

Book II: Of the Nature, Accumulation, and Employment of Stock

CHAPTER II. OF MONEY, CONSIDERED AS A PARTICULAR BRANCH OF THE GENERAL STOCK OF THE SOCIETY, OR OF THE EXPENSE OF MAINTAINING THE NATIONAL CAPITAL.

It has been shown in the first Book, that the price of the greater part of commodities resolves itself into three parts, of which one pays the wages of the labour, another the profits of the stock, and a third the rent of the land which had been employed in producing and bringing them to market: that there are, indeed, some commodities of which the price is made up of two of those parts only, the wages of labour, and the profits of stock; and a very few in which it consists altogether in one, the wages of labour; but that the price of every commodity necessarily resolves itself into some one or other, or all, of those three parts; every part of it which goes neither to rent nor to wages, being necessarily profit to some body.

Since this is the case, it has been observed, with regard to every particular commodity, taken separately, it must be so with regard to all the commodities which compose the whole annual produce of the land and labour of every country, taken complexly. The whole price or exchangeable value of that annual produce must resolve itself into the same three parts, and be parcelled out among the different inhabitants of the country, either as the wages of their labour, the profits of their stock, or the rent of their land.

But though the whole value of the annual produce of the land and labour of every country, is thus divided among, and constitutes a revenue to, its different inhabitants; yet, as in the rent of a private estate, we distinguish between the gross rent and the neat rent, so may we likewise in the revenue of all the inhabitants of a great country.

The gross rent of a private estate comprehends whatever is paid by the farmer; the neat rent, what remains free to the landlord, after deducting the expense of management, of repairs, and all other necessary charges; or what, without hurting his estate, he can afford to place in his stock reserved for immediate consumption, or to spend upon his table, equipage, the ornaments of his house and furniture, his private enjoyments and amusements. His real wealth is in proportion, not to his gross, but to his neat rent.

The gross revenue of all the inhabitants of a great country comprehends the whole annual produce of their land and labour; the neat revenue, what remains free to them, after deducting the expense of maintaining first, their fixed, and, secondly, their circulating capital, or what, without encroaching upon their capital, they can place in their stock reserved for immediate consumption, or spend upon their subsistence, conveniencies, and amusements. Their real wealth, too, is in proportion, not to their gross, but to their neat revenue.

The whole expense of maintaining the fixed capital must evidently be excluded from the neat revenue of the society. Neither the materials necessary for supporting their useful machines and instruments of trade, their profitable buildings, etc. nor the produce of the labour necessary for fashioning those materials into the proper form, can ever make any part of it. The price of that labour may indeed make a part of it; as the workmen so employed may place the whole value of their wages in their stock reserved for immediate consumption. But in other sorts of labour, both the price and the produce go to this stock; the price to that of the workmen, the produce to that of other people, whose subsistence, conveniencies, and amusements, are augmented by the labour of those workmen.

The intention of the fixed capital is to increase the productive powers of labour, or to enable the same number of labourers to perform a much greater quantity of work. In a farm where all the necessary buildings, fences, drains, communications, etc. are in the most perfect good order, the same number of labourers and labouring cattle will raise a much greater produce, than in one of equal extent and equally good ground, but not furnished with equal conveniencies. In manufactures, the same number of hands, assisted with the best machinery, will work up a much greater quantity of goods than with more imperfect instruments of trade. The expense which is properly laid out upon a fixed capital of any kind, is always repaid with great profit, and increases the annual produce by a much greater value than that of the support which such improvements require. This support, however, still requires a certain portion of that produce. A certain quantity of materials, and the labour of a certain number of workmen, both of which might have been immediately employed to augment the food, clothing, and lodging, the subsistence and conveniencies of the society, are thus diverted to another employment, highly advantageous indeed, but still different from this one. It is upon this account that all such improvements in mechanics, as enable the same number of workmen to perform an equal quantity of work with cheaper and simpler machinery than had been usual before, are always regarded as advantageous to every society. A certain quantity of materials, and the labour of a certain number of workmen, which had before been employed in supporting a more complex and expensive machinery, can afterwards be applied to augment the quantity of work which that or any other machinery is useful only for performing. The undertaker of some great manufactory, who employs a thousand a-year in the maintenance of his machinery, if he can reduce this expense to five hundred, will naturally employ the other five hundred in purchasing an additional quantity of materials, to be wrought up by an additional number of workmen. The quantity of that work, therefore, which his machinery was useful only for performing, will naturally be augmented, and with it all the advantage and conveniency which the society can derive from that work.

The expense of maintaining the fixed capital in a great country, may very properly be compared to that of repairs in a private estate. The expense of repairs may frequently be necessary for supporting the produce of the estate, and consequently both the gross and the neat rent of the landlord. When by a more proper direction, however, it can be diminished without occasioning any diminution of produce, the gross rent remains at least the same as before, and the neat rent is necessarily augmented.

But though the whole expense of maintaining the fixed capital is thus necessarily excluded from the neat revenue of the society, it is not the same case with that of maintaining the circulating capital. Of the four parts of which this latter capital is composed, money, provisions, materials, and finished work, the three last, it has already been observed, are regularly withdrawn from it, and placed either in the fixed capital of the society, or in their stock reserved for immediate consumption. Whatever portion of those consumable goods is not employed in maintaining the former, goes all to the latter, and makes a part of the neat revenue of the society. The maintenance of those three parts of the circulating capital, therefore, withdraws no portion of the annual produce from the neat revenue of the society, besides what is necessary for maintaining the fixed capital.

The circulating capital of a society is in this respect different from that of an individual. That of an individual is totally excluded from making any part of his neat revenue, which must consist altogether in his profits. But though the circulating capital of every individual makes a part of that of the society to which he belongs, it is not upon that account totally excluded from making a part likewise of their neat revenue. Though the whole goods in a merchant's shop must by no means be placed in his own stock reserved for immediate consumption, they may in that of other people, who, from a revenue derived from other funds, may regularly replace their value to him, together with its profits, without occasioning any diminution either of his capital or of theirs.

Money, therefore, is the only part of the circulating capital of a society, of which the maintenance can occasion any diminution in their neat revenue.

The fixed capital, and that part of the circulating capital which consists in money, so far as they affect the revenue of the society, bear a very great resemblance to one another.

First, as those machines and instruments of trade, etc. require a certain expense, first to erect them, and afterwards to support them, both which expenses, though they make a part of the gross, are deductions from the neat revenue of the society; so the stock of money which circulates in any country must require a certain expense, first to collect it, and afterwards to support it; both which expenses, though they make a part of the gross, are, in the same manner, deductions from the neat revenue of the society. A certain quantity of very valuable materials, gold and silver, and of very curious labour, instead of augmenting the stock reserved for immediate consumption, the subsistence, conveniencies, and amusements of individuals, is employed in supporting that great but expensive instrument of commerce, by means of which every individual in the society has his subsistence, conveniencies, and amusements, regularly distributed to him in their proper proportions.

Secondly, as the machines and instruments of trade, etc. which compose the fixed capital either of an individual or of a society, make no part either of the gross or of the neat revenue of either; so money, by means of which the whole revenue of the society is regularly distributed among all its different members, makes itself no part of that revenue. The great wheel of circulation is altogether different from the goods which are circulated by means of it. The revenue of the society consists altogether in those goods, and not in the wheel which circulates them. In computing either the gross or the neat revenue of any society, we must always, from the whole annual circulation of money and goods, deduct the whole value of the money, of which not a single farthing can ever make any part of either.

It is the ambiguity of language only which can make this proposition appear either doubtful or paradoxical. When properly explained and understood, it is almost self-evident.

When we talk of any particular sum of money, we sometimes mean nothing but the metal pieces of which it is composed, and sometimes we include in our meaning some obscure reference to the goods which can be had in exchange for it, or to the power of purchasing which the possession of it conveys. Thus, when we say that the circulating money of England has been computed at eighteen millions, we mean only to express the amount of the metal pieces, which some writers have computed, or rather have supposed, to circulate in that country. But when we say that a man is worth fifty or a hundred pounds a-year, we mean commonly to express, not only the amount of the metal pieces which are annually paid to him, but the value of the goods which he can annually purchase or consume; we mean commonly to ascertain what is or ought to be his way of living, or the quantity and quality of the necessaries and conveniencies of life in which he can with propriety indulge himself.

When, by any particular sum of money, we mean not only to express the amount of the metal pieces of which it is composed, but to include in its signification some obscure reference to the goods which can be had in exchange for them, the wealth or revenue which it in this case denotes, is equal only to one of the two values which are thus intimated somewhat ambiguously by the same word, and to the latter more properly than to the former, to the money's worth more properly than to the money.

Thus, if a guinea be the weekly pension of a particular person, he can in the course of the week purchase with it a certain quantity of subsistence, conveniencies, and amusements. In proportion as this quantity is great or small, so are his real riches, his real weekly revenue. His weekly revenue is certainly not equal both to the guinea and to what can be purchased with it, but only to one or other of those two equal values, and to the latter more properly than to the former, to the guinea's worth rather than to the guinea.

If the pension of such a person was paid to him, not in gold, but in a weekly bill for a guinea, his revenue surely would not so properly consist in the piece of paper, as in what he could get for it. A guinea may be considered as a bill for a certain quantity of necessaries and conveniencies upon all the tradesmen in the neighbourhood. The revenue of the person to whom it is paid, does not so properly consist in the piece of gold, as in what he can get for it, or in what he can exchange it for. If it could be exchanged for nothing, it would, like a bill upon a bankrupt, be of no more value than the most useless piece of paper.

Though the weekly or yearly revenue of all the different inhabitants of any country, in the same manner, may be, and in reality frequently is, paid to them in money, their real riches, however, the real weekly or yearly revenue of all of them taken together, must always be great or small, in proportion to the quantity of consumable goods which they can all of them purchase with this money. The whole revenue of all of them taken together is evidently not equal to both the money and the consumable goods, but only to one or other of those two values, and to the latter more properly than to the former.

Though we frequently, therefore, express a person's revenue by the metal pieces which are annually paid to him, it is because the amount of those pieces regulates the extent of his power of purchasing, or the value of the goods which he can annually afford to consume. We still consider his revenue as consisting in this power of purchasing or consuming, and not in the pieces which convey it.

But if this is sufficiently evident, even with regard to an individual, it is still more so with regard to a society. The amount of the metal pieces which are annually paid to an individual, is often precisely equal to his revenue, and is upon that account the shortest and best expression of its value. But the amount of the metal pieces which circulate in a society, can never be equal to the revenue of all its members. As the same guinea which pays the weekly pension of one man to-day, may pay that of another to-morrow, and that of a third the day thereafter, the amount of the metal pieces which annually circulate in any country, must always be of much less value than the whole money pensions annually paid with them. But the power of purchasing, or the goods which can successively be bought with the whole of those money pensions, as they are successively paid, must always be precisely of the same value with those pensions; as must likewise be the revenue of the different persons to whom they are paid. That revenue, therefore, cannot consist in those metal pieces, of which the amount is so much inferior to its value, but in the power of purchasing, in the goods which can successively be bought with them as they circulate from hand to hand.

Money, therefore, the great wheel of circulation, the great instrument of commerce, like all other instruments of trade, though it makes a part, and a very valuable part, of the capital, makes no part of the revenue of the society to which it belongs; and though the metal pieces of which it is composed, in the course of their annual circulation, distribute to every man the revenue which properly belongs to him, they make themselves no part of that revenue.

Thirdly, and lastly, the machines and instruments of trade, etc. which compose the fixed capital, bear this further resemblance to that part of the circulating capital which consists in money; that as every saving in the expense of erecting and supporting those machines, which does not diminish the introductive powers of labour, is an improvement of the neat revenue of the society; so every saving in the expense of collecting and supporting that part of the circulating capital which consists in money is an improvement of exactly the same kind.

It is sufficiently obvious, and it has partly, too, been explained already, in what manner every saving in the expense of supporting the fixed capital is an improvement of the neat revenue of the society. The whole capital of the undertaker of every work is necessarily divided between his fixed and his circulating capital. While his whole capital remains the same, the smaller the one part, the greater must necessarily be the other. It is the circulating capital which furnishes the materials and wages of labour, and puts industry into motion. Every saving, therefore, in the expense of maintaining the fixed capital, which does not diminish the productive powers of labour, must increase the fund which puts industry into motion, and consequently the annual produce of land and labour, the real revenue of every society.

The substitution of paper in the room of gold and silver money, replaces a very expensive instrument of commerce with one much less costly, and sometimes equally convenient. Circulation comes to be carried on by a new wheel, which it costs less both to erect and to maintain than the old one. But in what manner this operation is performed, and in what manner it tends to increase either the gross or the neat revenue of the society, is not altogether so obvious, and may therefore require some further explication.

There are several different sorts of paper money; but the circulating notes of banks and bankers are the species which is best known, and which seems best adapted for this purpose.

When the people of any particular country have such confidence in the fortune, probity and prudence of a particular banker, as to believe that he is always ready to pay upon demand such of his promissory notes as are likely to be at any time presented to him, those notes come to have the same currency as gold and silver money, from the confidence that such money can at any time be had for them.

A particular banker lends among his customers his own promissory notes, to the extent, we shall suppose, of a hundred thousand pounds. As those notes serve all the purposes of money, his debtors pay him the same interest as if he had lent them so much money. This interest is the source of his gain. Though some of those notes are continually coming back upon him for payment, part of them continue to circulate for months and years together. Though he has generally in circulation, therefore, notes to the extent of a hundred thousand pounds, twenty thousand pounds in gold and silver may, frequently, be a sufficient provision for answering occasional demands. By this operation, therefore, twenty thousand pounds in gold and silver perform all the functions which a hundred thousand could otherwise have performed. The same exchanges may be made, the same quantity of consumable goods may be circulated and distributed to their proper consumers, by means of his promissory notes, to the value of a hundred thousand pounds, as by an equal value of gold and silver money. Eighty thousand pounds of gold and silver, therefore, can in this manner be spared from the circulation of the country; and if different operations of the the same kind should, at the same time, be carried on by many different banks and bankers, the whole circulation may thus be conducted with a fifth part only of the gold and silver which would otherwise have been requisite.

Let us suppose, for example, that the whole circulating money of some particular country amounted, at a particular time, to one million sterling, that sum being then sufficient for circulating the whole annual produce of their land and labour; let us suppose, too, that some time thereafter, different banks and bankers issued promissory notes payable to the bearer, to the extent of one million, reserving in their different coffers two hundred thousand pounds for answering occasional demands; there would remain, therefore, in circulation, eight hundred thousand pounds in gold and silver, and a million of bank notes, or eighteen hundred thousand pounds of paper and money together. But the annual produce of the land and labour of the country had before required only one million to circulate and distribute it to its proper consumers, and that annual produce cannot be immediately augmented by those operations of banking. One million, therefore, will be sufficient to circulate it after them. The goods to be bought and sold being precisely the same as before, the same quantity of money will be sufficient for buying and selling them. The channel of circulation, if I may be allowed such an expression, will remain precisely the same as before. One million we have supposed sufficient to fill that channel. Whatever, therefore, is poured into it beyond this sum, cannot run into it, but must overflow. One million eight hundred thousand pounds are poured into it. Eight hundred thousand pounds, therefore, must overflow, that sum being over and above what can be employed in the circulation of the country. But though this sum cannot be employed at home, it is too valuable to be allowed to lie idle. It will, therefore, be sent abroad, in order to seek that profitable employment which it cannot find at home. But the paper cannot go abroad; because at a distance from the banks which issue it, and from the country in which payment of it can be exacted by law, it will not be received in common payments. Gold and silver, therefore, to the amount of eight hundred thousand pounds, will be sent abroad, and the channel of home circulation will remain filled with a million of paper instead of a million of those metals which filled it before.

But though so great a quantity of gold and silver is thus sent abroad, we must not imagine that it is sent abroad for nothing, or that its proprietors make a present of it to foreign nations. They will exchange it for foreign goods of some kind or another, in order to supply the consumption either of some other foreign country, or of their own.

If they employ it in purchasing goods in one foreign country, in order to supply the consumption of another, or in what is called the carrying trade, whatever profit they make will be in addition to the neat revenue of their own country. It is like a new fund, created for carrying on a new trade; domestic business being now transacted by paper, and the gold and silver being converted into a fund for this new trade.

