seen that the quantity of money circulating in a state may be increased by working the mines which are found in it, by subsidies from foreign powers, by the immigration of Families of foreigners, by the residence of Ambassadors and Travellers, but above all by a regular and annual balance of trade from supplying merchandise to Foreigners and drawing from them at least part of the price in gold and silver. It is by this last means that a state grows most substantially, especially when its trade is accompanied and supported by ample navigation and by a considerable raw produce at home supplying the material necessary for the goods and manufactures sent abroad.

As however the continuation of this Commerce gradually introduces a great abundance of money and little by little increases

consumption, and as to meet this much Foreign produce must be brought in, part of the annual balance goes out to pay for it. On the other hand the habit of spending increasing the employment of labourers the prices of manufactured goods always go up. Without fail some foreign countries endeavour to set up for themselves the same kinds of manufactures, and so cease to buy those of the state in question; and though these new establishments of crafts and manufactures be not at first perfect they slacken and even prevent the exportation of those of the neighbouring state into their own country where they can be got cheaper.

Thus it is that the state begins to lose some branches of its profitable trade: and many of its workmen and mechanics who see labour Fallen off leave the state to find more work in the countries with the new manufacture. In spite of this diminution in the balance of trade the custom of importing various products will continue. The articles and manufactures of the state having a great reputation, and the facility of navigation affording the means of sending them at little cost into distant countries, the state will for many years keep the upper hand over the new manufactures of which we have spoken and will still maintain a small Balance of trade, or at least will keep it even. If however some other maritime state tries to perfect the same articles and its navigation at the same time it will owing to the cheapness of its manufactures take away several branches of trade from the state in question. In consequence this state will begin to lose its balance of trade and will be forced to send every year a part of its money abroad to pay for its importations.

Moreover, even if the state in question could keep a balance of trade in its greater abundance of money it is reasonable to suppose that this abundance will not arrive without many wealthy individuals springing up who will plunge into luxury. They will buy pictures and gems from the foreigner, will procure their silks and rare objects, and set such an example of luxury in the state that in spite of the advantage of its ordinary trade its money will flow abroad annually to pay for this luxury. This will gradually impoverish the state and cause it to pass from great power into great weakness.

When a state has arrived at the highest point of wealth (I assume always that the comparative wealth of states consists principally in the respective quantities of money which they possess) it will inevitably fall into poverty by the ordinary course of things. The too great abundance of money, which so long as it lasts forms the power of states, throws them back imperceptibly but naturally into poverty. Thus it would seem that when a state expands by trade and the abundance of money raises the price of land and labour, the Prince or the Legislator ought to withdraw money from circulation, keep it for emergencies, and try to retard its circulation by every means except compulsion and bad faith, so as to forestall the too great dearness of its articles and prevent the drawbacks of luxury.

But as it is not easy to discover the time opportune for this, nor to know when money has become more abundant than it ought to be for the good and preservation of the advantages of the state, the Princes and Heads of Republics, who do not concern themselves much with this sort of knowledge, attach themselves only to make use of the facility which they find through the abundance of their state revenues, to extend their power and to insult other countries on the most frivolous pretexts. And all things considered they do not perhaps so badly in working to perpetuate the glory of their reigns and administrations, and to leave monuments of their power and wealth; for since, according to the natural course of humanity, the state must collapse of itself they do but accelerate its fall a little. Nevertheless it seems that they ought to endeavour to make their power last all the time of their own administration.

It does not need a great many years to raise abundance to the highest point in a state, still fewer are needed to bring it to poverty for lack of commerce and manufactures. ...

To judge of the abundance and scarcity of money in circulation. I know no better measure than the leases and rents of landowners. When land is let at high rents it is a sign that there is plenty of money in the state; but when land has to be let much lower it shows, other things being equal, that money is scarce. ...

It is clear that every state which has more money in circulation than its neighbours has an advantage over them so long as it maintains this abundance of money.

In the first place in all branches of trade it gives less land and labour than it receives: the price of land and labour being everywhere reckoned in money is higher in the state where money is most abundant. Thus the state in question receives sometimes the produce of two acres of land in exchange for that of one acre, and the work of two men for that of only one. ...

In the second place, the revenues of the state where money abounds, are raised more easily and in comparatively much larger amount. This gives the state, in case of war or dispute, the means to gain all sorts of advantages over its adversaries with whom money is scarce. ...

It remains to mention two other methods of increasing the amount of money in active circulation in a state The first is when Undertakers and private individual borrow money from their foreign correspondents a interest, or individuals abroad send their money into the state to buy shares or government stocks there. This often amounts to very considerable sums upon which the

state must annually pay interest to these foreigners. These methods of increasing the money in the state make it more abundant there and diminish the rate of interest. By means of this money the Undertakers in the state find it possible to borrow more cheaply to set people on work and to establish manufactories in the hope of profit. The Artisans and all those through whose hands this money passes, consume more than they would have done if they had not been employed by means of this money, which consequently increases prices just as if it belonged to the state, and through the increased consumption or expense thus caused the public revenues derived from taxes on consumption are augmented. Sums lent to the state in this way bring with them many present advantages, but the end of them is always burdensome and harmful. The state must pay the interest to the foreigners every year, and besides this is at the mercy of the foreigners who can always put it into difficulty when they take it into their heads to withdraw their capital. It will certainly arrive that they will want to withdraw it at the moment when the state has most need of it, as when preparations for war are in hand and a hitch is feared. The interest paid to the foreigner is always much more considerable than the increase of public revenue which his money occasions. These loans of money are often seen to pass from one country to another according to the confidence of investors in the states to which they are sent. But to tell the truth it most commonly happens that states loaded with these loans, who have paid heavy interest on them for many years, fall at length by bankruptcy into inability to pay the capital. As soon as distrust is awakened the shares or public stocks fall, the foreign shareholders do not like to realise them at a loss and prefer to content themselves with the interest, hoping that confidence will revive. But sometimes it never revives. In states which decline into decay the principal object of ministers is usually to restore confidence and so attract foreign money by loans of this kind. For unless the ministry fails to keep faith and to observe its engagements the money of the subjects will circulate without interruption. It is the money of the foreigners which has the power of increasing the circulating currency in the state.

