

recompense will evidently be so much diminished. If this rise of price is owing to the increased value of the consequence of the improved fertility of the land which produces such provisions, it becomes a much less matter to judge, either in what proportion any secondary reward ought to be augmented, or what ought to be augmented at all. The extension of improvement and cultivation, as it necessarily rises, or less, in proportion to the price of corn, the sort of animal food, so it is necessarily low for I believe, every sort of vegetable food. The price of animal food; because a great part of which produces it, being rendered fit for corn, must afford to the landlord and farmer the equal and profit of corn land. It lowers the price of table food; because, by increasing the fertility of the land, it increases its abundance. The extension of agriculture, too, introduce many sorts of provisions, which, requiring less land, and not being so dear as corn, come much cheaper to market than wheat and maize, or what is called the most important improvements which have been introduced in Europe, perhaps, which Europe is indebted to from the great extension of its cultivation. Many sorts of vegetable food, which in the rude state of agriculture are confined to the kitchen-garden, and raised only by the hoe, in its improved state, to be introduced into the field, and to be raised by the plough: as turneps, carrots, cabbages, &c. If, in the present state, therefore, the real price of provisions necessarily rises, that of another sort necessarily falls, and it becomes a matter of more consequence to consider how far the rise in the one may be compensated by the fall in the other. When the real price of provisions has once got to its height (which, in the present sort, except perhaps that of beef and mutton, has been done through a great part of the present century ago), any rise which can be made in that of any other sort of animal food, will affect the circumstances of the poor. The circumstances of the poor in England, cannot surely be so

though he was fully informed. In the public deliberations, therefore, his voice is little heard, and less regarded; except upon some particular occasions, when his clamour is animated, set on, and supported by his employers, not for his, but for their own particular purposes.

His employers constitute the third order, that of those who live by profit. It is the stock that is employed for the sake of profit, which puts into motion the greater part of the useful labour of every society. The plans and projects of the employers of stock regulate and direct all the most important operations of labour, and it is the end proposed by all those plans and projects.

But the rate of profit does not, like rent and wages, rise with the prosperity, and fall with the declension of a society. On the contrary, it is naturally low in rich countries, and high in poor countries, and it is always highest in those countries which are going fastest to ruin. The rate of profit of this third order, therefore, has not the same connection with the general interest of the society, as the other two. Merchants and master manufacturers, in this order, the two classes of people who employ the largest capitals, and who by their industry give to themselves the greatest share of the public revenue. As during their whole lives they are engaged in plans and projects, they have frequently more of understanding than the greater part of the gentlemen. As their thoughts, however, are exercised rather about the interest of their particular branch of business, than about that of the country (which it has not been upon every occasion more to be depended upon with regard to those two objects, than with regard to their superiority over the country gentlemen, much in their knowledge of the public interest, their having a better knowledge of their own interest than he has of his. It is by this superior knowledge of his own interest, and that of the public, that he is persuaded, and persuaded him to his own interest and that of the public, that their interest is his, was the interest of the public. The dealers, however, in any particular

The same order of people are, by the same law, prohibited from wearing hose, of which the price had exceeded fourteen pence the pair, equal to about eight and twenty pence of our present money. In the time of Edward IV. the price of a bushel of wheat was in those times the price of a bushel of barley three and sixpence the bushel, would not be sold for three and sixpence. We should in the present money consider this as a very high price for a pair of hose, for a servant of the poorest and lowest order, who, however, in those times, have paid more for his hose equivalent to this price for them.

In the time of Edward IV. the price of a bushel of wheat was probably not known to any of our present dealers. Their hose were made of some sort of cloth, and have been one of the cases of a high price. The first person that wore stockings in England, was the first person that wore stockings in England. The first person that wore stockings in England, was the first person that wore stockings in England.

Both in the course and in the time of the present century, the machinery employed in the manufacture of those ancient, than it is in the present



every civilized society, from whose revenue that of every other order is ultimately derived.

The interest of the first of those three great orders, it appears from what has been just now said, is strictly and inseparably connected with the general interest of the society. Whatever either promotes or obstructs the one, necessarily promotes or obstructs the other. When the public deliberates concerning any regulation of commerce or police, the proprietors of land never can mislead it, with a view to promote the interest of their own particular order; at least, if they have any tolerable knowledge of that interest. They are, indeed, too often defective in this tolerable knowledge. They are the only one of the three orders whose revenue costs them neither labour nor care, but comes to them, as it were, of its own accord, and independent of any plan or project of their own. That indolence, which is the natural effect of the ease and security of their situation, renders them too often, not only ignorant, but incapable of the application of mind, which is necessary in order to foresee and understand the consequences of any public regulation.