If they employ it in purchasing foreign goods for home consumption, they may either, first, purchase such goods as are likely to be consumed by idle people, who produce nothing, such as foreign wines, foreign silks, etc.; or, secondly, they may purchase an additional stock of materials, tools, and provisions, in order to maintain and employ an additional number of industrious people, who reproduce, with a profit, the value of their annual consumption.

So far as it is employed in the first way, it promotes prodigality, increases expense and consumption, without increasing production, or establishing any permanent fund for supporting that expense, and is in every respect hurtful to the society.

So far as it is employed in the second way, it promotes industry; and though it increases the consumption of the society, it provides a permanent fund for supporting that consumption; the people who consume reproducing, with a profit, the whole value of their annual consumption. The gross revenue of the society, the annual produce of their land and labour, is increased by the whole value which the labour of those workmen adds to the materials upon which they are employed, and their neat revenue by what remains of this value, after deducting what is necessary for supporting the tools and instruments of their trade.

That the greater part of the gold and silver which being forced abroad by those operations of banking, is employed in purchasing foreign goods for home consumption, is, and must be, employed in purchasing those of this second kind, seems not only probable, but almost unavoidable. Though some particular men may sometimes increase their expense very considerably, though their revenue does not increase at all, we maybe assured that no class or order of men ever does so; because, though the principles of common prudence do not always govern the conduct of every individual, they always influence that of the majority of every class or order. But the revenue of idle people, considered as a class or order, cannot, in the smallest degree, be increased by those operations of banking. Their expense in general, therefore, cannot be much increased by them, though that of a few individuals among them may, and in reality sometimes is. The demand of idle people, therefore, for foreign goods, being the same, or very nearly the same as before, a very small part of the money which, being forced abroad by those operations of banking, is employed in purchasing foreign goods for home consumption, is likely to be employed in purchasing those for their use. The greater part of it will naturally be destined for the employment of industry, and not for the maintenance of idleness.

When we compute the quantity of industry which the circulating capital of any society can employ, we must always have regard to those parts of it only which consist in provisions, materials, and finished work; the other, which consists in money, and which serves only to circulate those three, must always be deducted. In order to put industry into motion, three things are requisite; materials to work upon, tools to work with, and the wages or recompence for the sake of which the work is done. Money is neither a material to work upon, nor a tool to work with; and though the wages of the workman are commonly paid to him in money, his real revenue, like that of all other men, consists, not in the money, but in the money's worth; not in the metal pieces, but in what can be got for them.

The quantity of industry which any capital can employ, must evidently be equal to the number of workmen whom it can supply with materials, tools, and a maintenance suitable to the nature of the work. Money may be requisite for purchasing the materials and tools of the work, as well as the maintenance of the workmen; but the quantity of industry which the whole capital can employ, is certainly not equal both to the money which purchases, and to the materials, tools, and maintenance, which are purchased with it, but only to one or other of those two values, and to the latter more properly than to the former.

When paper is substituted in the room of gold and silver money, the quantity of the materials, tools, and maintenance, which the whole circulating capital can supply, may be increased by the whole value of gold and silver which used to be employed in purchasing them. The whole value of the great wheel of circulation and distribution is added to the goods which are circulated and distributed by means of it. The operation, in some measure, resembles that of the undertaker of some great work, who, in consequence of some improvement in mechanics, takes down his old machinery, and adds the difference between its price

and that of the new to his circulating capital, to the fund from which he furnishes materials and wages to his workmen.

What is the proportion which the circulating money of any country bears to the whole value of the annual produce circulated by means of it, it is perhaps impossible to determine. It has been computed by different authors at a fifth, at a tenth, at a twentieth, and at a thirtieth, part of that value. But how small soever the proportion which the circulating money may bear to the whole value of the annual produce, as but a part, and frequently but a small part, of that produce, is ever destined for the maintenance of industry, it must always bear a very considerable proportion to that part. When, therefore, by the substitution of paper, the gold and silver necessary for circulation is reduced to, perhaps, a fifth part of the former quantity, if the value of only the greater part of the other four-fifths be added to the funds which are destined for the maintenance of industry, it must make a very considerable addition to the quantity of that industry, and, consequently, to the value of the annual produce of land and labour.

An operation of this kind has, within these five-and-twenty or thirty years, been performed in Scotland, by the erection of new banking companies in almost every considerable town, and even in some country villages. The effects of it have been precisely those above described. The business of the country is almost entirely carried on by means of the paper of those different banking companies, with which purchases and payments of all kinds are commonly made. Silver very seldom appears, except in the change of a twenty shilling bank note, and gold still seldomer. But though the conduct of all those different companies has not been unexceptionable, and has accordingly required an act of parliament to regulate it, the country, notwithstanding, has evidently derived great benefit from their trade. I have heard it asserted, that the trade of the city of Glasgow doubled in about fifteen years after the first erection of the banks there; and that the trade of Scotland has more than quadrupled since the first erection of the two public banks at Edinburgh; of which the one, called the Bank of Scotland, was established by act of parliament in 1695, and the other, called the Royal Bank, by royal charter in 1727. Whether the trade, either of Scotland in general, or of the city of Glasgow in particular, has really increased in so great a proportion, during so short a period, I do not pretend to know. If either of them has increased in this proportion, it seems to be an effect too great to be accounted for by the sole operation of this cause. That the trade and industry of Scotland, however, have increased very considerably during this period, and that the banks have contributed a good deal to this increase, cannot be doubted.

The value of the silver money which circulated in Scotland before the Union in 1707, and which, immediately after it, was brought into the Bank of Scotland, in order to be recoined, amounted to £411,117: 10: 9 sterling. No account has been got of the gold coin; but it appears from the ancient accounts of the mint of Scotland, that the value of the gold annually coined somewhat exceeded that of the silver. There were a good many people, too, upon this occasion, who, from a diffidence of repayment, did not bring their silver into the Bank of Scotland; and there was, besides, some English coin, which was not called in. The whole value of the gold and silver, therefore, which circulated in Scotland before the Union, cannot be estimated at less than a million sterling. It seems to have constituted almost the whole circulation of that country; for though the circulation of the Bank of Scotland, which had then no rival, was considerable, it seems to have made but a very small part of the whole. In the present times, the whole circulation of Scotland cannot be estimated at less than two millions, of which that part which consists in gold and silver, most probably, does not amount to half a million. But though the circulating gold and silver of Scotland have suffered so great a diminution during this period, its real riches and prosperity do not appear to have suffered any. Its agriculture, manufactures, and trade, on the contrary, the annual produce of its land and labour, have evidently been augmented.

It is chiefly by discounting bills of exchange, that is, by advancing money upon them before they are due, that the greater part of banks and bankers issue their promissory notes. They deduct always, upon whatever sum they advance, the legal interest till the bill shall become due. The payment of the bill, when it becomes due, replaces to the bank the value of what had been advanced, together with a clear profit of the interest. The banker, who advances to the merchant whose bill he discounts, not gold and silver, but his own promissory notes, has the advantage of being able to discount to a greater amount by the whole value of his

promissory notes, which he finds, by experience, are commonly in circulation. He is thereby enabled to make his clear gain of interest on so much a larger sum.

The commerce of Scotland, which at present is not very great, was still more inconsiderable when the two first banking companies were established; and those companies would have had but little trade, had they confined their business to the discounting of bills of exchange. They invented, therefore, another method of issuing their promissory notes; by granting what they call cash accounts, that is, by giving credit, to the extent of a certain sum (two or three thousand pounds for example), to any individual who could procure two persons of undoubted credit and good landed estate to become surety for him, that whatever money should be advanced to him, within the sum for which the credit had been given, should be repaid upon demand, together with the legal interest. Credits of this kind are, I believe, commonly granted by banks and bankers in all different parts of the world. But the easy terms upon which the Scotch banking companies accept of repayment are, so far as I know, peculiar to them, and have perhaps been the principal cause, both of the great trade of those companies, and of the benefit which the country has received from it.

Whoever has a credit of this kind with one of those companies, and borrows a thousand pounds upon it, for example, may repay this sum piece-meal, by twenty and thirty pounds at a time, the company discounting a proportionable part of the interest of the great sum, from the day on which each of those small sums is paid in, till the whole be in this manner repaid. All merchants, therefore, and almost all men of business, find it convenient to keep such cash accounts with them, and are thereby interested to promote the trade of those companies, by readily receiving their notes in all payments, and by encouraging all those with whom they have any influence to do the same. The banks, when their customers apply to them for money, generally advance it to them in their own promissory notes. These the merchants pay away to the manufacturers for goods, the manufacturers to the farmers for materials and provisions, the farmers to their landlords for rent; the landlords repay them to the merchants for the conveniencies and luxuries with which they supply them, and the merchants again return them to the banks, in order to balance their cash accounts, or to replace what they may have borrowed of them; and thus almost the whole money business of the country is transacted by means of them. Hence the great trade of those companies.

By means of those cash accounts, every merchant can, without imprudence, carry on a greater trade than he otherwise could do. If there are two merchants, one in London and the other in Edinburgh, who employ equal stocks in the same branch of trade, the Edinburgh merchant can, without imprudence, carry on a greater trade, and give employment to a greater number of people, than the London merchant. The London merchant must always keep by him a considerable sum of money, either in his own coffers, or in those of his banker, who gives him no interest for it, in order to answer the demands continually coming upon him for payment of the goods which he purchases upon credit. Let the ordinary amount of this sum be supposed five hundred pounds; the value of the goods in his warehouse must always be less, by five hundred pounds, than it would have been, had he not been obliged to keep such a sum unemployed. Let us suppose that he generally disposes of his whole stock upon hand, or of goods to the value of his whole stock upon hand, once in the year. By being obliged to keep so great a sum unemployed, he must sell in a year five hundred pounds worth less goods than he might otherwise have done. His annual profits must be less by all that he could have made by the sale of five hundred pounds worth more goods; and the number of people employed in preparing his goods for the market must be less by all those that five hundred pounds more stock could have employed. The merchant in Edinburgh, on the other hand, keeps no money unemployed for answering such occasional demands. When they actually come upon him, he satisfies them from his cash account with the bank, and gradually replaces the sum borrowed with the money or paper which comes in from the occasional sales of his goods. With the same stock, therefore, he can, without imprudence, have at all times in his warehouse a larger quantity of goods than the London merchant; and can thereby both make a greater profit himself, and give constant employment to a greater number of industrious people who prepare those goods for the market. Hence the great benefit which the country has derived from this trade.

The facility of discounting bills of exchange, it may be thought, indeed, gives the English merchants a conveniency equivalent to the cash accounts of the Scotch merchants. But the Scotch merchants, it must be

remembered, can discount their bills of exchange as easily as the English merchants; and have, besides, the additional conveniency of their cash accounts.

The whole paper money of every kind which can easily circulate in any country, never can exceed the value of the gold and silver, of which it supplies the place, or which (the commerce being supposed the same) would circulate there, if there was no paper money. If twenty shilling notes, for example, are the lowest paper money current in Scotland, the whole of that currency which can easily circulate there, cannot exceed the sum of gold and silver which would be necessary for transacting the annual exchanges of twenty shillings value and upwards usually transacted within that country. Should the circulating paper at any time exceed that sum, as the excess could neither be sent abroad nor be employed in the circulation of the country, it must immediately return upon the banks, to be exchanged for gold and silver. Many people would immediately perceive that they had more of this paper than was necessary for transacting their business at home; and as they could not send it abroad, they would immediately demand payment for it from the banks. When this superfluous paper was converted into gold and silver, they could easily find a use for it, by sending it abroad; but they could find none while it remained in the shape of paper. There would immediately, therefore, be a run upon the banks to the whole extent of this superfluous paper, and if they showed any difficulty or backwardness in payment, to a much greater extent; the alarm which this would occasion necessarily increasing the run.

Over and above the expenses which are common to every branch of trade, such as the expense of house-rent, the wages of servants, clerks, accountants, etc. the expenses peculiar to a bank consist chiefly in two articles: first, in the expense of keeping at all times in its coffers, for answering the occasional demands of the holders of its notes, a large sum of money, of which it loses the interest; and, secondly, in the expense of replenishing those coffers as fast as they are emptied by answering such occasional demands.

A banking company which issues more paper than can be employed in the circulation of the country, and of which the excess is continually returning upon them for payment, ought to increase the quantity of gold and silver which they keep at all times in their coffers, not only in proportion to this excessive increase of their circulation, but in a much greater proportion; their notes returning upon them much faster than in proportion to the excess of their quantity. Such a company, therefore, ought to increase the first article of their expense, not only in proportion to this forced increase of their business, but in a much greater proportion.

The coffers of such a company, too, though they ought to be filled much fuller, yet must empty themselves much faster than if their business was confined within more reasonable bounds, and must require not only a more violent, but a more constant and uninterrupted exertion of expense, in order to replenish them. The coin, too, which is thus continually drawn in such large quantities from their coffers, cannot be employed in the circulation of the country. It comes in place of a paper which is over and above what can be employed in that circulation, and is, therefore, over and above what can be employed in it too. But as that coin will not be allowed to lie idle, it must, in one shape or another, be sent abroad, in order to find that profitable employment which it cannot find at home; and this continual exportation of gold and silver, by enhancing the difficulty, must necessarily enhance still farther the expense of the bank, in finding new gold and silver in order to replenish those coffers, which empty themselves so very rapidly. Such a company, therefore, must in proportion to this forced increase of their business, increase the second article of their expense still more than the first.

Let us suppose that all the paper of a particular bank, which the circulation of the country can easily absorb and employ, amounts exactly to forty thousand pounds, and that, for answering occasional demands, this bank is obliged to keep at all times in its coffers ten thousand pounds in gold and silver. Should this bank attempt to circulate forty-four thousand pounds, the four thousand pounds which are over and above what the circulation can easily absorb and employ, will return upon it almost as fast as they are issued. For answering occasional demands, therefore, this bank ought to keep at all times in its coffers, not eleven thousand pounds only, but fourteen thousand pounds. It will thus gain nothing by the interest of the four thousand pounds excessive circulation; and it will lose the whole expense of continually collecting four

thousand pounds in gold and silver, which will be continually going out of its coffers as fast as they are brought into them.

Had every particular banking company always understood and attended to its own particular interest, the circulation never could have been overstocked with paper money. But every particular banking company has not always understood or attended to its own particular interest, and the circulation has frequently been overstocked with paper money.

By issuing too great a quantity of paper, of which the excess was continually returning, in order to be exchanged for gold and silver, the Bank of England was for many years together obliged to coin gold to the extent of between eight hundred thousand pounds and a million a-year; or, at an average, about eight hundred and fifty thousand pounds. For this great coinage, the bank (in consequence of the worn and degraded state into which the gold coin had fallen a few years ago) was frequently obliged to purchase gold bullion at the high price of four pounds an ounce, which it soon after issued in coin at £3:17:10 1/2 an ounce, losing in this manner between two and a half and three per cent. upon the coinage of so very large a sum. Though the bank, therefore, paid no seignorage, though the government was properly at the expense of this coinage, this liberality of government did not prevent altogether the expense of the bank.

The Scotch banks, in consequence of an excess of the same kind, were all obliged to employ constantly agents at London to collect money for them, at an expense which was seldom below one and a half or two per cent. This money was sent down by the waggon, and insured by the carriers at an additional expense of three quarters per cent. or fifteen shillings on the hundred pounds. Those agents were not always able to replenish the coffers of their employers so fast as they were emptied. In this case, the resource of the banks was, to draw upon their correspondents in London bills of exchange, to the extent of the sum which they wanted. When those correspondents afterwards drew upon them for the payment of this sum, together with the interest and commission, some of those banks, from the distress into which their excessive circulation had thrown them, had sometimes no other means of satisfying this draught, but by drawing a second set of bills, either upon the same, or upon some other correspondents in London; and the same sum, or rather bills for the same sum, would in this manner make sometimes more than two or three journeys; the debtor bank paying always the interest and commission upon the whole accumulated sum. Even those Scotch banks which never distinguished themselves by their extreme imprudence, were sometimes obliged to employ this ruinous resource.