But the resource of these borrowings which gives a present ease comes to a bad end and is a fire of straw. To revive a state it is needful to have a care to bring about the influx of an annual, a constant and a real balance of trade, to make flourishing by Navigation the articles and manufactures which can always be sent abroad cheaper when the state is in a low condition and has a shortage of money. Merchants are first to begin to make their fortunes, then the lawyers may get part of it, the Prince and the farmers of the revenue get a share at the expense of these, and distribute their graces as they please. When money becomes too plentiful in the state, luxury will instal itself and the state will fall into decay.

Such is approximately the circle which may be run by a considerable state which has both capital and industrious inhabitants. An able minister is always able to make it recommence this round. Not many years are needed to see it tried and succeed, at least at the beginning which is its most interesting position. The increased quantity of money in circulation will be perceived in several ways which my argument does not allow me to examine now.

As for states which have not much capital and can only increase by accidents and conjuncture it is difficult to find means to make them flourish by trade. No ministers can restore the Republics of Venice and Holland to the brilliant situation from which they have fallen. But as to Italy, Spain, France, and England, however low they may be fallen, they are always capable of being raised by good administration to a high degree of power by trade alone, provided it be undertaken separately, for if all these states were equally well administered they would be great only in proportion to their respective capital and to the greater or less industry of their people.

The last method I can think of to increase the quantity of money actually circulating in a state is by violence and arms and this is often blended with the others, since in all Treaties of Peace it is generally provided to retain the trading rights and privileges which it has been possible to derive from them. When a state exacts contributions or makes several other states tributary to it, this is a very sure method of obtaining their money. I will not undertake to examine the methods of putting this device into practice, but will content myself with saying that all the nations who have flourished in this way have not failed to decline, like states who have nourished through their trade. ...

...[T]he Roman Empire fell into decline through the loss of its money before losing any of its estates. Behold what luxury brought about and what it always will bring about in similar circumstances.

Chapter 9

Of the Interest of Money and its Causes

Just as the prices of things are fixed in the altercations of the market by the quantity of things offered for sale in proportion to the quantity of money offered for them, or, what comes to the same thing, by the proportionate number of sellers and buyers, so in the same way the interest of money in a state is settled by the proportionate number of lenders and borrowers.

Though money passes for a pledge in exchange it does not multiply itself or beget an interest in simple circulation. The needs of man seem to have introduced the usage of interest. A man who lends his money on good security or on mortgage runs at least

the risk of the ill will of the borrower, or of expenses, lawsuits and losses. But when he lends without security he runs the risk of losing everything. For this reason needy men must in the beginning have tempted lenders by the bait of a profit. And this profit must have been proportionate to the needs of the borrowers and the fear and avarice of the lenders. This seems to me the origin of interest. But its constant usage in states seems based upon the profits which the Undertakers can make out of it.

...

It is well to observe that the upkeep of such a manufacturer is small compared with the sums he borrows in his trade or with the materials entrusted to him, and therefore the lenders run no great risk of losing their capital if he is respectable and hard working: but as it is quite possible that he is not so the lenders always require from him a profit or interest of 20 to 30 per cent of the value of their loan. Even then only those who have a good opinion of him will trust him. The same inductions may be made with regard to all the masters, artisans, manufacturers and other Undertakers in the state who carry on enterprises in which the capital considerably exceeds the value of their annual upkeep.

...

The subsistence and upkeep of Undertakers must always be deducted before arriving at their profit. We have done this in the example of the farmer and of the hatmaker, but it can hardly be determined in the case of the petty Undertakers, who are for the most part insolvent when they are in debt. ...

All the merchants in a state are in the habit of lending merchandise or produce for a time to retailers, and proportion the rate of their profit or interest to that of their risk. This risk is always great because of the high proportion of the borrower's upkeep to the loan. For if the borrower or retailer have not a quick turnover in small business he will quickly go to ruin and will spend all he has borrowed on his own subsistence and will therefore be forced into bankruptcy. ...

...Nothing is more amusing than the multitude of laws and canons made in every age on the subject of the interest of money, always by wiseacres who were hardly acquainted with trade and always without effect.

From these examples and inductions it seems that there are in a state many classes and channels of interest or profit, that in the lowest classes interest is always highest in proportion to the greater risk, and that it diminishes from class to class up to the highest which is that of merchants who are rich and reputed solvent. The interest demanded in this class is called the current rate of interest in the state and differs little from interest on the mortgage of land. The bill of a solvent and solid merchant is as much esteemed, at least for a short date, as a lien upon land, because the possibility of a lawsuit or a dispute on this last makes up for the possibility of the bankruptcy of the merchant.

If there were in a state no Undertakers who could make a profit on the money or goods which they borrow, the use of interest would probably be less frequent than it is. Only extravagant and prodigal people would contract loans. But accustomed as every one is to make use of Undertakers there is a constant source for Loans and therefore for interest. They are the Undertakers who cultivate the land and supply bread, meat, clothes, etc. to all the inhabitants of a city. Those who work on wages for these Undertakers seek also to set themselves up as Undertakers, in emulation of each other. The multitude of Undertakers is much greater among the Chinese, and as they all have lively intelligence, a genius for enterprise, and great perseverance in carrying it out, there are among them many Undertakers who are among us people on fixed wages. ...

Chapter 10 and last

Of the Causes of the Increase and Decrease of the Interest of Money in a State

It is a common idea, received of all those who have written on trade, that the increased quantity of currency in a state brings down the price of interest there, because when money is plentiful it is more easy to find some to borrow. This idea is not always true or accurate. For proof it needs only to be recalled that in 1720, nearly all the money in England was brought to London and over and above this the number of notes put out accelerated the movement of money extraordinarily. Yet this abundance of money and currency instead of lowering the current rate of interest which was before at 5 per cent and under, served only to increase the rate which was carried up to 50 and 60 per cent. It is easy to account for this increased rate of interest by the principles and the causes of interest laid down in the previous chapter. The reason is that everybody had become an undertaker in the South Sea scheme and wanted to borrow money to buy shares, expecting to make an immense profit out which it would be easy to pay this high rate of interest.

