

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

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The Credit System in France, Great Britain, and the United States by H. C. Carey

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H. C. CAREY

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From

Jan 7 1875

THE

CREDIT SYSTEM

IN

FRANCE, GREAT BRITAIN,

AND THE

UNITED STATES.

BY H. C. CAREY,

AUTHOR OF "PRINCIPLES OF POLITICAL ECONOMY," &c.

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BY THE SAME AUTHOR.

JUST PUBLISHED,

PRINCIPLES

OF

POLITICAL ECONOMY,

PART THE FIRST:

OF

THE LAWS OF THE

PRODUCTION AND DISTRIBUTION OF WEALTH.

"All discord harmony not understood."—*POPE.*

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

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-AWARE

CONTENTS.

	PAGE
CHAPTER I. Rise and Progress of Credit, - - - - -	3
II. Of Credit in France, - - - - -	12
III. Of Credit in England, - - - - -	20
IV. Of Credit in the United States, - - - - -	25
V. Insecurity of Property and its Effects. England, France, United States, - - - - -	42
VI. Friction. England, France, Scotland, United States, - - - - -	75
VII. The United States in 1836-7, - - - - -	88
VIII. England in 1825 and 1836, - - - - -	112
IX. Conclusion, - - - - -	117

ERRATA.

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

THE CREDIT SYSTEM.

CHAPTER I.

RISE AND PROGRESS OF CREDIT.

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

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

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

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

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

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

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

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

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

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

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