The gold coin which was paid out, either by the Bank of England or by the Scotch banks, in exchange for that part of their paper which was over and above what could be employed in the circulation of the country, being likewise over and above what could be employed in that circulation, was sometimes sent abroad in the shape of coin, sometimes melted down and sent abroad in the shape of bullion, and sometimes melted down and sold to the Bank of England at the high price of four pounds an ounce. It was the newest, the heaviest, and the best pieces only, which were carefully picked out of the whole coin, and either sent abroad or melted down. At home, and while they remained in the shape of coin, those heavy pieces were of no more value than the light; but they were of more value abroad, or when melted down into bullion at home. The Bank of England, notwithstanding their great annual coinage, found, to their astonishment, that there was every year the same scarcity of coin as there had been the year before; and that, notwithstanding the great quantity of good and new coin which was every year issued from the bank, the state of the coin, instead of growing better and better, became every year worse and worse. Every year they found themselves under the necessity of coining nearly the same quantity of gold as they had coined the year before; and from the continual rise in the price of gold bullion, in consequence of the continual wearing and clipping of the coin, the expense of this great annual coinage became, every year, greater and greater. The Bank of England, it is to be observed, by supplying its own coffers with coin, is indirectly obliged to supply the whole kingdom, into which coin is continually flowing from those coffers in a great variety of ways. Whatever coin, therefore, was wanted to support this excessive circulation both of Scotch and English paper money, whatever vacancies this excessive circulation occasioned in the necessary coin of the kingdom, the Bank of England was obliged to supply them. The Scotch banks, no doubt, paid all of them very dearly for their own imprudence and inattention: but the Bank of England paid very dearly, not only for its own imprudence, but for the much greater imprudence of almost all the Scotch banks.

The over-trading of some bold projectors in both parts of the united kingdom, was the original cause of this excessive circulation of paper money.

What a bank can with propriety advance to a merchant or undertaker of any kind, is not either the whole capital with which he trades, or even any considerable part of that capital; but that part of it only which he would otherwise be obliged to keep by him unemployed and in ready money, for answering occasional demands. If the paper money which the bank advances never exceeds this value, it can never exceed the value of the gold and silver which would necessarily circulate in the country if there was no paper money; it can never exceed the quantity which the circulation of the country can easily absorb and employ.

When a bank discounts to a merchant a real bill of exchange, drawn by a real creditor upon a real debtor, and which, as soon as it becomes due, is really paid by that debtor; it only advances to him a part of the value which he would otherwise be obliged to keep by him unemployed and in ready money, for answering occasional demands. The payment of the bill, when it becomes due, replaces to the bank the value of what it had advanced, together with the interest. The coffers of the bank, so far as its dealings are confined to such customers, resemble a water-pond, from which, though a stream is continually running out, yet another is continually running in, fully equal to that which runs out; so that, without any further care or attention, the pond keeps always equally, or very near equally full. Little or no expense can ever be necessary for replenishing the coffers of such a bank.

A merchant, without over-trading, may frequently have occasion for a sum of ready money, even when he has no bills to discount. When a bank, besides discounting his bills, advances him likewise, upon such occasions, such sums upon his cash account, and accepts of a piece-meal repayment, as the money comes in from the occasional sale of his goods, upon the easy terms of the banking companies of Scotland; it dispenses him entirely from the necessity of keeping any part of his stock by him unemployed and in ready money for answering occasional demands. When such demands actually come upon him, he can answer them sufficiently from his cash account. The bank, however, in dealing with such customers, ought to observe with great attention, whether, in the course of some short period (of four, five, six, or eight months, for example), the sum of the repayments which it commonly receives from them, is, or is not, fully equal to that of the advances which it commonly makes to them. If, within the course of such short periods, the sum of the repayments from certain customers is, upon most occasions, fully equal to that of the advances, it may safely continue to deal with such customers. Though the stream which is in this case continually running out from its coffers may be very large, that which is continually running into them must be at least equally large, so that, without any further care or attention, those coffers are likely to be always equally or very near equally full, and scarce ever to require any extraordinary expense to replenish them. If, on the contrary, the sum of the repayments from certain other customers, falls commonly very much short of the advances which it makes to them, it cannot with any safety continue to deal with such customers, at least if they continue to deal with it in this manner. The stream which is in this case continually running out from its coffers, is necessarily much larger than that which is continually running in; so that, unless they are replenished by some great and continual effort of expense, those coffers must soon be exhausted altogether.

The banking companies of Scotland, accordingly, were for a long time very careful to require frequent and regular repayments from all their customers, and did not care to deal with any person, whatever might be his fortune or credit, who did not make, what they called, frequent and regular operations with them. By this attention, besides saving almost entirely the extraordinary expense of replenishing their coffers, they gained two other very considerable advantages.

First, by this attention they were enabled to make some tolerable judgment concerning the thriving or declining circumstances of their debtors, without being obliged to look out for any other evidence besides what their own books afforded them; men being, for the most part, either regular or irregular in their repayments, according as their circumstances are either thriving or declining. A private man who lends out his money to perhaps half a dozen or a dozen of debtors, may, either by himself or his agents, observe and inquire both constantly and carefully into the conduct and situation of each of them. But a banking company, which lends money to perhaps five hundred different people, and of which the attention is continually occupied by objects of a very different kind, can have no regular information concerning the

conduct and circumstances of the greater part of its debtors, beyond what its own books afford it. In requiring frequent and regular repayments from all their customers, the banking companies of Scotland had probably this advantage in view.

Secondly, by this attention they secured themselves from the possibility of issuing more paper money than what the circulation of the country could easily absorb and employ. When they observed, that within moderate periods of time, the repayments of a particular customer were, upon most occasions, fully equal to the advances which they had made to him, they might be assured that the paper money which they had advanced to him had not, at any time, exceeded the quantity of gold and silver which he would otherwise have been obliged to keep by him for answering occasional demands; and that, consequently, the paper money, which they had circulated by his means, had not at any time exceeded the quantity of gold and silver which would have circulated in the country, had there been no paper money. The frequency, regularity, and amount of his repayments, would sufficiently demonstrate that the amount of their advances had at no time exceeded that part of his capital which he would otherwise have been obliged to keep by him unemployed, and in ready money, for answering occasional demands; that is, for the purpose of keeping the rest of his capital in constant employment. It is this part of his capital only which, within moderate periods of time, is continually returning to every dealer in the shape of money, whether paper or coin, and continually going from him in the same shape. If the advances of the bank had commonly exceeded this part of his capital, the ordinary amount of his repayments could not, within moderate periods of time, have equalled the ordinary amount of its advances. The stream which, by means of his dealings, was continually running into the coffers of the bank, could not have been equal to the stream which, by means of the same dealings was continually running out. The advances of the bank paper, by exceeding the quantity of gold and silver which, had there been no such advances, he would have been obliged to keep by him for answering occasional demands, might soon come to exceed the whole quantity of gold and silver which (the commerce being supposed the same) would have circulated in the country, had there been no paper money; and, consequently, to exceed the quantity which the circulation of the country could easily absorb and employ; and the excess of this paper money would immediately have returned upon the bank, in order to be exchanged for gold and silver. This second advantage, though equally real, was not, perhaps, so well understood by all the different banking companies in Scotland as the first.

When, partly by the conveniency of discounting bills, and partly by that of cash accounts, the creditable traders of any country can be dispensed from the necessity of keeping any part of their stock by them unemployed, and in ready money, for answering occasional demands, they can reasonably expect no farther assistance from hanks and bankers, who, when they have gone thus far, cannot, consistently with their own interest and safety, go farther. A bank cannot, consistently with its own interest, advance to a trader the whole, or even the greater part of the circulating capital with which he trades; because, though that capital is continually returning to him in the shape of money, and going from him in the same shape, yet the whole of the returns is too distant from the whole of the outgoings, and the sum of his repayments could not equal the sum of his advances within such moderate periods of time as suit the conveniency of a bank. Still less could a bank afford to advance him any considerable part of his fixed capital; of the capital which the undertaker of an iron forge, for example, employs in erecting his forge and smelting-houses, his work-houses, and warehouses, the dwelling-houses of his workmen, etc.; of the capital which the undertaker of a mine employs in sinking his shafts, in erecting engines for drawing out the water, in making roads and waggon-ways, etc.; of the capital which the person who undertakes to improve land employs in clearing, draining, inclosing, manuring, and ploughing waste and uncultivated fields; in building farmhouses, with all their necessary appendages of stables, granaries, etc. The returns of the fixed capital are, in almost all cases, much slower than those of the circulating capital: and such expenses, even when laid out with the greatest prudence and judgment, very seldom return to the undertaker till after a period of many years, a period by far too distant to suit the conveniency of a bank. Traders and other undertakers may, no doubt with great propriety, carry on a very considerable part of their projects with borrowed money. In justice to their creditors, however, their own capital ought in this case to be sufficient to insure, if I may say so, the capital of those creditors; or to render it extremely improbable that those creditors should incur any loss, even though the success of the project should fall very much short of the expectation of the projectors. Even with this precaution, too, the money which is borrowed, and which it is meant should not be repaid till after a period of several years, ought not to be borrowed of a bank, but ought to be borrowed upon bond

or mortgage, of such private people as propose to live upon the interest of their money, without taking the trouble themselves to employ the capital, and who are, upon that account, willing to lend that capital to such people of good credit as are likely to keep it for several years. A bank, indeed, which lends its money without the expense of stamped paper, or of attorneys' fees for drawing bonds and mortgages, and which accepts of repayment upon the easy terms of the banking companies of Scotland, would, no doubt, be a very convenient creditor to such traders and undertakers. But such traders and undertakers would surely be most inconvenient debtors to such a bank.

It is now more than five and twenty years since the paper money issued by the different banking companies of Scotland was fully equal, or rather was somewhat more than fully equal, to what the circulation of the country could easily absorb and employ. Those companies, therefore, had so long ago given all the assistance to the traders and other undertakers of Scotland which it is possible for banks and bankers, consistently with their own interest, to give. They had even done somewhat more. They had over-traded a little, and had brought upon themselves that loss, or at least that diminution of profit, which, in this particular business, never fails to attend the smallest degree of over-trading. Those traders and other undertakers, having got so much assistance from banks and bankers, wished to get still more. The banks, they seem to have thought, could extend their credits to whatever sum might be wanted, without incurring any other expense besides that of a few reams of paper. They complained of the contracted views and dastardly spirit of the directors of those banks, which did not, they said, extend their credits in proportion to the extension of the trade of the country; meaning, no doubt, by the extension of that trade, the extension of their own projects beyond what they could carry on either with their own capital, or with what they had credit to borrow of private people in the usual way of bond or mortgage. The banks, they seem to have thought, were in honour bound to supply the deficiency, and to provide them with all the capital which they wanted to trade with. The banks, however, were of a different opinion; and upon their refusing to extend their credits, some of those traders had recourse to an expedient which, for a time, served their purpose, though at a much greater expense, yet as effectually as the utmost extension of bank credits could have done. This expedient was no other than the well known shift of drawing and redrawing; the shift to which unfortunate traders have sometimes recourse, when they are upon the brink of bankruptcy. The practice of raising money in this manner had been long known in England; and, during the course of the late war, when the high profits of trade afforded a great temptation to over-trading, is said to have been carried on to a very great extent. From England it was brought into Scotland, where, in proportion to the very limited commerce, and to the very moderate capital of the country, it was soon carried on to a much greater extent than it ever had been in England.

The practice of drawing and redrawing is so well known to all men of business, that it may, perhaps, be thought unnecessary to give any account of it. But as this book may come into the hands of many people who are not men of business, and as the effects of this practice upon the banking trade are not, perhaps, generally understood, even by men of business themselves, I shall endeavour to explain it as distinctly as I can.

The customs of merchants, which were established when the barbarous laws of Europe did not enforce the performance of their contracts, and which, during the course of the two last centuries, have been adopted into the laws of all European nations, have given such extraordinary privileges to bills of exchange, that money is more readily advanced upon them than upon any other species of obligation; especially when they are made payable within so short a period as two or three months after their date. If, when the bill becomes due, the acceptor does not pay it as soon as it is presented, he becomes from that moment a bankrupt. The bill is protested, and returns upon the drawer, who, if he does not immediately pay it, becomes likewise a bankrupt. If, before it came to the person who presents it to the acceptor for payment, it had passed through the hands of several other persons, who had successively advanced to one another the contents of it, either in money or goods, and who, to express that each of them had in his turn received those contents, had all of them in their order indorsed, that is, written their names upon the back of the bill; each indorser becomes in his turn liable to the owner of the bill for those contents, and, if he fails to pay, he becomes too, from that moment, a bankrupt. Though the drawer, acceptor, and indorsers of the bill, should all of them be persons of doubtful credit; yet, still the shortness of the date gives some security to the owner of the bill. Though all of them may be very likely to become bankrupts, it is a chance if they all become so in so short a time. The

house is crazy, says a weary traveller to himself, and will not stand very long; but it is a chance if it falls to-night, and I will venture, therefore, to sleep in it to-night.

The trader A in Edinburgh, we shall suppose, draws a bill upon B in London, payable two months after date. In reality B in London owes nothing to A in Edinburgh; but he agrees to accept of A's bill, upon condition, that before the term of payment he shall redraw upon A in Edinburgh for the same sum, together with the interest and a commission, another bill, payable likewise two months after date. B accordingly, before the expiration of the first two months, redraws this bill upon A in Edinburgh; who, again before the expiration of the second two months, draws a second bill upon B in London, payable likewise two months after date; and before the expiration of the third two months, B in London redraws upon A in Edinburgh another bill payable also two months after date. This practice has sometimes gone on, not only for several months, but for several years together, the bill always returning upon A in Edinburgh with the accumulated interest and commission of all the former bills. The interest was five per cent. in the year, and the commission was never less than one half per cent. on each draught. This commission being repeated more than six times in the year, whatever money A might raise by this expedient might necessarily have cost him something more than eight per cent. in the year and sometimes a great deal more, when either the price of the commission happened to rise, or when he was obliged to pay compound interest upon the interest and commission of former bills. This practice was called raising money by circulation.

In a country where the ordinary profits of stock, in the greater part of mercantile projects, are supposed to run between six and ten per cent. it must have been a very fortunate speculation, of which the returns could not only repay the enormous expense at which the money was thus borrowed for carrying it on, but afford, besides, a good surplus profit to the projector. Many vast and extensive projects, however, were undertaken, and for several years carried on, without any other fund to support them besides what was raised at this enormous expense. The projectors, no doubt, had in their golden dreams the most distinct vision of this great profit. Upon their awakening, however, either at the end of their projects, or when they were no longer able to carry them on, they very seldom, I believe, had the good fortune to find it.

{The method described in the text was by no means either the most common or the most expensive one in which those adventurers sometimes raised money by circulation. It frequently happened, that A in Edinburgh would enable B in London to pay the first bill of exchange, by drawing, a few days before it became due, a second bill at three months date upon the same B in London. This bill, being payable to his own order, A sold in Edinburgh at par; and with its contents purchased bills upon London, payable at sight to the order of B, to whom he sent them by the post. Towards the end of the late war, the exchange between Edinburgh and London was frequently three per cent. against Edinburgh, and those bills at sight must frequently have cost A that premium. This transaction, therefore, being repeated at least four times in the year, and being loaded with a commission of at least one half per cent. upon each repetition, must at that period have cost A, at least, fourteen per cent. in the year. At other times A would enable to discharge the first bill of exchange, by drawing, a few days before it became due, a second bill at two months date, not upon B, but upon some third person, C, for example, in London. This other bill was made payable to the order of B, who, upon its being accepted by C, discounted it with some banker in London; and A enabled C to discharge it, by drawing, a few days before it became due, a third bill likewise at two months date, sometimes upon his first correspondent B, and sometimes upon some fourth or fifth person, D or E, for example. This third bill was made payable to the order of C, who, as soon as it was accepted, discounted it in the same manner with some banker in London. Such operations being repeated at least six times in the year, and being loaded with a commission of at least one half per cent. upon each repetition, together with the legal interest of five per cent. this method of raising money, in the same manner as that described in the text, must have cost A something more than eight per cent. By saving, however, the exchange between Edinburgh and London, it was less expensive than that mentioned in the foregoing part of this note; but then it required an established credit with more houses than one in London, an advantage which many of these adventurers could not always find it easy to procure.}

The bills which A in Edinburgh drew upon B in London, he regularly discounted two months before they were due, with some bank or banker in Edinburgh; and the bills which B in London drew upon A in Edinburgh, he as regularly discounted, either with the Bank of England, or with some other banker in

London. Whatever was advanced upon such circulating bills was in Edinburgh advanced in the paper of the Scotch banks; and in London, when they were discounted at the Bank of England in the paper of that bank. Though the bills upon which this paper had been advanced were all of them repaid in their turn as soon as they became due, yet the value which had been really advanced upon the first bill was never really returned to the banks which advanced it; because, before each bill became due, another bill was always drawn to somewhat a greater amount than the bill which was soon to be paid: and the discounting of this other bill was essentially necessary towards the payment of that which was soon to be due. This payment, therefore, was altogether fictitious. The stream which, by means of those circulating bills of exchange, had once been made to run out from the coffers of the banks, was never replaced by any stream which really ran into them.