If the abundance of money in the state comes from the hands of moneylenders it will doubtless bring down the current rate of interest by increasing the number of money lenders: but if it comes from the intervention of spenders it will have just the opposite effect and will raise the rate of interest by increasing the number of Undertakers who will have employment from this increased expense, and will need to borrow to equip their business in all classes of interest.

Plenty or scarcity of money in a state always raises or lowers the price of everything in bargaining without any necessary connection with the rate of interest, which may very well be high in states where there is plenty of money and low in those where money is scarcer: high where everything is dear, and low where everything is cheap: high in London, low in Genoa.

The rate of interest rises and falls every day upon mere rumours which tend to diminish or increase the security of lenders, without the prices of things in exchange being affected thereby.

The most regular cause of a high rate of interest in a state is the great expense of nobles and landowners or other rich people. Undertakers and master craftsmen are in the custom of supplying the great houses in all their branches of expenditure. These Undertakers have nearly always need to borrow money in order to supply them: and when the nobility consume their revenues in advance and borrow money they contribute doubly to raise the rate of interest.

On the contrary when the nobility of the state live economically and buy at first hand so far as they can, they get through their servants many things without their passing through the hands of Dealers, they diminish the profits and numbers of the Undertakers in the state and therefore of borrowers as well as the rate of interest, because this class of Undertakers working on their own capital borrow the least they can, and contenting themselves with small profits prevent those who have no capital from embarking in these enterprises on borrowed money. ...

When the Prince or the state incurs heavy expense, such as making war, the rate of interest is raised for two such as making war, the rate of interest is raised for two reasons: the first is that this multiplies the number of Undertakers by several new large enterprises for war supplies, and so increases borrowing. The second is because of the greater risk which war always involves.

On the contrary when the war is over risk diminishes, the number of Undertakers is lessened and war-contractors ceasing to be so retrench their expenses and become lenders of the money they have gained. If now the Prince or state offer to repay part of the debt it will interest, and this will have considerably reduce the rate of interest, and this will have a more assured result if part of the debt can be really paid off without borrowing elsewhere, because the repayments increase the number of lenders in the highest class of interest which will affect all the other classes.

When the plentifulness of money in the state is due to a continuous Balance of trade, this money first passes through the hands of Undertakers, and although it increases consumption it does not fail to bring down the rate of interest, because most of the Undertakers then acquire enough capital to carry on their business without money, and even become lenders of the sums they have gained beyond what they need to carry on their trade. If there are not in the state a great number of noblemen and rich people who spend heavily then the abundance of money will certainly bring down the rate of interest, while increasing the price of goods and merchandise in exchange. This is what usually happens in Republics which have neither much capital nor considerable landed property and grow rich merely by foreign trade. But in states which have a large capital and great landowners the money brought in by foreign trade increases their rents, and enables them to incur heavy expenditure which maintains several Undertakers and mechanics besides those who trade with the foreigner. This always keeps interest at a high rate in spite of the abundance of money.

When the nobility and landowners ruin themselves by extravagances, the money lenders who have mortgages on their lands often acquire the absolute ownership of them, and it may well arrive in the state that the lenders are creditors for much more money than there is circulating there, in which case one may consider them as subaltern owners of the land and goods mortgaged for their security. If not their capital will be lost by bankruptcies.

In the same way one may consider the owners of shares and public funds as subaltern owners of the revenues of the state devoted to payment of their interest. But if the Legislature were compelled by the necessities of the state to employ these revenues for other purposes, the shareholders or owners of public funds would lose everything without the money circulating in the state being diminished on that account by a single liard.

If the Prince or administrators of the state wish to regulate the current rate of interest by law, the regulation must be fixed on the basis of the current market rate in the highest class, or thereabout. Otherwise the law will be futile, because the contracting parties, obedient to the force of competition or the current price settled by the proportion of lenders to borrowers, will make secret bargains, and this legal constraint will only embarrass trade and raise the rate of interest instead of settling it. The Romans of old after several laws to restrict interest passed one to forbid altogether the lending of money. This law had no more success than its predecessors. ...

If it is allowable and respectable for a landlord to let a farm to a poor farmer at a high rental, risking the loss of the rent of a whole year, it seems that it should be permissible to a lender to advance his money to a needy borrower, at the risk of losing not only his interest or profit but also his capital, and to stipulate for so much interest as the borrower will freely consent to pay

him. It is true that Loans of this character make more people wretched. Making away with both capital and interest they are more impotent to recover themselves than the farmer who does not carry off the land. But the bankruptcy laws being favourable enough to debtors to allow them to start again it seems that usury laws should always be adjusted to market rates, as in Holland. ...

After all, the price of land, like all other prices, naturally settles itself by the proportion of sellers to buyers, etc.; and as there will be many more buyers in London, for example, than in the Provinces, and as these buyers who live in the capital will prefer to buy land in their locality rather than in distant Provinces, they will rather buy land in the vicinity at 1/30 or 1/35 than land at a distance 1/25 or 1/22. There are often other reasons of expediency affecting the price of land, unnecessary to mention here, since they do not invalidate our explanations of the nature of interest.

[Part 1](#) * [Part 2](#) * [Part 3](#)

[Part 4](#) * [Part 6](#) * [Part 7](#)

Essay on the Nature of Commerce

Richard Cantillon

[Part 6 of 7]

Part Three

Chapter One

On Foreign Trade

When a state exchanges a small product of land for a larger in foreign trade, it seems to have the advantage; and if current money is more abundant there than abroad it will always exchange a smaller product of land for a greater.

When the state exchanges its labour for the produce of foreign land it seems to have the advantage, since its inhabitants are fed at the foreigner's expense.

When a state exchanges its produce conjointly with its labour, for a larger produce of the foreigner conjointly with equal or greater labour, it seems again to have the advantage. ...

This is an example of a branch of trade which strengthens the foreigner, lessens the number of inhabitants of the state, and without causing any circulating money to leave it weakens the same state. I have chosen it to show more strikingly how one state may be the dupe of another in trade, and the method of judging the advantages and disadvantages of foreign trade.