The interest of the second order, that of those who live by wages, is as strictly connected with the interest of the society as that of the first. The wages of the labourer, it has already been shown, are never so low as when the demand for labour is continually rising, and when the quantity employed is every year increasing considerably. When this real wealth of the society comes stationary, his wages are soon reduced to what is barely enough to enable him to bring up a family, and to continue the race of labourers. When the society declines, they fall even below this. The order of proprietors may perhaps gain more by the prosperity of the society than that of labourers; but there is no order that suffers so cruelly from its decline. But though the interest of the labourer is strictly connected with that of the society, he is incapable either of comprehending that interest, or of understanding its connexion with his own. His condition leaves him no time to reflect on necessary information, and his education and habits are commonly such as to render him unfit to judge of the consequences of any public regulation.

Quarter.	s. d.	Years.	Wheat per Quarter.		
			£	s.	d.
17	8	1735	-	-	2 3 0
9	6	1736	-	-	2 0 4
3	0	1737	-	-	1 18 0
3	6	1738	-	-	1 15 6
0	0	1739	-	-	1 18 6
6	0	1740	-	-	2 10 8
3	6	1741	-	-	2 6 8
1	6	1742	-	-	1 14 0
3	6	1743	-	-	1 4 10
0	0	1744	-	-	1 4 10
0	0	1745	-	-	1 7 6
4	0	1746	-	-	1 19 0
0	0	1747	-	-	1 14 10
4	0	1748	-	-	1 17 0
0	0	1749	-	-	1 17 0
3	0	1750	-	-	1 12 6
5	8	1751	-	-	1 18 6
3	10	1752	-	-	2 1 10
5	0	1753	-	-	2 4 8
7	0	1754	-	-	1 14 8
6	0	1755	-	-	1 13 10
0	0	1756	-	-	2 5 3
8	0	1757	-	-	3 0 0
7	0	1758	-	-	2 10 0
6	0	1759	-	-	1 19 10
3	0	1760	-	-	1 16 6
2	0	1761	-	-	1 10 3
4	6	1762	-	-	1 19 0
3	10	1763	-	-	2 0 9
3	6	1764	-	-	2 6 9
10					
8					
4					
10					
			64) 129 13 6		
			2 0 6 $\frac{12}{100}$		



Years.	Wheat per Quarter.			Years.	Wheat per Quarter.		
	£	s.	d.		£	s.	d.
1621	-	-	1 10 4	1631	-	-	3 8 0
1622	-	-	2 18 8	1632	-	-	2 13 4
1623	-	-	2 12 0	1633	-	-	2 18 0
1624	-	-	2 8 0	1634	-	-	2 16 0
1625	-	-	2 12 0	1635	-	-	2 16 0
1626	-	-	2 9 4	1636	-	-	2 16 8
1627	-	-	1 16 0	<hr/>			
1628	-	-	1 8 0		16)40	0	0
1629	-	-	2 2 0	<hr/>			
1630	-	-	2 15 8		2	10	0

1637	-	-	2 13 0	1671	-	-	2 2 0
1638	-	-	2 17 4	1672	-	-	2 1 0
1639	-	-	2 4 10	1673	-	-	2 6 8
1640	-	-	2 4 8	1674	-	-	3 8 8
1641	-	-	2 8 0	1675	-	-	3 4 8
1642	Wanting in the account. The year 1646 sup- plied by Bishop Fleetwood.		0 0 0	1676	-	-	1 18 0
1643			0 0 0	1677	-	-	2 2 0
1644			0 0 0	1678	-	-	2 19 0
1645			0 0 0	1679	-	-	3 0 0
1646	-	-	2 8 0	1680	-	-	2 5 0
1647	-	-	3 13 0	1681	-	-	2 6 8
1648	-	-	4 5 0	1682	-	-	2 4 0
1649	-	-	4 0 0	1683	-	-	2 0 0
1650	-	-	3 16 8	1684	-	-	2 4 0
1651	-	-	3 13 4	1685	-	-	2 6 8
1652	-	-	2 9 6	1686	-	-	1 14 0
1653	-	-	1 15 6	1687	-	-	1 5 2
1654	-	-	1 6 0	1688	-	-	2 6 0
1655	-	-	1 13 4	1689	-	-	1 10 0
1656	-	-	2 3 0	1690	-	-	1 14 8
1657	-	-	2 6 8	1691	-	-	1 14 0
1658	-	-	3 5 0	1692	-	-	2 6 8
1659	-	-	3 6 0	1693	-	-	3 7 8
1660	-	-	2 16 6	1694	-	-	3 4 0
1661	-	-	3 10 0	1695	-	-	2 13 0
1662	-	-	3 14 0	1696	-	-	3 11 0
1663	-	-	2 17 0	1697	-	-	3 0 0
1664	-	-	2 0 6	1698	-	-	3 8 4
1665	-	-	2 9 4	1699	-	-	3 4 0
1666	-	-	1 16 0	1700	-	-	2 0 0
1667	-	-	1 17 0	<hr/>			
1668	-	-	2 0 0		60)153	1	8
1669	-	-	2 4 4	<hr/>			
1670	-	-	2 1 8		2	11	0 $\frac{1}{2}$