The paper which was issued upon those circulating bills of exchange amounted, upon many occasions, to the whole fund destined for carrying on some vast and extensive project of agriculture, commerce, or manufactures; and not merely to that part of it which, had there been no paper money, the projector would have been obliged to keep by him unemployed, and in ready money, for answering occasional demands. The greater part of this paper was, consequently, over and above the value of the gold and silver which would have circulated in the country, had there been no paper money. It was over and above, therefore, what the circulation of the country could easily absorb and employ, and upon that account, immediately returned upon the banks, in order to be exchanged for gold and silver, which they were to find as they could. It was a capital which those projectors had very artfully contrived to draw from those banks, not only without their knowledge or deliberate consent, but for some time, perhaps, without their having the most distant suspicion that they had really advanced it.

When two people, who are continually drawing and redrawing upon one another, discount their bills always with the same banker, he must immediately discover what they are about, and see clearly that they are trading, not with any capital of their own, but with the capital which he advances to them. But this discovery is not altogether so easy when they discount their bills sometimes with one banker, and sometimes with another, and when the two same persons do not constantly draw and redraw upon one another, but occasionally run the round of a great circle of projectors, who find it for their interest to assist one another in this method of raising money and to render it, upon that account, as difficult as possible to distinguish between a real and a fictitious bill of exchange, between a bill drawn by a real creditor upon a real debtor, and a bill for which there was properly no real creditor but the bank which discounted it, nor any real debtor but the projector who made use of the money. When a banker had even made this discovery, he might sometimes make it too late, and might find that he had already discounted the bills of those projectors to so great an extent, that, by refusing to discount any more, he would necessarily make them all bankrupts; and thus by ruining them, might perhaps ruin himself. For his own interest and safety, therefore, he might find it necessary, in this very perilous situation, to go on for some time, endeavouring, however, to withdraw gradually, and, upon that account, making every day greater and greater difficulties about discounting, in order to force these projectors by degrees to have recourse, either to other bankers, or to other methods of raising money: so as that he himself might, as soon as possible, get out of the circle. The difficulties, accordingly, which the Bank of England, which the principal bankers in London, and which even the more prudent Scotch banks began, after a certain time, and when all of them had already gone too far, to make about discounting, not only alarmed, but enraged, in the highest degree, those projectors. Their own distress, of which this prudent and necessary reserve of the banks was, no doubt, the immediate occasion, they called the distress of the country; and this distress of the country, they said, was altogether owing to the ignorance, pusillanimity, and bad conduct of the banks, which did not give a sufficiently liberal aid to the spirited undertakings of those who exerted themselves in order to beautify, improve, and enrich the country. It was the duty of the banks, they seemed to think, to lend for as long a time, and to as great an extent, as they might wish to borrow. The banks, however, by refusing in this manner to give more credit to those to whom they had already given a great deal too much, took the only method by which it was now possible to save either their own credit, or the public credit of the country.

In the midst of this clamour and distress, a new bank was established in Scotland, for the express purpose of relieving the distress of the country. The design was generous; but the execution was imprudent, and the nature and causes of the distress which it meant to relieve, were not, perhaps, well understood. This bank

was more liberal than any other had ever been, both in granting cash-accounts, and in discounting bills of exchange. With regard to the latter, it seems to have made scarce any distinction between real and circulating bills, but to have discounted all equally. It was the avowed principle of this bank to advance upon any reasonable security, the whole capital which was to be employed in those improvements of which the returns are the most slow and distant, such as the improvements of land. To promote such improvements was even said to be the chief of the public-spirited purposes for which it was instituted. By its liberality in granting cash-accounts, and in discounting bills of exchange, it, no doubt, issued great quantities of its bank notes. But those bank notes being, the greater part of them, over and above what the circulation of the country could easily absorb and employ, returned upon it, in order to be exchanged for gold and silver, as fast as they were issued. Its coffers were never well filled. The capital which had been subscribed to this bank, at two different subscriptions, amounted to one hundred and sixty thousand pounds, of which eighty per cent. only was paid up. This sum ought to have been paid in at several different instalments. A great part of the proprietors, when they paid in their first instalment, opened a cash-account with the bank; and the directors, thinking themselves obliged to treat their own proprietors with the same liberality with which they treated all other men, allowed many of them to borrow upon this cash-account what they paid in upon all their subsequent instalments. Such payments, therefore, only put into one coffer what had the moment before been taken out of another. But had the coffers of this bank been filled ever so well, its excessive circulation must have emptied them faster than they could have been replenished by any other expedient but the ruinous one of drawing upon London; and when the bill became due, paying it, together with interest and commission, by another draught upon the same place. Its coffers having been filled so very ill, it is said to have been driven to this resource within a very few months after it began to do business. The estates of the proprietors of this bank were worth several millions, and, by their subscription to the original bond or contract of the bank, were really pledged for answering all its engagements. By means of the great credit which so great a pledge necessarily gave it, it was, notwithstanding its too liberal conduct, enabled to carry on business for more than two years. When it was obliged to stop, it had in the circulation about two hundred thousand pounds in bank notes. In order to support the circulation of those notes, which were continually returning upon it as fast as they were issued, it had been constantly in the practice of drawing bills of exchange upon London, of which the number and value were continually increasing, and, when it stopt, amounted to upwards of six hundred thousand pounds. This bank, therefore, had, in little more than the course of two years, advanced to different people upwards of eight hundred thousand pounds at five per cent. Upon the two hundred thousand pounds which it circulated in bank notes, this five per cent. might perhaps be considered as a clear gain, without any other deduction besides the expense of management. But upon upwards of six hundred thousand pounds, for which it was continually drawing bills of exchange upon London, it was paying, in the way of interest and commission, upwards of eight per cent. and was consequently losing more than three per cent. upon more than three fourths of all its dealings.

The operations of this bank seem to have produced effects quite opposite to those which were intended by the particular persons who planned and directed it. They seem to have intended to support the spirited undertakings, for as such they considered them, which were at that time carrying on in different parts of the country; and, at the same time, by drawing the whole banking business to themselves, to supplant all the other Scotch banks, particularly those established at Edinburgh, whose backwardness in discounting bills of exchange had given some offence. This bank, no doubt, gave some temporary relief to those projectors, and enabled them to carry on their projects for about two years longer than they could otherwise have done. But it thereby only enabled them to get so much deeper into debt; so that, when ruin came, it fell so much the heavier both upon them and upon their creditors. The operations of this bank, therefore, instead of relieving, in reality aggravated in the long-run the distress which those projectors had brought both upon themselves and upon their country. It would have been much better for themselves, their creditors, and their country, had the greater part of them been obliged to stop two years sooner than they actually did. The temporary relief, however, which this bank afforded to those projectors, proved a real and permanent relief to the other Scotch banks. All the dealers in circulating bills of exchange, which those other banks had become so backward in discounting, had recourse to this new bank, where they were received with open arms. Those other banks, therefore, were enabled to get very easily out of that fatal circle, from which they could not otherwise have disengaged themselves without incurring a considerable loss, and perhaps, too, even some degree of discredit.

In the long-run, therefore, the operations of this bank increased the real distress of the country, which it meant to relieve; and effectually relieved, from a very great distress, those rivals whom it meant to supplant.

At the first setting out of this bank, it was the opinion of some people, that how fast soever its coffers might be emptied, it might easily replenish them, by raising money upon the securities of those to whom it had advanced its paper. Experience, I believe, soon convinced them that this method of raising money was by much too slow to answer their purpose; and that coffers which originally were so ill filled, and which emptied themselves so very fast, could be replenished by no other expedient but the ruinous one of drawing bills upon London, and when they became due, paying them by other draughts on the same place, with accumulated interest and commission. But though they had been able by this method to raise money as fast as they wanted it, yet, instead of making a profit, they must have suffered a loss of every such operation; so that in the long-run they must have ruined themselves as a mercantile company, though perhaps not so soon as by the more expensive practice of drawing and redrawing. They could still have made nothing by the interest of the paper, which, being over and above what the circulation of the country could absorb and employ, returned upon them in order to be exchanged for gold and silver, as fast as they issued it; and for the payment of which they were themselves continually obliged to borrow money. On the contrary, the whole expense of this borrowing, of employing agents to look out for people who had money to lend, of negotiating with those people, and of drawing the proper bond or assignment, must have fallen upon them, and have been so much clear loss upon the balance of their accounts. The project of replenishing their coffers in this manner may be compared to that of a man who had a water-pond from which a stream was continually running out, and into which no stream was continually running, but who proposed to keep it always equally full, by employing a number of people to go continually with buckets to a well at some miles distance, in order to bring water to replenish it.

But though this operation had proved not only practicable, but profitable to the bank, as a mercantile company; yet the country could have derived no benefit from it, but, on the contrary, must have suffered a very considerable loss by it. This operation could not augment, in the smallest degree, the quantity of money to be lent. It could only have erected this bank into a sort of general loan office for the whole country. Those who wanted to borrow must have applied to this bank, instead of applying to the private persons who had lent it their money. But a bank which lends money, perhaps to five hundred different people, the greater part of whom its directors can know very little about, is not likely to be more judicious in the choice of its debtors than a private person who lends out his money among a few people whom he knows, and in whose sober and frugal conduct he thinks he has good reason to confide. The debtors of such a bank as that whose conduct I have been giving some account of were likely, the greater part of them, to be chimerical projectors, the drawers and redrawers of circulating bills of exchange, who would employ the money in extravagant undertakings, which, with all the assistance that could be given them, they would probably never be able to complete, and which, if they should be completed, would never repay the expense which they had really cost, would never afford a fund capable of maintaining a quantity of labour equal to that which had been employed about them. The sober and frugal debtors of private persons, on the contrary, would be more likely to employ the money borrowed in sober undertakings which were proportioned to their capitals, and which, though they might have less of the grand and the marvellous, would have more of the solid and the profitable; which would repay with a large profit whatever had been laid out upon them, and which would thus afford a fund capable of maintaining a much greater quantity of labour than that which had been employed about them. The success of this operation, therefore, without increasing in the smallest degree the capital of the country, would only have transferred a great part of it from prudent and profitable to imprudent and unprofitable undertakings.

That the industry of Scotland languished for want of money to employ it, was the opinion of the famous Mr Law. By establishing a bank of a particular kind, which he seems to have imagined might issue paper to the amount of the whole value of all the lands in the country, he proposed to remedy this want of money. The parliament of Scotland, when he first proposed his project, did not think proper to adopt it. It was afterwards adopted, with some variations, by the Duke of Orleans, at that time regent of France. The idea of the possibility of multiplying paper money to almost any extent was the real foundation of what is called the Mississippi scheme, the most extravagant project, both of banking and stock-jobbing, that perhaps the

world ever saw. The different operations of this scheme are explained so fully, so clearly, and with so much order and distinctness, by Mr Du Verney, in his Examination of the Political Reflections upon commerce and finances of Mr Du Tot, that I shall not give any account of them. The principles upon which it was founded are explained by Mr Law himself, in a discourse concerning money and trade, which he published in Scotland when he first proposed his project. The splendid but visionary ideas which are set forth in that and some other works upon the same principles, still continue to make an impression upon many people, and have, perhaps, in part, contributed to that excess of banking, which has of late been complained of, both in Scotland and in other places.

The Bank of England is the greatest bank of circulation in Europe. It was incorporated, in pursuance of an act of parliament, by a charter under the great seal, dated the 27th of July 1694. It at that time advanced to government the sum of £1,200,000 for an annuity of £100,000, or for £96,000 a-year, interest at the rate of eight per cent. and £4,000 year for the expense of management. The credit of the new government, established by the Revolution, we may believe, must have been very low, when it was obliged to borrow at so high an interest.

In 1697, the bank was allowed to enlarge its capital stock, by an ingraftment of £1,001,171:10s. Its whole capital stock, therefore, amounted at this time to £2,201,171: 10s. This ingraftment is said to have been for the support of public credit. In 1696, tallies had been at forty, and fifty, and sixty, per cent. discount, and bank notes at twenty per cent. {James Postlethwaite's History of the Public Revenue, p.301.} During the great re-coinage of the silver, which was going on at this time, the bank had thought proper to discontinue the payment of its notes, which necessarily occasioned their discredit.

In pursuance of the 7th Anne, c. 7, the bank advanced and paid into the exchequer the sum of £400,000; making in all the sum of £1,600,000, which it had advanced upon its original annuity of £96,000 interest, and £4,000 for expense of management. In 1708, therefore, the credit of government was as good as that of private persons, since it could borrow at six per cent. interest, the common legal and market rate of those times. In pursuance of the same act, the bank cancelled exchequer bills to the amount of £1,775,027: 17s: 10½d. at six per cent. interest, and was at the same time allowed to take in subscriptions for doubling its capital. In 1703, therefore, the capital of the bank amounted to £4,402,343; and it had advanced to government the sum of £3,375,027:17:10½d.

By a call of fifteen per cent. in 1709, there was paid in, and made stock, £656,204:1:9d.; and by another of ten per cent. in 1710, £501,448:12:11d. In consequence of those two calls, therefore, the bank capital amounted to £5,559,995:14:8d.

In pursuance of the 3rd George I. c.8, the bank delivered up two millions of exchequer Bills to be cancelled. It had at this time, therefore, advanced to government £5,375,027:17 10d. In pursuance of the 8th George I. c.21, the bank purchased of the South-sea company, stock to the amount of £4,000,000: and in 1722, in consequence of the subscriptions which it had taken in for enabling it to make this purchase, its capital stock was increased by £3,400,000. At this time, therefore, the bank had advanced to the public £9,375,027 17s. 10½d.; and its capital stock amounted only to £8,959,995:14:8d. It was upon this occasion that the sum which the bank had advanced to the public, and for which it received interest, began first to exceed its capital stock, or the sum for which it paid a dividend to the proprietors of bank stock; or, in other words, that the bank began to have an undivided capital, over and above its divided one. It has continued to have an undivided capital of the same kind ever since. In 1746, the bank had, upon different occasions, advanced to the public £11,686,800, and its divided capital had been raised by different calls and subscriptions to £10,780,000. The state of those two sums has continued to be the same ever since. In pursuance of the 4th of George III. c.25, the bank agreed to pay to government for the renewal of its charter £110,000, without interest or re-payment. This sum, therefore did not increase either of those two other sums.

The dividend of the bank has varied according to the variations in the rate of the interest which it has, at different times, received for the money it had advanced to the public, as well as according to other

circumstances. This rate of interest has gradually been reduced from eight to three per cent. For some years past, the bank dividend has been at five and a half per cent.

The stability of the bank of England is equal to that of the British government. All that it has advanced to the public must be lost before its creditors can sustain any loss. No other banking company in England can be established by act of parliament, or can consist of more than six members. It acts, not only as an ordinary bank, but as a great engine of state. It receives and pays the greater part of the annuities which are due to the creditors of the public; it circulates exchequer bills; and it advances to government the annual amount of the land and malt taxes, which are frequently not paid up till some years thereafter. In these different operations, its duty to the public may sometimes have obliged it, without any fault of its directors, to overstock the circulation with paper money. It likewise discounts merchants' bills, and has, upon several different occasions, supported the credit of the principal houses, not only of England, but of Hamburgh and Holland. Upon one occasion, in 1763, it is said to have advanced for this purpose, in one week, about £1,600,000, a great part of it in bullion. I do not, however, pretend to warrant either the greatness of the sum, or the shortness of the time. Upon other occasions, this great company has been reduced to the necessity of paying in sixpences.