It is by examining the results of each branch of commerce singly that foreign trade can be usefully regulated. It cannot be distinctly apprehended by abstract reasons. It will always be found by examining particular cases that the exportation of all manufactured articles is advantageous to the state, because in this case the foreigner always pays and supports workmen useful to the state: that the best returns or payments imported are specie, and in default of specie the produce of foreign land into which there enters the least labour. By these methods of trading states which have very little raw produce are often seen to support inhabitants in great numbers at the expense of foreigners, and large states maintain their inhabitants in greater ease and abundance.

But as great states have no need to increase the number of their inhabitants it is enough to make those who are in it live there on the raw produce of the state with more comfort and ease and to increase the strength of the state for its defence and security. To do so by foreign trade it is needful to encourage as much as possible the export of goods and manufactures of the state in exchange so far as may be for gold and silver in kind. If by abundant harvest it happened that there was in the state much produce over and above the ordinary annual consumption it would be profitable to encourage the exportation of it in return for its value in gold and silver. These metals do not corrupt and disappear like the produce of the land, and with gold and silver one can always import into the state what is lacking there.

It would not however be profitable to put the state into the annual custom of sending abroad large quantities of its raw produce in return for foreign manufactures. It would be to weaken and diminish the inhabitants and the strength of the state at both ends.

But I have no intention of entering into detail as to the branches of trade which should be encouraged for the good of the state. Enough to say that it should always be endeavoured to import as much silver as possible.

The increase in the quantity of silver circulating in a state gives it great advantages in foreign trade so long as this abundance of money lasts. The state then exchanges a small quantity of produce and labour for greater. It raises its taxes more easily and

finds no difficulty in obtaining money in case of public need.

It is true that the continued increase of money will at length by its abundance cause a dearness of land and labour in the state. The goods and manufactures will in the long run cost so much that the foreigner will gradually cease to buy them, and will accustom himself to get them cheaper elsewhere, and this will by imperceptible degrees ruin the work and manufactures of the state. The same cause which will raise the rents of landlords (which is the abundance of money) will draw them into the habit of importing many articles from foreign countries where they can be had cheap. Such are the natural consequences. The wealth acquired by a state through trade, labour and economy will plunge it gradually into luxury. States who rise by trade do not fail to sink afterwards. There are steps which might be, but are not, taken to arrest this decline. But it is always true that when the state is in actual possession of a balance of trade and abundant money it seems powerful, and it is so in reality so long as this abundance continues. ...

An American who sells beaver skins to a European is rightly astonished to learn that woollen hats are as serviceable as those made of beaver, and that all the difference, which causes so long a sea journey, is in the fancy of those who think beaver hats lighter and more agreeable to the eye and the touch. However as these beaver skins are ordinarily paid for to the American in articles of iron, steel, etc. and not in silver, it is a trade which is not injurious to Europe, especially since it supports workmen and particularly sailors, who in the needs of the state are very useful, whilst the trade with the manufactures of the East Indies carries off the money and diminishes the workmen of Europe. ...

Just as it is disadvantageous to a state to encourage foreign manufactures so it is to encourage foreign navigation. When a state sends abroad its articles and manufactures it derives the full advantage if it sends them in its own ships. It then maintains a good number of sailors who are as useful to the state as workmen. But if it leaves the carriage of them to foreign vessels it strengthens the foreign shipping and weakens its own.

Navigation is an essential point in foreign trade. In the whole of Europe the Dutch are those who build ships the cheapest. ...

Owing to these advantages they would be the only sea carriers in Europe if cheapness only were followed. And if they had enough of their own raw material to form an extensive commerce they would doubtless have the most flourishing maritime service in Europe. But the greater number of their seamen does not suffice without the interior strength of the state, for the superiority of their naval power. They would never arm warships nor sailors if the state had large revenues to build the ships and pay the men: they would profit in everything from extended markets.

England, in order to prevent the Dutch from increasing at her expense their advantage on the sea by this cheapness, has forbidden any nation from bringing into England other merchandise than that of their own growth. In this way, the Dutch being unable to serve as carriers for England, the English have strengthened their own shipping. And though they sail at greater costs than the Dutch the wealth of their overseas cargoes renders these costs less considerable.

France and Spain are maritime states which have rich produce sent to the north, whence goods and merchandise are brought to them. It is not surprising that their shipping is inconsiderable in proportion to their produce and the extent of their seaboard, since they leave it to foreign vessels to bring them all they receive from the north and to take away from them the goods which the states of the north receive from them.

These states, France and Spain, do not take into account in their policy the consideration of trade in the way in which it would be advantageous. Most merchants in France and Spain who have to do with the foreigner are rather agents or clerks of foreign merchants than adventurers carrying on the trade on their own account.

It is true that the states of the north are, by their situation and the vicinity of countries which produce all that is needed for building ships, in a position to carry everything cheaper than France and Spain could do. But if these two kingdoms took steps to strengthen their shipping, this obstacle would not prevent them. England has long since partly shown them the example. They have at home and in their colonies all that is needed for the construction of ships, or at least it would not be difficult to get them produced there, and there is an infinity of methods that might be used to make such a policy successful if the legislature or the ministry would concur in it. My subject does not allow me in this essay to examine these methods in detail. I will limit myself to saying that in countries where trade does not regularly support a considerable number of ships and sailors it is almost impossible for the prince to maintain a flourishing navy without such expense as would be capable by itself of ruining the treasure of his state.

I will conclude then by observing that the trade most essential to a state for the increase or decrease of its power is foreign trade, that the home trade is not of equally great importance politically, that foreign trade is only half supported when no care is taken to increase and maintain large merchants who are natives of the country, ships, sailors, workmen and manufacturers, and above all that care must always be taken to maintain the balance against the foreigner.

Chapter II

Of the Exchanges and their Nature

...It is somewhat in this way that the balance of trade is transported from one city to the other through bankers, and generally on a large scale. All those who bear the name of bankers are not accustomed to these transactions and many of them deal only in commissions and bank speculations. I will include among bankers only those who remit money. It is they who always fix the exchange, the charge for which follows the cost and risks of the carriage of specie in the different cases. ...

In all places and cities which use the same money and the same gold and silver specie like Paris and Chalons sur Marne, London and Bristol, the charge for exchange is known and expressed by giving and taking so much per cent above or below par. ...There is no difficulty or mystery in all this.

