

'Of Credit good & bad, and of the usefulness of the former' (changed from 'Of Credit good & counterfeit, & of the usefulness of the first & danger of the last').

Author: Isaac Newton

Source: MINT 19/2/631-2, National Archives, Kew, Richmond, Surrey, UK

<631r>

3Of Credit good & bad, & of the usefulness of the former.

[1]M^r P, (sect 26) tells us that the allowing of paper to pass as money must have (& we have found by experience it has had) the same effect as the permission of two sorts of coyn one false & worth little & the other time & valuable. & a little after (sect 27) he adds that paper when it passes for money is as a false coyne. I answer that there are two sorts of paper credit, one good the others bad. The good is upon good security & may be compared to good money The bad is upon bad security or without any security at all security & may be compared to counterfeit money. The first I defend, the other M^r P. opposes. For paper credit or to {speak} more paper security if it be good is of the same value with good money. If security upon a Bond or Mortgage or Bill of Exchange or a Bank Bill &c be good, its as good as money. For otherwise no man would part with his money upon such security. Good security is a phrase which signifies security of the same value with money. So long as we believe it good so long we are content with it in lieu of our money & when we begin to suspect its goodness we take in our money & return back the security. Tis mere opinion that sets a value upon money we value it because with it we can purchase all sorts of commodities & the same opinion sets a like value upon paper security. We value it because with it we can purchase all sorts of commodities & money too. All the difference is that the value of gold & silver is set upon their internal substance or matter & therefore called intrinsic & the value of paper security upon the apparent form of the writing & therefore called extrinsic & that the value of the former is more universal then that of the latter. But if Gold & Silver be preferable to circulating paper security for their more universal value & circulation then for the same reason good circulating security is preferable to Bonds & Mortgages which have no circulation. For by circulation paper security is rendred more usefull. One sort of paper credit are Bills of exchange. These are so necessary to Trade that without them Trade could not be carried on, & their use consists in paying of debts without the trouble hazzard & tediousness of sending money from place to place. The like is done by Bank Bills Exchequer Bills & other sorts of good paper credit. And this makes such dispatch in business as enlarges Trade exceedingly, as is very plain by the great strop which the the sinking of paper credit this winter put to business & trade.

<631v>

[3] Mr P. allows that paper credit may be used sometimes as a cordial in cases of necessity but not as constant food & reckons the first Exchequer Bills issued out in the late warr to be of this kind & that it may be convenient upon pressing occasions to make use of the same method thereafter provided such Bills be issued out upon some fund & not for more then the tax may yield & be paid off when the money comes in. For, saith he, the danger of using paper as money does not arise from the immediate use of the paper but from the misapplication of that deposit & for that reason he advises that as such paper cannot be finally discharged but by payment of coyn so care should be taken to preserve coyn in the nation for that purpose. He saith also that as such a way of giving a supply to the publick may be convenient in cases of necessity so it may be necessary to have a Bank in the City for the keeping of money & the ease of making payment by assignment, but in no case to allow of Notes & Bills to pass as money unless a deposit be secured. By all this he allows paper credit wherever the security is good, & so far I agree with him. I agree with him also that where the deposition is in danger of being withdrawn the security is bad & the paper credit unsafe & such paper credit (not good circulating security) I would compare to counterfeit < insertion from f 632r > money & say that it may be sometimes used as a cordial in cases of necessity (like the brass money of King James in Ireland) but is not to be used as constant good. This sort of Paper credit Mr P. seems to understand when he compares it to counterfeit money & says that it is to be used only as a cordial. For he speaks of credit where the deposit is in danger of being withdrawn.

So then the dispute against Paper Credit in general is at an end & the Question which remains is only about the goodness of the security of the safety of the Deposit on which this or that sort of Paper credit is grounded.

Credit upon a standing Bank if equal value is allowed to be good

And Credit upon land security is as good

And so is credit upon Parliamentary funds so long as the Government lasts & there is but money enough of our own to pay Taxes. Of this kind are Exchequer bills, Bank of England Bills, Mault Tickets, Million Lottery Tickets, Annuity Tickets &c But this security is weakened by the stocks of Forreigners in those funds. Five millions of money by circulating will pay a debt of 20 millions to our own people, but it will not pay a debt of six millions to Forreigners.

The credit of particular Merchants is more apt to fail then that of parliament & yet must be tenderly dealt with because of the life of their trade

But Mr P represents &c < text from f 631v resumes >

And so the Question which remains is only about the goodness of paper credit on that several sorts of security.

Credit upon a standing Bank of equal value is allowed to be good.

And Credit upon land security is as good.