It is not by augmenting the capital of the country, but by rendering a greater part of that capital active and productive than would otherwise be so, that the most judicious operations of banking can increase the industry of the country. That part of his capital which a dealer is obliged to keep by him unemployed and in ready money, for answering occasional demands, is so much dead stock, which, so long as it remains in this situation, produces nothing, either to him or to his country. The judicious operations of banking enable him to convert this dead stock into active and productive stock; into materials to work upon; into tools to work with; and into provisions and subsistence to work for; into stock which produces something both to himself and to his country. The gold and silver money which circulates in any country, and by means of which, the produce of its land and labour is annually circulated and distributed to the proper consumers, is, in the same manner as the ready money of the dealer, all dead stock. It is a very valuable part of the capital of the country, which produces nothing to the country. The judicious operations of banking, by substituting paper in the room of a great part of this gold and silver, enable the country to convert a great part of this dead stock into active and productive stock; into stock which produces something to the country. The gold and silver money which circulates in any country may very properly be compared to a highway, which, while it circulates and carries to market all the grass and corn of the country, produces itself not a single pile of either. The judicious operations of banking, by providing, if I may be allowed so violent a metaphor, a sort of waggon-way through the air, enable the country to convert, as it were, a great part of its highways into good pastures, and corn fields, and thereby to increase, very considerably, the annual produce of its land and labour. The commerce and industry of the country, however, it must be acknowledged, though they may be somewhat augmented, cannot be altogether so secure, when they are thus, as it were, suspended upon the Daedalian wings of paper money, as when they travel about upon the solid ground of gold and silver. Over and above the accidents to which they are exposed from the unskilfulness of the conductors of this paper money, they are liable to several others, from which no prudence or skill of those conductors can guard them.

An unsuccessful war, for example, in which the enemy got possession of the capital, and consequently of that treasure which supported the credit of the paper money, would occasion a much greater confusion in a country where the whole circulation was carried on by paper, than in one where the greater part of it was carried on by gold and silver. The usual instrument of commerce having lost its value, no exchanges could be made but either by barter or upon credit. All taxes having been usually paid in paper money, the prince would not have wherewithal either to pay his troops, or to furnish his magazines; and the state of the country would be much more irretrievable than if the greater part of its circulation had consisted in gold and silver. A prince, anxious to maintain his dominions at all times in the state in which he can most easily defend them, ought upon this account to guard not only against that excessive multiplication of paper money which ruins the very banks which issue it, but even against that multiplication of it which enables them to fill the greater part of the circulation of the country with it.

The circulation of every country may be considered as divided into two different branches; the circulation of the dealers with one another, and the circulation between the dealers and the consumers. Though the same pieces of money, whether paper or metal, may be employed sometimes in the one circulation and sometimes in the other; yet as both are constantly going on at the same time, each requires a certain stock of money, of one kind or another, to carry it on. The value of the goods circulated between the different dealers never can exceed the value of those circulated between the dealers and the consumers; whatever is bought by the dealers being ultimately destined to be sold to the consumers. The circulation between the dealers, as it is carried on by wholesale, requires generally a pretty large sum for every particular transaction. That between the dealers and the consumers, on the contrary, as it is generally carried on by retail, frequently requires but very small ones, a shilling, or even a halfpenny, being often sufficient. But small sums circulate much faster than large ones. A shilling changes masters more frequently than a guinea, and a halfpenny more frequently than a shilling. Though the annual purchases of all the consumers, therefore, are at least equal in value to those of all the dealers, they can generally be transacted with a much smaller quantity of money; the same pieces, by a more rapid circulation, serving as the instrument of many more purchases of the one kind than of the other.

Paper money may be so regulated as either to confine itself very much to the circulation between the different dealers, or to extend itself likewise to a great part of that between the dealers and the consumers. Where no bank notes are circulated under £10 value, as in London, paper money confines itself very much to the circulation between the dealers. When a ten pound bank note comes into the hands of a consumer, he is generally obliged to change it at the first shop where he has occasion to purchase five shillings worth of goods; so that it often returns into the hands of a dealer before the consumer has spent the fortieth part of the money. Where bank notes are issued for so small sums as 20s. as in Scotland, paper money extends itself to a considerable part of the circulation between dealers and consumers. Before the Act of parliament which put a stop to the circulation of ten and five shilling notes, it filled a still greater part of that circulation. In the currencies of North America, paper was commonly issued for so small a sum as a shilling, and filled almost the whole of that circulation. In some paper currencies of Yorkshire, it was issued even for so small a sum as a sixpence.

Where the issuing of bank notes for such very small sums is allowed, and commonly practised, many mean people are both enabled and encouraged to become bankers. A person whose promissory note for £5, or even for 20s. would be rejected by every body, will get it to be received without scruple when it is issued for so small a sum as a sixpence. But the frequent bankruptcies to which such beggarly bankers must be liable, may occasion a very considerable inconveniency, and sometimes even a very great calamity, to many poor people who had received their notes in payment.

It were better, perhaps, that no bank notes were issued in any part of the kingdom for a smaller sum than £5. Paper money would then, probably, confine itself, in every part of the kingdom, to the circulation between the different dealers, as much as it does at present in London, where no bank notes are issued under £10 value; £5 being, in most part of the kingdom, a sum which, though it will purchase, perhaps, little more than half the quantity of goods, is as much considered, and is as seldom spent all at once, as £10 are amidst the profuse expense of London.

Where paper money, it is to be observed, is pretty much confined to the circulation between dealers and dealers, as at London, there is always plenty of gold and silver. Where it extends itself to a considerable part of the circulation between dealers and consumers, as in Scotland, and still more in North America, it banishes gold and silver almost entirely from the country; almost all the ordinary transactions of its interior commerce being thus carried on by paper. The suppression of ten and five shilling bank notes, somewhat relieved the scarcity of gold and silver in Scotland; and the suppression of twenty shilling notes will probably relieve it still more. Those metals are said to have become more abundant in America, since the suppression of some of their paper currencies. They are said, likewise, to have been more abundant before the institution of those currencies.

Though paper money should be pretty much confined to the circulation between dealers and dealers, yet banks and bankers might still be able to give nearly the same assistance to the industry and commerce of

the country, as they had done when paper money filled almost the whole circulation. The ready money which a dealer is obliged to keep by him, for answering occasional demands, is destined altogether for the circulation between himself and other dealers of whom he buys goods. He has no occasion to keep any by him for the circulation between himself and the consumers, who are his customers, and who bring ready money to him, instead of taking any from him. Though no paper money, therefore, was allowed to be issued, but for such sums as would confine it pretty much to the circulation between dealers and dealers; yet partly by discounting real bills of exchange, and partly by lending upon cash-accounts, banks and bankers might still be able to relieve the greater part of those dealers from the necessity of keeping any considerable part of their stock by them unemployed, and in ready money, for answering occasional demands. They might still be able to give the utmost assistance which banks and bankers can with propriety give to traders of every kind.

To restrain private people, it may be said, from receiving in payment the promissory notes of a banker for any sum, whether great or small, when they themselves are willing to receive them; or, to restrain a banker from issuing such notes, when all his neighbours are willing to accept of them, is a manifest violation of that natural liberty, which it is the proper business of law not to infringe, but to support. Such regulations may, no doubt, be considered as in some respect a violation of natural liberty. But those exertions of the natural liberty of a few individuals, which might endanger the security of the whole society, are, and ought to be, restrained by the laws of all governments; of the most free, as well as of the most despotical. The obligation of building party walls, in order to prevent the communication of fire, is a violation of natural liberty, exactly of the same kind with the regulations of the banking trade which are here proposed.

A paper money, consisting in bank notes, issued by people of undoubted credit, payable upon demand, without any condition, and, in fact, always readily paid as soon as presented, is, in every respect, equal in value to gold and silver money, since gold and silver money can at anytime be had for it. Whatever is either bought or sold for such paper, must necessarily be bought or sold as cheap as it could have been for gold and silver.

The increase of paper money, it has been said, by augmenting the quantity, and consequently diminishing the value, of the whole currency, necessarily augments the money price of commodities. But as the quantity of gold and silver, which is taken from the currency, is always equal to the quantity of paper which is added to it, paper money does not necessarily increase the quantity of the whole currency. From the beginning of the last century to the present time, provisions never were cheaper in Scotland than in 1759, though, from the circulation of ten and five shilling bank notes, there was then more paper money in the country than at present. The proportion between the price of provisions in Scotland and that in England is the same now as before the great multiplication of banking companies in Scotland. Corn is, upon most occasions, fully as cheap in England as in France, though there is a great deal of paper money in England, and scarce any in France. In 1751 and 1752, when Mr Hume published his Political Discourses, and soon after the great multiplication of paper money in Scotland, there was a very sensible rise in the price of provisions, owing, probably, to the badness of the seasons, and not to the multiplication of paper money.

It would be otherwise, indeed, with a paper money, consisting in promissory notes, of which the immediate payment depended, in any respect, either upon the good will of those who issued them, or upon a condition which the holder of the notes might not always have it in his power to fulfil, or of which the payment was not exigible till after a certain number of years, and which, in the mean time, bore no interest. Such a paper money would, no doubt, fall more or less below the value of gold and silver, according as the difficulty or uncertainty of obtaining immediate payment was supposed to be greater or less, or according to the greater or less distance of time at which payment was exigible.

Some years ago the different banking companies of Scotland were in the practice of inserting into their bank notes, what they called an optional clause; by which they promised payment to the bearer, either as soon as the note should be presented, or, in the option of the directors, six months after such presentment, together with the legal interest for the said six months. The directors of some of those banks sometimes took advantage of this optional clause, and sometimes threatened those who demanded gold and silver in exchange for a considerable number of their notes, that they would take advantage of it, unless such

demanders would content themselves with a part of what they demanded. The promissory notes of those banking companies constituted, at that time, the far greater part of the currency of Scotland, which this uncertainty of payment necessarily degraded below value of gold and silver money. During the continuance of this abuse (which prevailed chiefly in 1762, 1763, and 1764), while the exchange between London and Carlisle was at par, that between London and Dumfries would sometimes be four per cent. against Dumfries, though this town is not thirty miles distant from Carlisle. But at Carlisle, bills were paid in gold and silver; whereas at Dumfries they were paid in Scotch bank notes; and the uncertainty of getting these bank notes exchanged for gold and silver coin, had thus degraded them four per cent. below the value of that coin. The same act of parliament which suppressed ten and five shilling bank notes, suppressed likewise this optional clause, and thereby restored the exchange between England and Scotland to its natural rate, or to what the course of trade and remittances might happen to make it.

In the paper currencies of Yorkshire, the payment of so small a sum as 6d. sometimes depended upon the condition, that the holder of the note should bring the change of a guinea to the person who issued it; a condition which the holders of such notes might frequently find it very difficult to fulfil, and which must have degraded this currency below the value of gold and silver money. An act of parliament, accordingly, declared all such clauses unlawful, and suppressed, in the same manner as in Scotland, all promissory notes, payable to the bearer, under 20s. value.

The paper currencies of North America consisted, not in bank notes payable to the bearer on demand, but in a government paper, of which the payment was not exigible till several years after it was issued; and though the colony governments paid no interest to the holders of this paper, they declared it to be, and in fact rendered it, a legal tender of payment for the full value for which it was issued. But allowing the colony security to be perfectly good, £100, payable fifteen years hence, for example, in a country where interest is at six per cent., is worth little more than £40 ready money. To oblige a creditor, therefore, to accept of this as full payment for a debt of £100, actually paid down in ready money, was an act of such violent injustice, as has scarce, perhaps, been attempted by the government of any other country which pretended to be free. It bears the evident marks of having originally been, what the honest and downright Doctor Douglas assures us it was, a scheme of fraudulent debtors to cheat their creditors. The government of Pennsylvania, indeed, pretended, upon their first emission of paper money, in 1722, to render their paper of equal value with gold and silver, by enacting penalties against all those who made any difference in the price of their goods when they sold them for a colony paper, and when they sold them for gold and silver, a regulation equally tyrannical, but much less, effectual, than that which it was meant to support. A positive law may render a shilling a legal tender for a guinea, because it may direct the courts of justice to discharge the debtor who has made that tender; but no positive law can oblige a person who sells goods, and who is at liberty to sell or not to sell as he pleases, to accept of a shilling as equivalent to a guinea in the price of them. Notwithstanding any regulation of this kind, it appeared, by the course of exchange with Great Britain, that £100 sterling was occasionally considered as equivalent, in some of the colonies, to £130, and in others to so great a sum as £1100 currency; this difference in the value arising from the difference in the quantity of paper emitted in the different colonies, and in the distance and probability of the term of its final discharge and redemption.

No law, therefore, could be more equitable than the act of parliament, so unjustly complained of in the colonies, which declared, that no paper currency to be emitted there in time coming, should be a legal tender of payment.

Pennsylvania was always more moderate in its emissions of paper money than any other of our colonies. Its paper currency, accordingly, is said never to have sunk below the value of the gold and silver which was current in the colony before the first emission of its paper money. Before that emission, the colony had raised the denomination of its coin, and had, by act of assembly, ordered 5s. sterling to pass in the colonies for 6s:3d., and afterwards for 6s:8d. A pound, colony currency, therefore, even when that currency was gold and silver, was more than thirty per cent. below the value of £1 sterling; and when that currency was turned into paper, it was seldom much more than thirty per cent. below that value. The pretence for raising the denomination of the coin was to prevent the exportation of gold and silver, by making equal quantities of those metals pass for greater sums in the colony than they did in the mother country. It was found,

however, that the price of all goods from the mother country rose exactly in proportion as they raised the denomination of their coin, so that their gold and silver were exported as fast as ever.

The paper of each colony being received in the payment of the provincial taxes, for the full value for which it had been issued, it necessarily derived from this use some additional value, over and above what it would have had, from the real or supposed distance of the term of its final discharge and redemption. This additional value was greater or less, according as the quantity of paper issued was more or less above what could be employed in the payment of the taxes of the particular colony which issued it. It was in all the colonies very much above what could be employed in this manner.

A prince, who should enact that a certain proportion of his taxes should be paid in a paper money of a certain kind, might thereby give a certain value to this paper money, even though the term of its final discharge and redemption should depend altogether upon the will of the prince. If the bank which issued this paper was careful to keep the quantity of it always somewhat below what could easily be employed in this manner, the demand for it might be such as to make it even bear a premium, or sell for somewhat more in the market than the quantity of gold or silver currency for which it was issued. Some people account in this manner for what is called the agio of the bank of Amsterdam, or for the superiority of bank money over current money, though this bank money, as they pretend, cannot be taken out of the bank at the will of the owner. The greater part of foreign bills of exchange must be paid in bank money, that is, by a transfer in the books of the bank; and the directors of the bank, they allege, are careful to keep the whole quantity of bank money always below what this use occasions a demand for. It is upon this account, they say, the bank money sells for a premium, or bears an agio of four or five per cent. above the same nominal sum of the gold and silver currency of the country. This account of the bank of Amsterdam, however, it will appear hereafter, is in a great measure chimerical.

A paper currency which falls below the value of gold and silver coin, does not thereby sink the value of those metals, or occasion equal quantities of them to exchange for a smaller quantity of goods of any other kind. The proportion between the value of gold and silver and that of goods of any other kind, depends in all cases, not upon the nature and quantity of any particular paper money, which may be current in any particular country, but upon the richness or poverty of the mines, which happen at any particular time to supply the great market of the commercial world with those metals. It depends upon the proportion between the quantity of labour which is necessary in order to bring a certain quantity of gold and silver to market, and that which is necessary in order to bring thither a certain quantity of any other sort of goods.