But when exchange is regulated between two cities or places where the money is quite different, where the coins are of different size, fineness, make, and names, the nature of exchange seems at first more difficult to explain, though at bottom this exchange differs from that between Paris and Chalons only in the jargon of bankers. At Paris one speaks of the Dutch exchange by reckoning the ecu of three livres against so many deniers de gros of Holland, but the parity of exchange between Paris and Amsterdam is always 100 ounces of gold or silver against 100 ounces of gold or silver of the same weight and fineness. 102 ounces paid at Paris to receive 100 ounces at Amsterdam always comes to 2 per cent above par. The banker who effects the remittance of the balance of trade must always know how to calculate parity. But in the language of foreign exchange the price of exchange at London with Amsterdam is made by giving a pound sterling in London to receive 35 Dutch escalins at the bank: with Paris in giving at London 30 deniers or pence sterling to receive at Paris one ecu or three livres tournois. These methods of speech do not say whether exchange is above or below par, but the banker who remits the balance of trade reckons it up well and knows how much foreign money he will receive for the money of his own country which he despatches.

Whether we fix the exchange at London for English silver in Muscovy roubles, in Mark Lubs of Hamburg, in Rixdollars of Germany, in Livres of Flanders, in Ducats of Venice, in Piastres of Genoa or Leghorn, in Millreis or Crusadoes of Portugal, in Pieces of Eight of Spain, or Pistoles, etc. the parity of exchange for all these countries will be always 100 ounces of gold or silver against 100 ounces; and if in the language of exchange it happens that one gives more or less than this parity, it comes to the same in effect as if exchange is said to be so much above or below par, and we shall always know whether or not England owes a balance to the place with which the exchange is settled just as in our example of Paris and Chalons.

Chapter 3

Further explanations of the nature of the Exchanges

We have seen that the exchanges are regulated by the intrinsic value of specie, that is at par, and their variation arises from the costs and risks of transport from one place to another when the valance of trade has to be sent in specie. Argument is unnecessary in a matter which we see in fact and practice. Bankers sometimes introduce refinements into this practice. ...

This is what bankers call speculation, which often causes variations in the exchanges for a short period independently of the balance of trade; but in the long run we must get back to this balance which fixes the constant and uniform rule of exchange. And though the speculations and credits of bankers may sometimes delay the transport of the sums which one city or state owes to another, in the end it is always necessary to pay the debt and send the balance of trade in specie to the place where it is due.

If England gains regularly a balance of trade with Portugal and always loses a balance with Holland the rates of exchange with Holland and Portugal will make this evident: it will be seen that at London the exchange on Lisbon is below par and that Portugal is indebted to England. It will be seen also that the exchange on Amsterdam is above par and that England is indebted to Holland. But the quantity of the debt cannot be seen from the exchanges. It will not be seen whether the balance of silver drawn from Portugal will be greater or less than what has to be sent to Holland.

There is however one thing which will always show at London whether England gains or loses the general balance of her trade (by general balance is understood the difference of the individual balances with all the foreign states which trade with England), and that is the price of gold and silver metal but especially of gold (now that the proportion between gold and silver in coined

money differs from the market rate, as will be explained in the next chapter). ...

Though the exchanges rarely vary apart from the balance of trade between one country and others, and though this balance is naturally the mere difference in value of the goods and merchandise which the state sends to other countries and receives from them, yet there are often circumstances and accidental causes which cause considerable sums to be conveyed from one state to another without any question of merchandise or trade, and these causes affect the exchanges just as the balance of trade would do.

Such are the sums of money which one state sends into another for its secret services and political aims, for subsidies to allies, for the upkeep of troops, Ambassadors, noblemen who travel, etc., capital which the inhabitants of one state send to another to invest in public or private funds, the interest which these inhabitants receive annually from such investments, etc. The exchanges vary with all these accidental causes and follow the rule of the transport of silver required. In considering the balance of trade matters of this kind are not separated, and indeed it would be very difficult to separate them. They have very certainly an influence on the increase and decrease of circulating money in a state and on its comparative strength and power.

My subject does not allow me to enlarge on the effects of these accidental causes: I confine myself always to the simple views of commerce lest I should complicate my subject, which is too much encumbered by the multiplicity of the facts which relate to it.

Exchanges rise more or less above par in proportion to the great or small costs and risks of the transport of money and this being granted they naturally rise much more above par in the cities or states where it is forbidden to export money than in those where its export is free. ...

For those who gain by this manoeuvre, whether Jews or others, send their profits abroad, and when they have enough of them or when they take fright they often themselves follow their money. If some of these lawbreakers were taken in the act, their goods confiscated and their lives forfeited, this circumstance and execution instead of stopping the export of money would only increase it, because those who formerly were satisfied with 1 or 2 per cent for exporting money will ask 20 or 50 per cent, and so the export must always go on to pay the balance.

I do not know whether I have succeeded in making these reasons clear to those who have no idea of trade. I know that for those who have practical knowledge of it nothing is easier to understand, and that they are rightly astonished that those who govern states and administer the finances of great kingdoms have so little knowledge of the nature of exchanges as to forbid the export of bullion and specie of gold and silver.

The only way to keep them in a state is so to conduct foreign trade that the balance is not adverse to the state.

Chapter 4

Of the variations in the proportion of values with regard to the metals which serve as money

If metals were as easily found as water commonly is everybody would take what he wanted of them and they would have hardly any value. The metals which are most plentiful and cost the least trouble to produce are also the cheapest. Iron seems the most necessary, but as it is commonly found in Europe with less trouble and labour than copper it is much cheaper.

Copper, silver, and gold are the three metals in general use for money. Copper mines are the most abundant and cost less in land and labour to work. The richest copper mines today are in Sweden. 80 ounces of copper are needed there to pay for an ounce of silver. It is also to be observed that the copper extracted from some mines is more perfect and lustrous than what is obtained from others. The copper of Japan and Sweden is brighter than that of England. That of Spain was, in the time of the Romans, better than that of Cyprus. But gold and silver, from whatever mine extracted, are always of the same perfection when refined.