Years.	Wheat per Quarter.		
	£	s.	d.
1701	1	17	8
1702	1	9	6
1703	1	16	0
1704	2	6	6
1705	1	10	0
1706	1	6	0
1707	1	8	6
1708	2	1	6
1709	3	18	6
1710	3	18	0
1711	2	14	0
1712	2	6	4
1713	2	11	0
1714	2	10	4
1715	2	3	0
1716	2	8	0
1717	2	5	8
1718	1	18	10
1719	1	15	0
1720	1	17	0
1721	1	17	6
1722	1	16	0
1723	1	14	8
1724	1	17	0
1725	2	8	6
1726	2	6	0
1727	2	2	0
1728	2	14	6
1729	2	6	10
1730	1	16	6
1731	1	12	10
1732	1	6	8
1733	1	8	4
1734	1	18	10

Years.	Wheat per Quarter.		
	£	s.	d.
1735	2	3	0
1736	2	0	4
1737	1	18	0
1738	1	15	6
1739	1	18	6
1740	2	10	8
1741	2	6	8
1742	1	14	0
1743	1	4	10
1744	1	4	10
1745	1	7	6
1746	1	19	0
1747	1	14	10
1748	1	17	0
1749	1	17	0
1750	1	12	6
1751	1	18	6
1752	2	1	10
1753	2	4	8
1754	1	14	8
1755	1	13	10
1756	2	5	3
1757	3	0	0
1758	2	10	0
1759	1	19	10
1760	1	16	6
1761	1	10	3
1762	1	19	0
1763	2	0	9
1764	2	6	9
<hr/>			
64)129 13 6			
<hr/>			
2 0 6 $\frac{10}{51}$			



		Wheat per Quarter.					Wheat per Quarter.		
Years.		£	s.	d.	Years.		£	s.	d.
1731	-	1	12	10	1741	-	2	6	8
1732	-	1	6	8	1742	-	1	14	0
1733	-	1	8	4	1743	-	1	4	10
1734	-	1	18	10	1744	-	1	4	10
1735	-	2	3	0	1745	-	1	7	6
1736	-	2	0	4	1746	-	1	19	0
1737	-	1	18	0	1747	-	1	14	10
1738	-	1	15	6	1748	-	1	17	0
1739	-	1	18	6	1749	-	1	17	0
1740	-	2	10	8	1750	-	1	12	6
<hr/>					<hr/>				
10)18 12 8					10)16 18 2				
<hr/>					<hr/>				
1 17 3 $\frac{1}{3}$					1 13 9 $\frac{4}{3}$				



## BOOK II.

### OF THE NATURE, ACCUMULATION, AND EMPLOYMENT, OF STOCK.

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#### *Introduction.*

IN that rude state of society, in which there is no division of labour, in which exchanges are seldom made, and in which every man provides every thing for himself, it is not necessary that any stock should be accumulated, or stored up before-hand in order to carry on the business of the society. Every man endeavours to supply, by his own industry, his own occasional wants as they occur. When he is hungry, he goes to the forest to hunt; when his coat is worn out, he clothes himself with the skin of the first large animal he kills; and when his hut begins to go to ruin, he repairs it, as well as he can, with the trees and the turf that are nearest it.

But when the division of labour has once been thoroughly introduced, the produce of a man's own labour can supply but a very small part of his occasional wants. The far greater part of them are supplied by the produce of other men's labour, which he purchases with the produce, or, what is the same thing, with the price of the produce, of his own. But this purchase cannot be made till such time as the produce of his own labour has not only been completed, but sold. A stock of goods of different kinds, therefore, must be stored up somewhere, sufficient to maintain him, and to supply him with the materials and tools of his work, till such time, at least, as both these events can be brought about. A weaver cannot apply himself entire-



ly to his peculiar business, unless there is before-hand stored up somewhere, either in his own possession, or in that of some other person, a stock sufficient to maintain him, and to supply him with the materials and tools of his work, till he has not only completed, but sold his web. This accumulation must evidently be previous to his applying his industry for so long a time to such a peculiar business.