If bankers are restrained from issuing any circulating bank notes, or notes payable to the bearer, for less than a certain sum; and if they are subjected to the obligation of an immediate and unconditional payment of such bank notes as soon as presented, their trade may, with safety to the public, be rendered in all other respects perfectly free. The late multiplication of banking companies in both parts of the united kingdom, an event by which many people have been much alarmed, instead of diminishing, increases the security of the public. It obliges all of them to be more circumspect in their conduct, and, by not extending their currency beyond its due proportion to their cash, to guard themselves against those malicious runs, which the rivalry of so many competitors is always ready to bring upon them. It restrains the circulation of each particular company within a narrower circle, and reduces their circulating notes to a smaller number. By dividing the whole circulation into a greater number of parts, the failure of any one company, an accident which, in the course of things, must sometimes happen, becomes of less consequence to the public. This free competition, too, obliges all bankers to be more liberal in their dealings with their customers, lest their rivals should carry them away. In general, if any branch of trade, or any division of labour, be advantageous to the public, the freer and more general the competition, it will always be the more so.

CHAPTER III. OF THE ACCUMULATION OF CAPITAL, OR OF PRODUCTIVE AND UNPRODUCTIVE LABOUR.

There is one sort of labour which adds to the value of the subject upon which it is bestowed; there is another which has no such effect. The former as it produces a value, may be called productive, the latter, unproductive labour. {Some French authors of great learning and ingenuity have used those words in a different sense. In the last chapter of the fourth book, I shall endeavour to shew that their sense is an improper one.} Thus the labour of a manufacturer adds generally to the value of the materials which he works upon, that of his own maintenance, and of his master's profit. The labour of a menial servant, on the contrary, adds to the value of nothing. Though the manufacturer has his wages advanced to him by his master, he in reality costs him no expense, the value of those wages being generally restored, together with a profit, in the improved value of the subject upon which his labour is bestowed. But the maintenance of a menial servant never is restored. A man grows rich by employing a multitude of manufacturers; he grows poor by maintaining a multitude of menial servants. The labour of the latter, however, has its value, and deserves its reward as well as that of the former. But the labour of the manufacturer fixes and realizes itself in some particular subject or vendible commodity, which lasts for some time at least after that labour is past. It is, as it were, a certain quantity of labour stocked and stored up, to be employed, if necessary, upon some other occasion. That subject, or, what is the same thing, the price of that subject, can afterwards, if necessary, put into motion a quantity of labour equal to that which had originally produced it. The labour of the menial servant, on the contrary, does not fix or realize itself in any particular subject or vendible commodity. His services generally perish in the very instant of their performance, and seldom leave any trace of value behind them, for which an equal quantity of service could afterwards be procured.

The labour of some of the most respectable orders in the society is, like that of menial servants, unproductive of any value, and does not fix or realize itself in any permanent subject, or vendible commodity, which endures after that labour is past, and for which an equal quantity of labour could afterwards be procured. The sovereign, for example, with all the officers both of justice and war who serve under him, the whole army and navy, are unproductive labourers. They are the servants of the public, and are maintained by a part of the annual produce of the industry of other people. Their service, how honourable, how useful, or how necessary soever, produces nothing for which an equal quantity of service can afterwards be procured. The protection, security, and defence, of the commonwealth, the effect of their labour this year, will not purchase its protection, security, and defence, for the year to come. In the same class must be ranked, some both of the gravest and most important, and some of the most frivolous professions; churchmen, lawyers, physicians, men of letters of all kinds; players, buffoons, musicians, opera-singers, opera-dancers, etc. The labour of the meanest of these has a certain value, regulated by the very same principles which regulate that of every other sort of labour; and that of the noblest and most useful, produces nothing which could afterwards purchase or procure an equal quantity of labour. Like the declamation of the actor, the harangue of the orator, or the tune of the musician, the work of all of them perishes in the very instant of its production.

Both productive and unproductive labourers, and those who do not labour at all, are all equally maintained by the annual produce of the land and labour of the country. This produce, how great soever, can never be infinite, but must have certain limits. According, therefore, as a smaller or greater proportion of it is in any one year employed in maintaining unproductive hands, the more in the one case, and the less in the other, will remain for the productive, and the next year's produce will be greater or smaller accordingly; the whole annual produce, if we except the spontaneous productions of the earth, being the effect of productive labour.

Though the whole annual produce of the land and labour of every country is no doubt ultimately destined for supplying the consumption of its inhabitants, and for procuring a revenue to them; yet when it first comes either from the ground, or from the hands of the productive labourers, it naturally divides itself into two parts. One of them, and frequently the largest, is, in the first place, destined for replacing a capital, or for renewing the provisions, materials, and finished work, which had been withdrawn from a capital; the other for constituting a revenue either to the owner of this capital, as the profit of his stock, or to some other

person, as the rent of his land. Thus, of the produce of land, one part replaces the capital of the farmer; the other pays his profit and the rent of the landlord; and thus constitutes a revenue both to the owner of this capital, as the profits of his stock, and to some other person as the rent of his land. Of the produce of a great manufactory, in the same manner, one part, and that always the largest, replaces the capital of the undertaker of the work; the other pays his profit, and thus constitutes a revenue to the owner of this capital.

That part of the annual produce of the land and labour of any country which replaces a capital, never is immediately employed to maintain any but productive hands. It pays the wages of productive labour only. That which is immediately destined for constituting a revenue, either as profit or as rent, may maintain indifferently either productive or unproductive hands.

Whatever part of his stock a man employs as a capital, he always expects it to be replaced to him with a profit. He employs it, therefore, in maintaining productive hands only; and after having served in the function of a capital to him, it constitutes a revenue to them. Whenever he employs any part of it in maintaining unproductive hands of any kind, that part is from that moment withdrawn from his capital, and placed in his stock reserved for immediate consumption.

Unproductive labourers, and those who do not labour at all, are all maintained by revenue; either, first, by that part of the annual produce which is originally destined for constituting a revenue to some particular persons, either as the rent of land, or as the profits of stock; or, secondly, by that part which, though originally destined for replacing a capital, and for maintaining productive labourers only, yet when it comes into their hands, whatever part of it is over and above their necessary subsistence, may be employed in maintaining indifferently either productive or unproductive hands. Thus, not only the great landlord or the rich merchant, but even the common workman, if his wages are considerable, may maintain a menial servant; or he may sometimes go to a play or a puppet-show, and so contribute his share towards maintaining one set of unproductive labourers; or he may pay some taxes, and thus help to maintain another set, more honourable and useful, indeed, but equally unproductive. No part of the annual produce, however, which had been originally destined to replace a capital, is ever directed towards maintaining unproductive hands, till after it has put into motion its full complement of productive labour, or all that it could put into motion in the way in which it was employed. The workman must have earned his wages by work done, before he can employ any part of them in this manner. That part, too, is generally but a small one. It is his spare revenue only, of which productive labourers have seldom a great deal. They generally have some, however; and in the payment of taxes, the greatness of their number may compensate, in some measure, the smallness of their contribution. The rent of land and the profits of stock are everywhere, therefore, the principal sources from which unproductive hands derive their subsistence. These are the two sorts of revenue of which the owners have generally most to spare. They might both maintain indifferently, either productive or unproductive hands. They seem, however, to have some predilection for the latter. The expense of a great lord feeds generally more idle than industrious people. The rich merchant, though with his capital he maintains industrious people only, yet by his expense, that is, by the employment of his revenue, he feeds commonly the very same sort as the great lord.

The proportion, therefore, between the productive and unproductive hands, depends very much in every country upon the proportion between that part of the annual produce, which, as soon as it comes either from the ground, or from the hands of the productive labourers, is destined for replacing a capital, and that which is destined for constituting a revenue, either as rent or as profit. This proportion is very different in rich from what it is in poor countries.

Thus, at present, in the opulent countries of Europe, a very large, frequently the largest, portion of the produce of the land, is destined for replacing the capital of the rich and independent farmer; the other for paying his profits, and the rent of the landlord. But anciently, during the prevalency of the feudal government, a very small portion of the produce was sufficient to replace the capital employed in cultivation. It consisted commonly in a few wretched cattle, maintained altogether by the spontaneous produce of uncultivated land, and which might, therefore, be considered as a part of that spontaneous produce. It generally, too, belonged to the landlord, and was by him advanced to the occupiers of the land. All the rest of the produce properly belonged to him too, either as rent for his land, or as profit upon this

paltry capital. The occupiers of land were generally bond-men, whose persons and effects were equally his property. Those who were not bond-men were tenants at will; and though the rent which they paid was often nominally little more than a quit-rent, it really amounted to the whole produce of the land. Their lord could at all times command their labour in peace and their service in war. Though they lived at a distance from his house, they were equally dependent upon him as his retainers who lived in it. But the whole produce of the land undoubtedly belongs to him, who can dispose of the labour and service of all those whom it maintains. In the present state of Europe, the share of the landlord seldom exceeds a third, sometimes not a fourth part of the whole produce of the land. The rent of land, however, in all the improved parts of the country, has been tripled and quadrupled since those ancient times; and this third or fourth part of the annual produce is, it seems, three or four times greater than the whole had been before. In the progress of improvement, rent, though it increases in proportion to the extent, diminishes in proportion to the produce of the land.

In the opulent countries of Europe, great capitals are at present employed in trade and manufactures. In the ancient state, the little trade that was stirring, and the few homely and coarse manufactures that were carried on, required but very small capitals. These, however, must have yielded very large profits. The rate of interest was nowhere less than ten per cent. and their profits must have been sufficient to afford this great interest. At present, the rate of interest, in the improved parts of Europe, is nowhere higher than six per cent.; and in some of the most improved, it is so low as four, three, and two per cent. Though that part of the revenue of the inhabitants which is derived from the profits of stock, is always much greater in rich than in poor countries, it is because the stock is much greater; in proportion to the stock, the profits are generally much less.

That part of the annual produce, therefore, which, as soon as it comes either from the ground, or from the hands of the productive labourers, is destined for replacing a capital, is not only much greater in rich than in poor countries, but bears a much greater proportion to that which is immediately destined for constituting a revenue either as rent or as profit. The funds destined for the maintenance of productive labour are not only much greater in the former than in the latter, but bear a much greater proportion to those which, though they may be employed to maintain either productive or unproductive hands, have generally a predilection for the latter.

The proportion between those different funds necessarily determines in every country the general character of the inhabitants as to industry or idleness. We are more industrious than our forefathers, because, in the present times, the funds destined for the maintenance of industry are much greater in proportion to those which are likely to be employed in the maintenance of idleness, than they were two or three centuries ago. Our ancestors were idle for want of a sufficient encouragement to industry. It is better, says the proverb, to play for nothing, than to work for nothing. In mercantile and manufacturing towns, where the inferior ranks of people are chiefly maintained by the employment of capital, they are in general industrious, sober, and thriving; as in many English, and in most Dutch towns. In those towns which are principally supported by the constant or occasional residence of a court, and in which the inferior ranks of people are chiefly maintained by the spending of revenue, they are in general idle, dissolute, and poor; as at Rome, Versailles, Compeigne, and Fontainbleau. If you except Rouen and Bourdeaux, there is little trade or industry in any of the parliament towns of France; and the inferior ranks of people, being chiefly maintained by the expense of the members of the courts of justice, and of those who come to plead before them, are in general idle and poor. The great trade of Rouen and Bourdeaux seems to be altogether the effect of their situation. Rouen is necessarily the entrepot of almost all the goods which are brought either from foreign countries, or from the maritime provinces of France, for the consumption of the great city of Paris. Bourdeaux is, in the same manner, the entrepot of the wines which grow upon the banks of the Garonne, and of the rivers which run into it, one of the richest wine countries in the world, and which seems to produce the wine fittest for exportation, or best suited to the taste of foreign nations. Such advantageous situations necessarily attract a great capital by the great employment which they afford it; and the employment of this capital is the cause of the industry of those two cities. In the other parliament towns of France, very little more capital seems to be employed than what is necessary for supplying their own consumption; that is, little more than the smallest capital which can be employed in them. The same thing may be said of Paris, Madrid, and Vienna. Of those three cities, Paris is by far the most industrious, but Paris itself is the principal market of all the

manufactures established at Paris, and its own consumption is the principal object of all the trade which it carries on. London, Lisbon, and Copenhagen, are, perhaps, the only three cities in Europe, which are both the constant residence of a court, and can at the same time be considered as trading cities, or as cities which trade not only for their own consumption, but for that of other cities and countries. The situation of all the three is extremely advantageous, and naturally fits them to be the entrepots of a great part of the goods destined for the consumption of distant places. In a city where a great revenue is spent, to employ with advantage a capital for any other purpose than for supplying the consumption of that city, is probably more difficult than in one in which the inferior ranks of people have no other maintenance but what they derive from the employment of such a capital. The idleness of the greater part of the people who are maintained by the expense of revenue, corrupts, it is probable, the industry of those who ought to be maintained by the employment of capital, and renders it less advantageous to employ a capital there than in other places. There was little trade or industry in Edinburgh before the Union. When the Scotch parliament was no longer to be assembled in it, when it ceased to be the necessary residence of the principal nobility and gentry of Scotland, it became a city of some trade and industry. It still continues, however, to be the residence of the principal courts of justice in Scotland, of the boards of customs and excise, etc. A considerable revenue, therefore, still continues to be spent in it. In trade and industry, it is much inferior to Glasgow, of which the inhabitants are chiefly maintained by the employment of capital. The inhabitants of a large village, it has sometimes been observed, after having made considerable progress in manufactures, have become idle and poor, in consequence of a great lord's having taken up his residence in their neighbourhood.

The proportion between capital and revenue, therefore, seems everywhere to regulate the proportion between industry and idleness. Wherever capital predominates, industry prevails; wherever revenue, idleness. Every increase or diminution of capital, therefore, naturally tends to increase or diminish the real quantity of industry, the number of productive hands, and consequently the exchangeable value of the annual produce of the land and labour of the country, the real wealth and revenue of all its inhabitants.

Capitals are increased by parsimony, and diminished by prodigality and misconduct.

Whatever a person saves from his revenue he adds to his capital, and either employs it himself in maintaining an additional number of productive hands, or enables some other person to do so, by lending it to him for an interest, that is, for a share of the profits. As the capital of an individual can be increased only by what he saves from his annual revenue or his annual gains, so the capital of a society, which is the same with that of all the individuals who compose it, can be increased only in the same manner.

Parsimony, and not industry, is the immediate cause of the increase of capital. Industry, indeed, provides the subject which parsimony accumulates; but whatever industry might acquire, if parsimony did not save and store up, the capital would never be the greater.

Parsimony, by increasing the fund which is destined for the maintenance of productive hands, tends to increase the number of those hands whose labour adds to the value of the subject upon which it is bestowed. It tends, therefore, to increase the exchangeable value of the annual produce of the land and labour of the country. It puts into motion an additional quantity of industry, which gives an additional value to the annual produce.

What is annually saved, is as regularly consumed as what is annually spent, and nearly in the same time too: but it is consumed by a different set of people. That portion of his revenue which a rich man annually spends, is, in most cases, consumed by idle guests and menial servants, who leave nothing behind them in return for their consumption. That portion which he annually saves, as, for the sake of the profit, it is immediately employed as a capital, is consumed in the same manner, and nearly in the same time too, but by a different set of people: by labourers, manufacturers, and artificers, who reproduce, with a profit, the value of their annual consumption. His revenue, we shall suppose, is paid him in money. Had he spent the whole, the food, clothing, and lodging, which the whole could have purchased, would have been distributed among the former set of people. By saving a part of it, as that part is, for the sake of the profit, immediately

employed as a capital, either by himself or by some other person, the food, clothing, and lodging, which may be purchased with it, are necessarily reserved for the latter. The consumption is the same, but the consumers are different.

By what a frugal man annually saves, he not only affords maintenance to an additional number of productive hands, for that of the ensuing year, but like the founder of a public work-house he establishes, as it were, a perpetual fund for the maintenance of an equal number in all times to come. The perpetual allotment and destination of this fund, indeed, is not always guarded by any positive law, by any trust-right or deed of mortmain. It is always guarded, however, by a very powerful principle, the plain and evident interest of every individual to whom any share of it shall ever belong. No part of it can ever afterwards be employed to maintain any but productive hands, without an evident loss to the person who thus perverts it from its proper destination.