The value of copper, as of everything else, is proportionable to the land and labour which enter into its production. Beside the ordinary uses to which it is put, like pots and pans, kitchen utensils, locks, etc. it is in nearly all states used as money in small purchases. In Sweden it is used even in large payments when silver is scarce there. During the first five centuries of Rome it was the only money. Silver only began to be employed in exchange in the year 484. ...

Gold and silver, like copper, have a value proportionable to the land and labour necessary for their production; and if the public assumes the cost of minting these metals their value in bars and in coin is identical, their market value and their mint value is the same, their value in the state and in foreign countries is always alike, depending on the weight and fineness, that is

on weight alone if the metals are pure and without alloy.

Silver mines have always been found more abundant than those of gold, but not equally in all countries or at all times. Several ounces of silver have always been needed to buy one ounce of gold, sometimes more sometimes less according to the abundance of these metals and the demand for them ...

... Possibly rich people might prefer to carry gold money in their pockets rather than silver and might develop a taste for gildings and gold ornaments rather than silver, thus increasing the market price of gold.

Neither could the ratio between these metals be arrived at by considering the quantity of them found in a state. ...

To judge then of the ratio between gold and silver the market price is alone decisive: the number of those who need one metal in exchange for the other, and of those who are willing to make such an exchange, determines the ratio. It often depends on the humour of men: the bargaining is done roughly and not geometrically. Still I do not think that one can imagine any rule but this to arrive at it. At least we know that in practice it is the one which decides, as in the price and value of everything else. Foreign markets affect the price of gold and silver more than they do the price of any other goods or merchandise because nothing is transported with greater ease and less injury. If there were a free and regular trade between England and Japan, if a number of ships were regularly employed in this trade and the balance of trade were in all respects equal, i.e. if as much merchandise were always sent from England to Japan, having regard to price and value, as was imported from Japan, it would end in drawing at last all the gold from Japan in exchange for silver, and the ratio between gold and silver in Japan would be made the same as it is in England, subject only to the risks of navigation; for in our hypothesis the costs of the voyage would be supported by the trade in merchandise. ...

It is the market price which decides the ratio of the value of gold to that of silver. The market price is the base of this proportion in the value assigned to coins of gold and silver. If the market price varies considerably, that of the coinage must be reformed to follow the market rate. If this be not done confusion and disorder set in in the circulation, and coins of one or the other metal will be taken above the Mint value. There are an infinity of examples of this in antiquity. ...

It is true that the coinage in England might equally have been adjusted to the market price and ratio by diminishing the nominal value of gold coins. This was the policy adopted by Sir Isaac Newton in his Report, and by Parliament in consequence of this Report. But, as I shall explain, it was the least natural and the most disadvantageous policy. Firstly it was more natural to raise the price of silver coins, because the public had already done so in the market, the ounce of silver which was worth only 62d sterling at the Mint being worth more than 65d in the market, and all the silver money being exported except what the circulation had considerably reduced in weight. On the other hand it was less disadvantageous to the English nation to raise the silver money than to lower the gold money considering the sums which England owes the foreigner. ...

Newton told me in answer to this objection that according to the fundamental laws of the Kingdom silver was the true and only monetary standard and that as such it could not be altered. It is easy to answer that the public having altered this Law by custom and the price of the market it had ceased to be a law, that in these circumstances there was no need to adhere scrupulously to it to the detriment of the nation and to pay to foreigners more than their due. If the gold coins were not considered true money, gold would have supported the variation, as in Holland and China where gold is looked upon rather as merchandise than money. If the silver coins had been raised to their market price without touching gold there would have been no loss to the foreigner, and there would have been plenty of silver coins in circulation. They would have been coined at the Mint, whereas now no more will be coined until some new arrangement is made. ...

In some centuries the value of silver rises slowly against gold, in others the value of gold rises against silver. This was the case in the age of Constantine who reduced all values to that of gold as the more permanent; but the value of silver is generally the more permanent and gold is more subject to variation.

[Part 1](#) * [Part 2](#) * [Part 3](#)

[Part 4](#) * [Part 5](#) * [Part 7](#)

Essay on the Nature of Commerce

Richard Cantillon

[Part 7 of 7]

Chapter V

Of the augmentation and diminution of coin in denomination

According to the principles we have established the quantity of money circulating in exchange fixes and determines the price of everything in a State taking into account the rapidity or sluggishness of circulation.

We often see however in the increases and decreases practised in France such strange variations that it might be supposed that market prices correspond rather to the nominal value of coin than to its quantity in exchange, the quantity of livres tournois in money of account rather than the quantity of marks and ounces, which seems directly opposed to our principles. ...

All those who owe money will make haste to pay it during the diminutions so as not to lose by them. Undertakers and Merchants find it easy to borrow which decides the least able and the least increase their enterprise. They borrow money, as fancy, without interest and load themselves with violence of their demands. Vendors have getting rid of their merchandise for money which diminish in their hands in nominal value. They towards foreign merchandise and import considerable quantities of it for the consumption of several years. All this causes money to circulate more rapidly and raises the price of everything. Then high prices prevent the foreigner from taking merchandise from France as usual. France keeps her own merchandise and at the same time imports great quantities. This double operation is the reason why considerable amounts of specie must be sent abroad to pay the balance.

The rate of exchange never fails to show this disadvantage. ...

With this object after several diminutions they begin to hoard money in the King's Treasury, to postpone the payments, pensions, and army pay. In these circumstances money becomes extremely rare at the end of the diminutions both by reason of the sums hoarded by the King and various individuals and by reason of the nominal value of the coin, which value is diminished. The amounts sent abroad also contribute greatly to the scarcity of money, and this scarcity gradually brings it about that the merchandise with which the undertakers are loaded up is offered at 50 or 60 per cent below the prices prevailing at the time of the first diminutions. Circulation falls into convulsions. Hardly enough money can be found to send to market. Many Undertakers and Merchants go bankrupt and their merchandise is sold at bargain prices.

Then the King augments anew the coinage, settles the new ecu or ounce of silver of the new issue at 5 livres, begins with this new coinage to pay the troops and the pensions. The old coinage is demonetised and received at the Mint at a lower nominal value. The King profits by the difference.