And so is credit upon Parliamentary funds so long as that Government lasts & there is but money enough to pay Taxes. Of this kind are exchequerBills, Bank of England Bills, Mault Tickets, Million lottery Tickets, Annuity Tickets &c † < insertion from the left margin > † The credit of particular merchants is more apt to fail & yet must be tenderly dealt with because the life of their trade.

But Mr P. represents &c

< text from f 631v resumes >

But Mr. P represents that Paper credit encourages only those trades which export our money & by circulating it instead of money sets money at liberty to be exported & when the money is gone the credit sinks for want of a depositum. I answer that paper credit by making great dispatch in business promotes all trades as well good as bad as in manifest by the stop put to trades this < insertion from f 632r > winter by the want of it < text from f 631v resumes > ; that it promotes bad trades most (that is such as export our money) only by

promoting luxury in foreign commodities & if that luxury be checked (as it may be without destroying credit) the Objection ceases, & it's better to check luxury than credit) which is the life of trade; & that paper credit & the coinage Act in the two last reigns notwithstanding this luxury brought in much more gold & silver to the Mint by trade than ever was brought in by trade alone before & that as the strongest poisons duly prepared & applied become the best medicines so those trades which we now complain of for exporting our money, if we can but check our own luxury in foreign commodities, may become the most beneficial to us of any others by furnishing our neighbours with those commodities to drain away their money; but if we part with paper credit to check those hurtful trades, we check all trade in general & leave the hurtful trades to our neighbours who will make us pay dearer for those foreign commodities than our own merchants do, so that we <632r> shall never be able to grow rich hereafter.

I recommended credit for lowering Interest, because low interest is to the advantage of trade & business: M^r P. replies that the argument may be as good for limiting the rates of letting land because the cheapness of provisions may as much encourage trade as the cheapness of provisions. I answer that if provisions be cheap & other commodities dear the landed man will soon be beggared. Care must be taken of our land & native product as well as of our trade & paper credit is good for both. By lowering interest it raises the price of land & furnishes all the busy part of the nation (thus ~~ba~~^{illeg}dmen Grasiers {Artificers} Shopkeepers, Merchants) with money at easy rates to carry on their several employments & is good for every body but the idle Vsurer & them that cannot live but upon the interest of their money. It may prejudice Orphans who are to live upon the interest of their portions, but it's good for the nation in general & may enable fathers to provide better for their children & the publick is most to be regarded.

The Question about paper credit is comparative. The arguments against it must not be considered alone but compared with the arguments for it & judgment given on the weightier side.

<632v>

p. 10 l. 20 to p. 12 l. 23 against the circulation of credit.

p 12 l. 23 — p 16 l. 2 against more credit.

p 16 l. 2 — p 17 l. 27 What credit allowable & how long

p 17 l. 27 p 19 l. 9 Care to ~~{be}~~ taken against exporting our coin.

There might be a third or 4th part fit for culling but all Importers did not cull & among the Guineas of King Ch. & King Ia. there are still many of full weight notwithstanding the wearing. If I should allow a fifth part to be culled out & recoyned there would remain 7121952^{li}. 15^s. 06^d. To which add the Guineas coyned from Decemb 31 1699 to amounting to & the Lewid'ors & Spanish Pistoles which are now reckoned at a million & an half & the whole gold coin will be above 8800000^{li} in the nation besides broad gold & if I say but 8½ millions as I did {in} my former paper there will remain a waste of above 300000^{li} to answer small objections.

[4] If any gold hath been bought with the clippings of silver monies melted down into Ingotts & exported, 'tis allowed for in my former paper 5½ millions waste of the silver monies

[5] And the like is to be said of gold brought in by Forreigners to get by loans upon publick funds &c. For since the year 1694 we have paid our foreign debts in any thing but gold. And such debts which now remain unpaid, are not to be considered in reckoning the quantity of monies now in the nation, but must be accounted for in the ballance of trade which at present is on our side.

All which being considered I do not see but that the reckonings I set down in my former paper come neare the truth viz^t that in the year 1689 when we were richest we had {ab}out 12¾ millions in silver monies (not in tale but standard value) & about 5¼ millions in Guineas & Pistoles, in all 18 millions besides broad gold.

And in the year 1700 we had about $7\frac{1}{4}$ millions in silver monies milled & hammered & about $8\frac{1}{2}$ million in Guineas & Pistoles besides broad Gold & the Guineas coyned 1700, In all we had about $15\frac{3}{4}$ millions which is about $2\frac{1}{4}$ millions less then before. In making this estimate I do not pretend to be exact. Where I could meet with exact recconings I found them & in the rest I used the best of my judgment.

All which is as much as to say that paper may be lower interest but is not a natural way of doing it because it tends to enlarge bad trades which export our money & when the money is gone the want of it will advance the rates of Interest.

[1] p. 13

[2] p 13

[3] p 16

[4] p 5

[5] p. 5, 6