The prodigal perverts it in this manner: By not confining his expense within his income, he encroaches upon his capital. Like him who perverts the revenues of some pious foundation to profane purposes, he pays the wages of idleness with those funds which the frugality of his forefathers had, as it were, consecrated to the maintenance of industry. By diminishing the funds destined for the employment of productive labour, he necessarily diminishes, so far as it depends upon him, the quantity of that labour which adds a value to the subject upon which it is bestowed, and, consequently, the value of the annual produce of the land and labour of the whole country, the real wealth and revenue of its inhabitants. If the prodigality of some were not compensated by the frugality of others, the conduct of every prodigal, by feeding the idle with the bread of the industrious, would tend not only to beggar himself, but to impoverish his country.

Though the expense of the prodigal should be altogether in home made, and no part of it in foreign commodities, its effect upon the productive funds of the society would still be the same. Every year there would still be a certain quantity of food and clothing, which ought to have maintained productive, employed in maintaining unproductive hands. Every year, therefore, there would still be some diminution in what would otherwise have been the value of the annual produce of the land and labour of the country.

This expense, it may be said, indeed, not being in foreign goods, and not occasioning any exportation of gold and silver, the same quantity of money would remain in the country as before. But if the quantity of food and clothing which were thus consumed by unproductive, had been distributed among productive hands, they would have reproduced, together with a profit, the full value of their consumption. The same quantity of money would, in this case, equally have remained in the country, and there would, besides, have been a reproduction of an equal value of consumable goods. There would have been two values instead of one.

The same quantity of money, besides, can not long remain in any country in which the value of the annual produce diminishes. The sole use of money is to circulate consumable goods. By means of it, provisions, materials, and finished work, are bought and sold, and distributed to their proper consumers. The quantity of money, therefore, which can be annually employed in any country, must be determined by the value of the consumable goods annually circulated within it. These must consist, either in the immediate produce of the land and labour of the country itself, or in something which had been purchased with some part of that produce. Their value, therefore, must diminish as the value of that produce diminishes, and along with it the quantity of money which can be employed in circulating them. But the money which, by this annual diminution of produce, is annually thrown out of domestic circulation, will not be allowed to lie idle. The interest of whoever possesses it requires that it should be employed; but having no employment at home, it will, in spite of all laws and prohibitions, be sent abroad, and employed in purchasing consumable goods, which may be of some use at home. Its annual exportation will, in this manner, continue for some time to add something to the annual consumption of the country beyond the value of its own annual produce. What in the days of its prosperity had been saved from that annual produce, and employed in purchasing gold and silver, will contribute, for some little time, to support its consumption in adversity. The exportation of gold and silver is, in this case, not the cause, but the effect of its declension, and may even, for some little time, alleviate the misery of that declension.

The quantity of money, on the contrary, must in every country naturally increase as the value of the annual produce increases. The value of the consumable goods annually circulated within the society being greater, will require a greater quantity of money to circulate them. A part of the increased produce, therefore, will naturally be employed in purchasing, wherever it is to be had, the additional quantity of gold and silver necessary for circulating the rest. The increase of those metals will, in this case, be the effect, not the cause, of the public prosperity. Gold and silver are purchased everywhere in the same manner. The food, clothing, and lodging, the revenue and maintenance, of all those whose labour or stock is employed in bringing them from the mine to the market, is the price paid for them in Peru as well as in England. The country which has this price to pay, will never belong without the quantity of those metals which it has occasion for; and no country will ever long retain a quantity which it has no occasion for.

Whatever, therefore, we may imagine the real wealth and revenue of a country to consist in, whether in the value of the annual produce of its land and labour, as plain reason seems to dictate, or in the quantity of the precious metals which circulate within it, as vulgar prejudices suppose; in either view of the matter, every prodigal appears to be a public enemy, and every frugal man a public benefactor.

The effects of misconduct are often the same as those of prodigality. Every injudicious and unsuccessful project in agriculture, mines, fisheries, trade, or manufactures, tends in the same manner to diminish the funds destined for the maintenance of productive labour. In every such project, though the capital is consumed by productive hands only, yet as, by the injudicious manner in which they are employed, they do not reproduce the full value of their consumption, there must always be some diminution in what would otherwise have been the productive funds of the society.

It can seldom happen, indeed, that the circumstances of a great nation can be much affected either by the prodigality or misconduct of individuals; the profusion or imprudence of some being always more than compensated by the frugality and good conduct of others.

With regard to profusion, the principle which prompts to expense is the passion for present enjoyment; which, though sometimes violent and very difficult to be restrained, is in general only momentary and occasional. But the principle which prompts to save, is the desire of bettering our condition; a desire which, though generally calm and dispassionate, comes with us from the womb, and never leaves us till we go into the grave. In the whole interval which separates those two moments, there is scarce, perhaps, a single instance, in which any man is so perfectly and completely satisfied with his situation, as to be without any wish of alteration or improvement of any kind. An augmentation of fortune is the means by which the greater part of men propose and wish to better their condition. It is the means the most vulgar and the most obvious; and the most likely way of augmenting their fortune, is to save and accumulate some part of what they acquire, either regularly and annually, or upon some extraordinary occasion. Though the principle of expense, therefore, prevails in almost all men upon some occasions, and in some men upon almost all occasions; yet in the greater part of men, taking the whole course of their life at an average, the principle of frugality seems not only to predominate, but to predominate very greatly.

With regard to misconduct, the number of prudent and successful undertakings is everywhere much greater than that of injudicious and unsuccessful ones. After all our complaints of the frequency of bankruptcies, the unhappy men who fall into this misfortune, make but a very small part of the whole number engaged in trade, and all other sorts of business; not much more, perhaps, than one in a thousand. Bankruptcy is, perhaps, the greatest and most humiliating calamity which can befall an innocent man. The greater part of men, therefore, are sufficiently careful to avoid it. Some, indeed, do not avoid it; as some do not avoid the gallows.

Great nations are never impoverished by private, though they sometimes are by public prodigality and misconduct. The whole, or almost the whole public revenue is, in most countries, employed in maintaining unproductive hands. Such are the people who compose a numerous and splendid court, a great ecclesiastical establishment, great fleets and armies, who in time of peace produce nothing, and in time of war acquire nothing which can compensate the expense of maintaining them, even while the war lasts.

Such people, as they themselves produce nothing, are all maintained by the produce of other men's labour. When multiplied, therefore, to an unnecessary number, they may in a particular year consume so great a share of this produce, as not to leave a sufficiency for maintaining the productive labourers, who should reproduce it next year. The next year's produce, therefore, will be less than that of the foregoing; and if the same disorder should continue, that of the third year will be still less than that of the second. Those unproductive hands who should be maintained by a part only of the spare revenue of the people, may consume so great a share of their whole revenue, and thereby oblige so great a number to encroach upon their capitals, upon the funds destined for the maintenance of productive labour, that all the frugality and good conduct of individuals may not be able to compensate the waste and degradation of produce occasioned by this violent and forced encroachment.

This frugality and good conduct, however, is, upon most occasions, it appears from experience, sufficient to compensate, not only the private prodigality and misconduct of individuals, but the public extravagance of government. The uniform, constant, and uninterrupted effort of every man to better his condition, the principle from which public and national, as well as private opulence is originally derived, is frequently powerful enough to maintain the natural progress of things towards improvement, in spite both of the extravagance of government, and of the greatest errors of administration. Like the unknown principle of animal life, it frequently restores health and vigour to the constitution, in spite not only of the disease, but of the absurd prescriptions of the doctor.

The annual produce of the land and labour of any nation can be increased in its value by no other means, but by increasing either the number of its productive labourers, or the productive powers of those labourers who had before been employed. The number of its productive labourers, it is evident, can never be much increased, but in consequence of an increase of capital, or of the funds destined for maintaining them. The productive powers of the same number of labourers cannot be increased, but in consequence either of some addition and improvement to those machines and instruments which facilitate and abridge labour, or of more proper division and distribution of employment. In either case, an additional capital is almost always required. It is by means of an additional capital only, that the undertaker of any work can either provide his workmen with better machinery, or make a more proper distribution of employment among them. When the work to be done consists of a number of parts, to keep every man constantly employed in one way, requires a much greater capital than where every man is occasionally employed in every different part of the work. When we compare, therefore, the state of a nation at two different periods, and find that the annual produce of its land and labour is evidently greater at the latter than at the former, that its lands are better cultivated, its manufactures more numerous and more flourishing, and its trade more extensive; we may be assured that its capital must have increased during the interval between those two periods, and that more must have been added to it by the good conduct of some, than had been taken from it either by the private misconduct of others, or by the public extravagance of government. But we shall find this to have been the case of almost all nations, in all tolerably quiet and peaceable times, even of those who have not enjoyed the most prudent and parsimonious governments. To form a right judgment of it, indeed, we must compare the state of the country at periods somewhat distant from one another. The progress is frequently so gradual, that, at near periods, the improvement is not only not sensible, but, from the declension either of certain branches of industry, or of certain districts of the country, things which sometimes happen, though the country in general is in great prosperity, there frequently arises a suspicion, that the riches and industry of the whole are decaying.

The annual produce of the land and labour of England, for example, is certainly much greater than it was a little more than a century ago, at the restoration of Charles II. Though at present few people, I believe, doubt of this, yet during this period five years have seldom passed away, in which some book or pamphlet has not been published, written, too, with such abilities as to gain some authority with the public, and pretending to demonstrate that the wealth of the nation was fast declining; that the country was depopulated, agriculture neglected, manufactures decaying, and trade undone. Nor have these publications been all party pamphlets, the wretched offspring of falsehood and venality. Many of them have been written by very candid and very intelligent people, who wrote nothing but what they believed, and for no other reason but because they believed it.

The annual produce of the land and labour of England, again, was certainly much greater at the Restoration than we can suppose it to have been about a hundred years before, at the accession of Elizabeth. At this period, too, we have all reason to believe, the country was much more advanced in improvement, than it had been about a century before, towards the close of the dissensions between the houses of York and Lancaster. Even then it was, probably, in a better condition than it had been at the Norman conquest: and at the Norman conquest, than during the confusion of the Saxon heptarchy. Even at this early period, it was certainly a more improved country than at the invasion of Julius Caesar, when its inhabitants were nearly in the same state with the savages in North America.

In each of those periods, however, there was not only much private and public profusion, many expensive and unnecessary wars, great perversion of the annual produce from maintaining productive to maintain unproductive hands; but sometimes, in the confusion of civil discord, such absolute waste and destruction of stock, as might be supposed, not only to retard, as it certainly did, the natural accumulation of riches, but to have left the country, at the end of the period, poorer than at the beginning. Thus, in the happiest and most fortunate period of them all, that which has passed since the Restoration, how many disorders and misfortunes have occurred, which, could they have been foreseen, not only the impoverishment, but the total ruin of the country would have been expected from them? The fire and the plague of London, the two Dutch wars, the disorders of the revolution, the war in Ireland, the four expensive French wars of 1688, 1701, 1742, and 1756, together with the two rebellions of 1715 and 1745. In the course of the four French wars, the nation has contracted more than £145,000,000 of debt, over and above all the other extraordinary annual expense which they occasioned; so that the whole cannot be computed at less than £200,000,000. So great a share of the annual produce of the land and labour of the country, has, since the Revolution, been employed upon different occasions, in maintaining an extraordinary number of unproductive hands. But had not those wars given this particular direction to so large a capital, the greater part of it would naturally have been employed in maintaining productive hands, whose labour would have replaced, with a profit, the whole value of their consumption. The value of the annual produce of the land and labour of the country would have been considerably increased by it every year, and every years increase would have augmented still more that of the following year. More houses would have been built, more lands would have been improved, and those which had been improved before would have been better cultivated; more manufactures would have been established, and those which had been established before would have been more extended; and to what height the real wealth and revenue of the country might by this time have been raised, it is not perhaps very easy even to imagine.

But though the profusion of government must undoubtedly have retarded the natural progress of England towards wealth and improvement, it has not been able to stop it. The annual produce of its land and labour is undoubtedly much greater at present than it was either at the Restoration or at the Revolution. The capital, therefore, annually employed in cultivating this land, and in maintaining this labour, must likewise be much greater. In the midst of all the exactions of government, this capital has been silently and gradually accumulated by the private frugality and good conduct of individuals, by their universal, continual, and uninterrupted effort to better their own condition. It is this effort, protected by law, and allowed by liberty to exert itself in the manner that is most advantageous, which has maintained the progress of England towards opulence and improvement in almost all former times, and which, it is to be hoped, will do so in all future times. England, however, as it has never been blessed with a very parsimonious government, so parsimony has at no time been the characteristic virtue of its inhabitants. It is the highest impertinence and presumption, therefore, in kings and ministers to pretend to watch over the economy of private people, and to restrain their expense, either by sumptuary laws, or by prohibiting the importation of foreign luxuries. They are themselves always, and without any exception, the greatest spendthrifts in the society. Let them look well after their own expense, and they may safely trust private people with theirs. If their own extravagance does not ruin the state, that of the subject never will.

As frugality increases, and prodigality diminishes, the public capital, so the conduct of those whose expense just equals their revenue, without either accumulating or encroaching, neither increases nor diminishes it. Some modes of expense, however, seem to contribute more to the growth of public opulence than others.

The revenue of an individual may be spent, either in things which are consumed immediately, and in which one day's expense can neither alleviate nor support that of another; or it may be spent in things mere durable, which can therefore be accumulated, and in which every day's expense may, as he chooses, either alleviate, or support and heighten, the effect of that of the following day. A man of fortune, for example, may either spend his revenue in a profuse and sumptuous table, and in maintaining a great number of menial servants, and a multitude of dogs and horses; or, contenting himself with a frugal table, and few attendants, he may lay out the greater part of it in adorning his house or his country villa, in useful or ornamental buildings, in useful or ornamental furniture, in collecting books, statues, pictures; or in things more frivolous, jewels, baubles, ingenious trinkets of different kinds; or, what is most trifling of all, in amassing a great wardrobe of fine clothes, like the favourite and minister of a great prince who died a few years ago. Were two men of equal fortune to spend their revenue, the one chiefly in the one way, the other in the other, the magnificence of the person whose expense had been chiefly in durable commodities, would be continually increasing, every day's expense contributing something to support and heighten the effect of that of the following day; that of the other, on the contrary, would be no greater at the end of the period than at the beginning. The former too would, at the end of the period, be the richer man of the two. He would have a stock of goods of some kind or other, which, though it might not be worth all that it cost, would always be worth something. No trace or vestige of the expense of the latter would remain, and the effects of ten or twenty years' profusion would be as completely annihilated as if they had never existed.

As the one mode of expense is more favourable than the other to the opulence of an individual, so is it likewise to that of a nation. The houses, the furniture, the clothing of the rich, in a little time, become useful to the inferior and middling ranks of people. They are able to purchase them when their superiors grow weary of them; and the general accommodation of the whole people is thus gradually improved, when this mode of expense becomes universal among men of fortune. In countries which have long been rich, you will frequently find the inferior ranks of people in possession both of houses and furniture perfectly good and entire, but of which neither the one could have been built, nor the other have been made for their use. What was formerly a seat of the family of Seymour, is now an inn upon the Bath road. The marriage-bed of James I. of Great Britain, which his queen brought with her from Denmark, as a present fit for a sovereign to make to a sovereign, was, a few years ago, the ornament of an alehouse at Dunfermline. In some ancient cities, which either have been long stationary, or have gone somewhat to decay, you will sometimes scarce find a single house which could have been built for its present inhabitants. If you go into those houses, too, you will frequently find many excellent, though antiquated pieces of furniture, which are still very fit for use, and which could as little have been made for them. Noble palaces, magnificent villas, great collections of books, statues, pictures, and other curiosities, are frequently both an ornament and an honour, not only to the neighbourhood, but to the whole country to which they belong. Versailles is an ornament and an honour to France, Stowe and Wilton to England. Italy still continues to command some sort of veneration, by the number of monuments of this kind which it possesses, though the wealth which produced them has decayed, and though the genius which planned them seems to be extinguished, perhaps from not having the same employment.

The expense, too, which is laid out in durable commodities, is favourable not only to accumulation, but to frugality. If a person should at any time exceed in it, he can easily reform without exposing himself to the censure of the public. To reduce very much the number of his servants, to reform his table from great profusion to great frugality, to lay down his equipage after he has once set it up, are changes which cannot escape the observation of his neighbours, and which are supposed to imply some acknowledgment of preceding bad conduct. Few, therefore, of those who have once been so unfortunate as to launch out too far into this sort of expense, have afterwards the courage to reform, till ruin and bankruptcy oblige them. But if a person has, at any time, been at too great an expense in building, in furniture, in books, or pictures, no imprudence can be inferred from his changing his conduct. These are things in which further expense is frequently rendered unnecessary by former expense; and when a person stops short, he appears to do so, not because he has exceeded his fortune, but because he has satisfied his fancy.