But all the sums of new coinage which come from the Mint do not restore the abundance of money in circulation. The amounts kept hoarded by individuals and those sent abroad greatly exceed the nominal increase on the coinage which comes from the Mint.

The cheapness of merchandise in France begins to draw thither the money of the foreigner, who finding it 50 or 60 or more per cent cheaper sends gold and silver metal to France to buy it. In this way the foreigner who sends his bullion to the Mint recoups himself easily from the tax paid there on this bullion. He finds the double advantage of the low price of the merchandise he buys, and the loss of the Mint charge falls really on the French in the sale of their merchandise to the foreigner.

...

The King makes a considerable profit by the Mint tax, but it costs France three times as much to enable him to make this profit.

It is well understood that when there is a current balance of trade in favour of France against the foreigner the King is able to raise a tax of 20 per cent or more by a new coinage and an increase in the nominal value of coins. But if the trade balance was against France at the time of this new coinage and augmentation the operation would have no success and the King would not derive a great profit from it. The reason is that in this case it is necessary to send money continually abroad. ...

The change in the nominal value of money has at all times been the effect of some disaster or scarcity in the State, or of the ambition of some Prince or individual. ... A State neither gains nor loses by the raising or lowering of these coins so long as it keeps the same quantity of them, though individuals may gain or lose by the variation according to their engagements. All people are full of false prejudice and false ideas as to the nominal value of their coinage. We have shown in the Chapter on Exchanges that the invariable rule of them is the price and fineness of the current coins of different countries, marc for marc and ounce for ounce. If a raising or lowering of the nominal value changes this rule for a time in France it is only during a crisis and difficulty in trade. A return is always made little by little to intrinsic value, to which prices are necessarily brought both in the market and in the foreign exchanges.

Chapter VI

Of Banks and their Credit

If a hundred economical gentlemen or proprietors of land, who put by every year money from their savings to buy land on occasion, deposit each one 10,000 ounces of silver with a goldsmith or banker in London, to avoid the trouble of keeping this money in their houses and the thefts which might be made of it, they will take from them notes payable on demand. Often they will leave their money there a long time, and even when they have made some purchase they will give notice to the banker some time in advance to have their money ready when the formalities and legal documents are complete.

In these circumstances the banker will often be able to lend 90,000 ounces of the 100,000 he owes throughout the year and will only need to keep in hand 10,000 ounces to meet all the withdrawals. He has to do with wealthy and economical persons; as fast as one thousand ounces are demanded of him in one direction, a thousand are brought to him from another. It is enough as a rule for him to keep in hand the tenth part of his deposits. ... The bankers or goldsmiths contribute to accelerate the circulation of money. They lend it out at interest at their own risk and peril, and yet they are or ought to be always ready to cash their notes when desired on demand.

If an individual has 1000 ounces to pay to another he will give him in payment the banker's note for that amount. This other will perhaps not go and demand the money of the banker. He will keep the note and give it on occasion to a third person in payment, and this note may pass through several hands in large payments without any one going for a long time to demand the money from the banker. It will be only some one who has not complete confidence or has several small sums to pay who will demand the amount of it. In this first example the cash of a banker is only the tenth part of his trade.

If 100 individuals or landowners deposit with a banker their income every six months as it is received, and then demand their money back as and when they have need to spend it, the banker will be in a position to lend much more of the money which he owes and receives at the beginning of the half years, for a short term of some months, than he will be towards the end of these periods. And his experience of the conduct of his clients will teach him that he can hardly lend during the whole year more than about one half of the sums which he owes. Bankers of this kind will be ruined in credit if they fail for one instant to pay their notes on their first presentation, and when they are short of cash in hand they will give anything to have money at once, that is to say a much higher interest than they receive on the sums they have lent. Hence they make it a rule based on their experience to keep always in hand enough to meet demands, and rather more than less. Many Bankers of this kind (and they are the greatest number) always keep in hand half the amount deposited with them and lend the other half at interest and put it into circulation. In this second example the Banker causes his notes of 100,000 ounces or ecus to circulate with 50,000 ecus. If he has a great flow of deposits and great credit this increases confidence in his notes, and makes people less eager to cash them, but only delays, his payments a few days or weeks when the notes fall into the hands of persons who are not accustomed to deal with him, and he ought always to guide himself by those who are accustomed to entrust their money to him. If his notes come into the hands of those of his own business they will have nothing more pressing than to withdraw the money from him.

If those who deposit money with the Banker are Undertakers and Merchants who pay in large sums daily and soon after draw them out it will often happen that if the Banker divert more than one third of his cash he will find himself in difficulty to meet the demands.

It is easy to understand by these examples that the sums of money which a Goldsmith or a Banker can lend at interest or divert from his cash are naturally proportionable to the practice and conduct of his clients; that while we have seen Bankers who were safe with a cash reserve of one-tenth, others can hardly keep less than one half or two-thirds, though their credit be as high as that of the first.

Some trust one Banker, some another. The most fortunate is the Banker who has for clients rich gentlemen who are always looking out for safe employment for their money without wishing to invest it at interest while they wait.

A general national bank has this advantage over the bank of a single Goldsmith that there is always more confidence in it. The largest deposits are willingly brought to it, even from the most remote quarters of the city, and it leaves generally to small Bankers only the deposit of petty sums in their neighbourhood. Even the revenues of the State are paid in to it in countries where the Prince is not absolute. And this, far from injuring credit and confidence in it, serves only to increase them.

If payments in a national bank are made by transfers or clearings there will be this advantage, that they are not subject to forgeries, but if the Bank gives notes false notes may be made and cause disorder. There will be also this disadvantage that those who are in the quarters of the city at a distance from the Bank will rather pay and receive in money than go thither, especially those in the country. But if the bank notes are dispersed they can be used far and near. In the national Banks of Venice and Amsterdam payment is made only in book credit, but in that of London it is made in credit, in notes, and in money at the choice of the individuals, and it is today the strongest Bank.

It will then be understood that all the advantage of Banks, public or private in a city, is to accelerate the circulation of money and to prevent so much of it from being hoarded as it would naturally be for several intervals.

Chapter VII

Further explanations and enquiries as to the utility of a National Bank

...It is found that the sellers and buyers of the Bank money are regularly equal when the total of all the credits or inscriptions on the books of the Bank do not exceed the value of 800,000 ounces of silver or thereabout. ...

...A national Bank in the capital of a great Kingdom or State must, it seems, contribute less to the utility of circulation because of the distance of its provinces, than in a small State. And when money circulates there in greater abundance than among its neighbours a national Bank does more harm than good. An abundance of fictitious and imaginary money causes the same disadvantages as an increase of real money in circulation, by raising the price of land and labour, or by making works and manufactures more expensive at the risk of subsequent loss. But this fictive abundance vanishes at the first gust of discreet and precipitates disorder. ...

I think public banks of very great utility in small States and those where silver is rather scarce, but of little service for the solid advantage of a great State. ...

Though I consider a general Bank is in reality of very little solid service in a great State I allow that there are circumstances in which a Bank may have effects which seem astonishing.

In a city where there are public debts for considerable amounts the facility of a Bank enables one to buy and sell capital stock in a moment for enormous sums without causing any disturbance in the circulation. If at London a person sells his South Sea stock to buy stock in the Bank or in the East India Company, or hoping that in a short time he will be able to buy at a lower price stock in the same South Sea Company, he always takes Banknotes, and generally money is not asked for in respect of these notes but only for the interest on them. As one hardly spends one's capital there is no need to change it into coin, but one is always forced to ask the Bank for money for subsistence since cash is needed for small dealings.

If a Landowner who has 1000 ounces of silver pays 200 of them for the interest of public stock and spends 800 ounces of them himself, the thousand ounces will always require coinage. This proprietor will spend 800 and the Owners of the funds will spend 200 of them. But when these Proprietors are in the habit of speculation, selling and buying public stock, no ready silver is needed for these operations, bank notes suffice. If it were necessary to draw hard cash out of circulation to serve in these purchases and sales it would amount to a great sum and would often impede the circulation, or rather it would happen in that case that the stocks could not be sold and bought so often.

It is doubtless the origin of these capitals or money deposited in the Bank and drawn out only on rare occasions, such as when

an owner of capital engages in some transaction or needs cash for small purchases, which explains why the Bank keeps in reserve only the fourth or sixth part of the silver against which it issues notes. If the Bank had not the funds of many of these capitals it would in the ordinary course of circulation find itself would in the ordinary course of circulation find itself compelled like private banks to keep half its deposits in hand to be solvent. It is true that the Bank books and its dealings do not distinguish those capitals which pass through several hands in the sales and purchases made in Change Alley. These notes are often renewed at the Bank and changed against others in purchases. But the experience of purchases and sales of stock show clearly that the total of them is considerable, and without these purchases and sales the sums deposited at the Bank would be certainly smaller.

This means that when a State is not in debt and has no need of purchases and sales of stock the help of a Bank will be less necessary and less important. ...

Chapter VIII

Of the Refinements of Credit of General Banks

The national Bank of London is composed of a large number of shareholders who make choice of Directors to govern its operations. Their primitive advantage consisted in making a yearly distribution of the profits made by interest on the money lent out of the Bank deposits. Later the public debt was incorporated with it, on which the State pays an annual interest.

In spite of such a solid foundation when the Bank had made large advances to the State and the holders of notes were apprehensive that the Bank was in difficulties, a run on the Bank has been seen and holders of notes went in crowds to the Bank to draw out money. The same thing happened on the collapse of the South Sea Company in 1720.

The refinements introduced to support the Bank and moderate its discredit were first to set up a number of clerks to count out the money to those bringing notes, to pay out large amounts in sixpences and shillings to gain time, to pay some part to individual holders who had been waiting whole days to take their turn; but the most considerable sums were paid to friends who took them away and brought them back secretly to the Bank to repeat the same manoeuvre the next day. In this way the Bank saved its appearance and gained time until the panic should abate. But when that did not suffice the Bank opened a subscription engaging trusty and solvent people to join as guarantors of large amounts to maintain the credit and circulation of the Bank notes.

It was by this last refinement that the credit of the Bank was maintained in 1720 when the South Sea Company collapsed. As soon as it was publicly known that the subscription list was filled by wealthy and powerful people, the run on the Bank ceased and deposits were brought in as usual.

If a Minister of State in England, seeking to lower the rate of interest or for other reasons, forces up the price of public stock in London and if he has enough credit with the Directors of the Bank (under the obligation of indemnifying them in case of loss) to get them to issue a quantity of bank notes without backing, begging them to use these notes themselves to buy several blocks and capitals of the public stock, this stock will not fail to rise in price through these operations, And those who have sold stock, seeing the high price continue, will perhaps decide (so as not to leave their bank notes idle and thinking from the rumours spread about that the rate of interest will fall and the stock go up further in price) to buy it back at a higher price than they sold it for, If several people seeing the agents of the Banks buy this stock step in and do likewise thinking to profit like them, the public funds will increase in price to the point which the Minister wishes. And it may happen that the Bank will cleverly resell at a higher price all the stock it has purchased at the Minister's request, and will not only make a large profit on it but will retire and cancel all the extraordinary banknotes which it had issued.

If the Bank alone raises the price of public stock by buying it, it will by so much depress it when it resells to cancel its excess issue of notes. But it always happens that many people wishing to follow the Agents of the Bank in their operations help to keep up the price. Some of them get caught for want of understanding these operations, in which there enter infinite refinements or rather trickery which lie outside my subject.

It is then undoubted that a Bank with the complicity of a Minister is able to raise and support the price of public stock and to lower the rate of interest in the State at the pleasure of this Minister when the steps are taken discreetly, and thus pay off the State debt. But these refinements which open the door to making large fortunes are rarely carried out for the sole advantage of the State, and those who take part in them are generally corrupted. The excess banknotes, made and issued on these occasions, do not upset the circulation, because being used for the buying and selling of stock they do not serve for household expenses and are not changed into silver. But if some panic or unforeseen crisis drove the holders to demand silver from the Bank the bomb would burst and it would be seen that these are dangerous operations.

[Part 1](#) * [Part 2](#) * [Part 3](#)

[Part 4](#) * [Part 5](#) * [Part 6](#)