The expense, besides, that is laid out in durable commodities, gives maintenance, commonly, to a greater number of people than that which is employed in the most profuse hospitality. Of two or three hundred weight of provisions, which may sometimes be served up at a great festival, one half, perhaps, is thrown to

the dunghill, and there is always a great deal wasted and abused. But if the expense of this entertainment had been employed in setting to work masons, carpenters, upholsterers, mechanics, etc. a quantity of provisions of equal value would have been distributed among a still greater number of people, who would have bought them in pennyworths and pound weights, and not have lost or thrown away a single ounce of them. In the one way, besides, this expense maintains productive, in the other unproductive hands. In the one way, therefore, it increases, in the other it does not increase the exchangeable value of the annual produce of the land and labour of the country.

I would not, however, by all this, be understood to mean, that the one species of expense always betokens a more liberal or generous spirit than the other. When a man of fortune spends his revenue chiefly in hospitality, he shares the greater part of it with his friends and companions; but when he employs it in purchasing such durable commodities, he often spends the whole upon his own person, and gives nothing to any body without an equivalent. The latter species of expense, therefore, especially when directed towards frivolous objects, the little ornaments of dress and furniture, jewels, trinkets, gew-gaws, frequently indicates, not only a trifling, but a base and selfish disposition. All that I mean is, that the one sort of expense, as it always occasions some accumulation of valuable commodities, as it is more favourable to private frugality, and, consequently, to the increase of the public capital, and as it maintains productive rather than unproductive hands, conduces more than the other to the growth of public opulence.

CHAPTER IV. OF STOCK LENT AT INTEREST.

The stock which is lent at interest is always considered as a capital by the lender. He expects that in due time it is to be restored to him, and that, in the mean time, the borrower is to pay him a certain annual rent for the use of it. The borrower may use it either as a capital, or as a stock reserved for immediate consumption. If he uses it as a capital, he employs it in the maintenance of productive labourers, who reproduce the value, with a profit. He can, in this case, both restore the capital, and pay the interest, without alienating or encroaching upon any other source of revenue. If he uses it as a stock reserved for immediate consumption, he acts the part of a prodigal, and dissipates, in the maintenance of the idle, what was destined for the support of the industrious. He can, in this case, neither restore the capital nor pay the interest, without either alienating or encroaching upon some other source of revenue, such as the property or the rent of land.

The stock which is lent at interest is, no doubt, occasionally employed in both these ways, but in the former much more frequently than in the latter. The man who borrows in order to spend will soon be ruined, and he who lends to him will generally have occasion to repent of his folly. To borrow or to lend for such a purpose, therefore, is, in all cases, where gross usury is out of the question, contrary to the interest of both parties; and though it no doubt happens sometimes, that people do both the one and the other, yet, from the regard that all men have for their own interest, we may be assured, that it cannot happen so very frequently as we are sometimes apt to imagine. Ask any rich man of common prudence, to which of the two sorts of people he has lent the greater part of his stock, to those who he thinks will employ it profitably, or to those who will spend it idly, and he will laugh at you for proposing the question. Even among borrowers, therefore, not the people in the world most famous for frugality, the number of the frugal and industrious surpasses considerably that of the prodigal and idle.

The only people to whom stock is commonly lent, without their being expected to make any very profitable use of it, are country gentlemen, who borrow upon mortgage. Even they scarce ever borrow merely to spend. What they borrow, one may say, is commonly spent before they borrow it. They have generally consumed so great a quantity of goods, advanced to them upon credit by shop-keepers and tradesmen, that they find it necessary to borrow at interest, in order to pay the debt. The capital borrowed replaces the capitals of those shop-keepers and tradesmen which the country gentlemen could not have replaced from the rents of their estates. It is not properly borrowed in order to be spent, but in order to replace a capital which had been spent before.

Almost all loans at interest are made in money, either of paper, or of gold and silver; but what the borrower really wants, and what the lender readily supplies him with, is not the money, but the money's worth, or the goods which it can purchase. If he wants it as a stock for immediate consumption, it is those goods only which he can place in that stock. If he wants it as a capital for employing industry, it is from those goods only that the industrious can be furnished with the tools, materials, and maintenance necessary for carrying on their work. By means of the loan, the lender, as it were, assigns to the borrower his right to a certain portion of the annual produce of the land and labour of the country, to be employed as the borrower pleases.

The quantity of stock, therefore, or, as it is commonly expressed, of money, which can be lent at interest in any country, is not regulated by the value of the money, whether paper or coin, which serves as the instrument of the different loans made in that country, but by the value of that part of the annual produce, which, as soon as it comes either from the ground, or from the hands of the productive labourers, is destined, not only for replacing a capital, but such a capital as the owner does not care to be at the trouble of employing himself. As such capitals are commonly lent out and paid back in money, they constitute what is called the monied interest. It is distinct, not only from the landed, but from the trading and manufacturing interests, as in these last the owners themselves employ their own capitals. Even in the monied interest, however, the money is, as it were, but the deed of assignment, which conveys from one hand to another those capitals which the owners do not care to employ themselves. Those capitals may be greater, in almost any proportion, than the amount of the money which serves as the instrument of their conveyance; the same pieces of money successively serving for many different loans, as well as for many different purchases. A, for example, lends to W £1000, with which W immediately purchases of B £1000 worth of goods. B having no occasion for the money himself, lends the identical pieces to X, with which X immediately purchases of C another £1000 worth of goods. C, in the same manner, and for the same reason, lends them to Y, who again purchases goods with them of D. In this manner, the same pieces, either of coin or of paper, may, in the course of a few days, serve as the Instrument of three different loans, and of three different purchases, each of which is, in value, equal to the whole amount of those pieces. What the three monied men, A, B, and C, assigned to the three borrowers, W, X, and Y, is the power of making those purchases. In this power consist both the value and the use of the loans. The stock lent by the three monied men is equal to the value of the goods which can be purchased with it, and is three times greater than that of the money with which the purchases are made. Those loans, however, may be all perfectly well secured, the goods purchased by the different debtors being so employed as, in due time, to bring back, with a profit, an equal value either of coin or of paper. And as the same pieces of money can thus serve as the instrument of different loans to three, or, for the same reason, to thirty times their value, so they may likewise successively serve as the instrument of repayment.

A capital lent at interest may, in this manner, be considered as an assignment, from the lender to the borrower, of a certain considerable portion of the annual produce, upon condition that the burrower in return shall, during the continuance of the loan, annually assign to the lender a small portion, called the interest; and, at the end of it, a portion equally considerable with that which had originally been assigned to him, called the repayment. Though money, either coin or paper, serves generally as the deed of assignment, both to the smaller and to the more considerable portion, it is itself altogether different from what is assigned by it.

In proportion as that share of the annual produce which, as soon as it comes either from the ground, or from the hands of the productive labourers, is destined for replacing a capital, increases in any country, what is called the monied interest naturally increases with it. The increase of those particular capitals from which the owners wish to derive a revenue, without being at the trouble of employing them themselves, naturally accompanies the general increase of capitals; or, in other words, as stock increases, the quantity of stock to be lent at interest grows gradually greater and greater.

As the quantity of stock to be lent at interest increases, the interest, or the price which must be paid for the use of that stock, necessarily diminishes, not only from those general causes which make the market price of things commonly diminish as their quantity increases, but from other causes which are peculiar to this particular case. As capitals increase in any country, the profits which can be made by employing them

necessarily diminish. It becomes gradually more and more difficult to find within the country a profitable method of employing any new capital. There arises, in consequence, a competition between different capitals, the owner of one endeavouring to get possession of that employment which is occupied by another; but, upon most occasions, he can hope to justle that other out of this employment by no other means but by dealing upon more reasonable terms. He must not only sell what he deals in somewhat cheaper, but, in order to get it to sell, he must sometimes, too, buy it dearer. The demand for productive labour, by the increase of the funds which are destined for maintaining it, grows every day greater and greater. Labourers easily find employment; but the owners of capitals find it difficult to get labourers to employ. Their competition raises the wages of labour, and sinks the profits of stock. But when the profits which can be made by the use of a capital are in this manner diminished, as it were, at both ends, the price which can be paid for the use of it, that is, the rate of interest, must necessarily be diminished with them.

Mr Locke, Mr Lawe, and Mr Montesquieu, as well as many other writers, seem to have imagined that the increase of the quantity of gold and silver, in consequence of the discovery of the Spanish West Indies, was the real cause of the lowering of the rate of interest through the greater part of Europe. Those metals, they say, having become of less value themselves, the use of any particular portion of them necessarily became of less value too, and, consequently, the price which could be paid for it. This notion, which at first sight seems so plausible, has been so fully exposed by Mr Hume, that it is, perhaps, unnecessary to say any thing more about it. The following very short and plain argument, however, may serve to explain more distinctly the fallacy which seems to have misled those gentlemen.

Before the discovery of the Spanish West Indies, ten per cent. seems to have been the common rate of interest through the greater part of Europe. It has since that time, in different countries, sunk to six, five, four, and three per cent. Let us suppose, that in every particular country the value of silver has sunk precisely in the same proportion as the rate of interest; and that in those countries, for example, where interest has been reduced from ten to five per cent. the same quantity of silver can now purchase just half the quantity of goods which it could have purchased before. This supposition will not, I believe, be found anywhere agreeable to the truth; but it is the most favourable to the opinion which we are going to examine; and, even upon this supposition, it is utterly impossible that the lowering of the value of silver could have the smallest tendency to lower the rate of interest. If £100 are in those countries now of no more value than £50 were then, £10 must now be of no more value than £5 were then. Whatever were the causes which lowered the value of the capital, the same must necessarily have lowered that of the interest, and exactly in the same proportion. The proportion between the value of the capital and that of the interest must have remained the same, though the rate had never been altered. By altering the rate, on the contrary, the proportion between those two values is necessarily altered. If £100 now are worth no more than £50 were then, £5 now can be worth no more than £2:10s. were then. By reducing the rate of interest, therefore, from ten to five per cent. we give for the use of a capital, which is supposed to be equal to one half of its former value, an interest which is equal to one fourth only of the value of the former interest.

An increase in the quantity of silver, while that of the commodities circulated by means of it remained the same, could have no other effect than to diminish the value of that metal. The nominal value of all sorts of goods would be greater, but their real value would be precisely the same as before. They would be exchanged for a greater number of pieces of silver; but the quantity of labour which they could command, the number of people whom they could maintain and employ, would be precisely the same. The capital of the country would be the same, though a greater number of pieces might be requisite for conveying any equal portion of it from one hand to another. The deeds of assignment, like the conveyances of a verbose attorney, would be more cumbersome; but the thing assigned would be precisely the same as before, and could produce only the same effects. The funds for maintaining productive labour being the same, the demand for it would be the same. Its price or wages, therefore, though nominally greater, would really be the same. They would be paid in a greater number of pieces of silver, but they would purchase only the same quantity of goods. The profits of stock would be the same, both nominally and really. The wages of labour are commonly computed by the quantity of silver which is paid to the labourer. When that is increased, therefore, his wages appear to be increased, though they may sometimes be no greater than before. But the profits of stock are not computed by the number of pieces of silver with which they are paid, but by the proportion which those pieces bear to the whole capital employed. Thus, in a particular

country, 5s. a-week are said to be the common wages of labour, and ten per cent. the common profits of stock; but the whole capital of the country being the same as before, the competition between the different capitals of individuals into which it was divided would likewise be the same. They would all trade with the same advantages and disadvantages. The common proportion between capital and profit, therefore, would be the same, and consequently the common interest of money; what can commonly be given for the use of money being necessarily regulated by what can commonly be made by the use of it.

Any increase in the quantity of commodities annually circulated within the country, while that of the money which circulated them remained the same, would, on the contrary, produce many other important effects, besides that of raising the value of the money. The capital of the country, though it might nominally be the same, would really be augmented. It might continue to be expressed by the same quantity of money, but it would command a greater quantity of labour. The quantity of productive labour which it could maintain and employ would be increased, and consequently the demand for that labour. Its wages would naturally rise with the demand, and yet might appear to sink. They might be paid with a smaller quantity of money, but that smaller quantity might purchase a greater quantity of goods than a greater had done before. The profits of stock would be diminished, both really and in appearance. The whole capital of the country being augmented, the competition between the different capitals of which it was composed would naturally be augmented along with it. The owners of those particular capitals would be obliged to content themselves with a smaller proportion of the produce of that labour which their respective capitals employed. The interest of money, keeping pace always with the profits of stock, might, in this manner, be greatly diminished, though the value of money, or the quantity of goods which any particular sum could purchase, was greatly augmented.

In some countries the interest of money has been prohibited by law. But as something can everywhere be made by the use of money, something ought everywhere to be paid for the use of it. This regulation, instead of preventing, has been found from experience to increase the evil of usury. The debtor being obliged to pay, not only for the use of the money, but for the risk which his creditor runs by accepting a compensation for that use, he is obliged, if one may say so, to insure his creditor from the penalties of usury.

In countries where interest is permitted, the law in order to prevent the extortion of usury, generally fixes the highest rate which can be taken without incurring a penalty. This rate ought always to be somewhat above the lowest market price, or the price which is commonly paid for the use of money by those who can give the most undoubted security. If this legal rate should be fixed below the lowest market rate, the effects of this fixation must be nearly the same as those of a total prohibition of interest. The creditor will not lend his money for less than the use of it is worth, and the debtor must pay him for the risk which he runs by accepting the full value of that use. If it is fixed precisely at the lowest market price, it ruins, with honest people who respect the laws of their country, the credit of all those who cannot give the very best security, and obliges them to have recourse to exorbitant usurers. In a country such as Great Britain, where money is lent to government at three per cent. and to private people, upon good security, at four and four and a-half, the present legal rate, five per cent. is perhaps as proper as any.

The legal rate, it is to be observed, though it ought to be somewhat above, ought not to be much above the lowest market rate. If the legal rate of interest in Great Britain, for example, was fixed so high as eight or ten per cent. the greater part of the money which was to be lent, would be lent to prodigals and projectors, who alone would be willing to give this high interest. Sober people, who will give for the use of money no more than a part of what they are likely to make by the use of it, would not venture into the competition. A great part of the capital of the country would thus be kept out of the hands which were most likely to make a profitable and advantageous use of it, and thrown into those which were most likely to waste and destroy it. Where the legal rate of interest, on the contrary, is fixed but a very little above the lowest market rate, sober people are universally preferred, as borrowers, to prodigals and projectors. The person who lends money gets nearly as much interest from the former as he dares to take from the latter, and his money is much safer in the hands of the one set of people than in those of the other. A great part of the capital of the country is thus thrown into the hands in which it is most likely to be employed with advantage.

No law can reduce the common rate of interest below the lowest ordinary market rate at the time when that law is made. Notwithstanding the edict of 1766, by which the French king attempted to reduce the rate of interest from five to four per cent. money continued to be lent in France at five per cent. the law being evaded in several different ways.

The ordinary market price of land, it is to be observed, depends everywhere upon the ordinary market rate of interest. The person who has a capital from which he wishes to derive a revenue, without taking the trouble to employ it himself, deliberates whether he should buy land with it, or lend it out at interest. The superior security of land, together with some other advantages which almost everywhere attend upon this species of property, will generally dispose him to content himself with a smaller revenue from land, than what he might have by lending out his money at interest. These advantages are sufficient to compensate a certain difference of revenue; but they will compensate a certain difference only; and if the rent of land should fall short of the interest of money by a greater difference, nobody would buy land, which would soon reduce its ordinary price. On the contrary, if the advantages should much more than compensate the difference, everybody would buy land, which again would soon raise its ordinary price. When interest was at ten per cent. land was commonly sold for ten or twelve years purchase. As interest sunk to six, five, and four per cent. the price of land rose to twenty, five-and-twenty, and thirty years purchase. The market rate of interest is higher in France than in England, and the common price of land is lower. In England it commonly sells at thirty, in France at twenty years purchase.