As the accumulation of stock must, in the nature of things, be previous to the division of labour, so labour can be more and more subdivided in proportion only as stock is previously more and more accumulated. The quantity of materials which the same number of people can work up, increases in a great proportion as labour comes to be more and more subdivided: and as the operations of each workman are gradually reduced to a greater degree of simplicity, a variety of new machines come to be invented for facilitating and abridging those operations. As the division of labour advances, therefore, in order to give constant employment to an equal number of workmen, an equal stock of provisions, and a greater stock of materials and tools than what would have been necessary in a ruder state of things, must be accumulated before-hand. But the number of workmen in every branch of business generally increases with the division of labour in that branch; or rather, it is the increase of their number which enables them to class and subdivide themselves in this manner.

As the accumulation of stock is previously necessary for carrying on this great improvement in the productive powers of labour, so that accumulation naturally leads to this improvement. The person who employs his stock in maintaining labour, necessarily wishes to employ it in such a manner as to produce as great a quantity of work as possible. He endeavours, therefore, both to make among his workmen the most proper distribution of employment, and to furnish them with the best machines which he can either invent or afford to purchase. His abilities, in both these respects, are generally in proportion to the extent of his stock, or to the number of people whom it can employ. The quantity of industry, therefore, not only increases in every country with the increase of the stock which



employs it, but, in consequence of that increase, the same quantity of industry produces a much greater quantity of work.

Such are in general the effects of the increase of stock upon industry and its productive powers.

In the following book I have endeavoured to explain the nature of stock, the effects of its accumulation into capitals of different kinds, and the effects of the different employments of those capitals. This book is divided into five chapters. In the first chapter, I have endeavoured to show what are the different parts or branches into which the stock, either of an individual or of a great society, naturally divides itself. In the second I have endeavoured to explain the nature and operation of money, considered as a particular branch of the general stock of the society. The stock which is accumulated into a capital, may either be employed by the person to whom it belongs, or it may be lent to some other person. In the third and fourth chapters, I have endeavoured to examine the manner in which it operates in both these situations. The fifth and last chapter treats of the different effects which the different employments of capital immediately produce upon the quantity, both of national industry, and of the annual produce of land and labour.

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## CHAPTER I.

### *Of the Division of Stock.*

WHEN the stock which a man possesses is no more than sufficient to maintain him for a few days or a few weeks, he seldom thinks of deriving any revenue from it. He consumes it as sparingly as he can, and endeavours by his labour to acquire something which may supply its place before it be consumed altogether. His revenue is, in this case, derived from his labour only. This is the state of the greater part of the labouring poor in all countries.

But when he possesses stock sufficient to maintain him for months or years, he naturally endeavours to



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As the accumulation of stock is previously necessary for carrying on this great improvement in the productive powers of labour, so that accumulation naturally leads to this improvement. The person who employs his stock in maintaining labour, necessarily wishes to employ it in such a manner as to produce as great a quantity of work as possible. He endeavours, therefore, both to make among his workmen the most equal distribution of employment, and to furnish them with the best machines which he can either invent or afford to purchase. His abilities, in both these respects, are generally in proportion to the extent of stock, or to the number of people whom it can employ. The quantity of industry, therefore, not only increases in every country with the increase of the stock

es are common, it is a trade to let out masquerades for a night. Upholsterers frequently let by the month or by the year. Undertakers furnish funerals by the day and by the year. Many people let furnished houses, and get a revenue only for the use of the house, but for that of the things, must always be ultimately drawn from the other source of revenue. Of all parts of the revenue, either of an individual or of a society, reserved for immediate consumption, what is laid out in houses and furniture is the least. A stock of clothes may last half a century; a stock of furniture half a century or a century; but a stock of houses, well built and properly managed, may last many centuries. Though the whole of their total consumption, however, is more than they are still as really a stock reserved for immediate consumption as either clothes or household

of the three portions into which the general revenue of the society divides itself, is the fixed stock, which the characteristic is, that it affords a revenue without circulating or changing masters. It consists chiefly of the four following articles. First, of useful machines and instruments of trade, which tend to abridge labour.

Secondly, of all those profitable buildings which are erected for procuring a revenue, not only to their proprietors, but to the person who employs them; such as houses, warehouses, farmhouses, with all the necessary buildings, stables, granaries, &c. These are not to be distinguished from mere dwelling-houses. They are instruments of trade, and may be considered in the same light.

Thirdly, of the improvements of land, of what has been laid out in clearing, draining, inclosing, and cultivating it into the condition most productive and culture. An improved farm may be regarded in the same light as those useful buildings, which facilitate and abridge labour, and which an equal circulating capital can procure a greater revenue to its employer. An



maintenance is a circulating capital. The profit is made by parting with it; and it comes back with both its own profit and the profit upon the whole price of the cattle, in the price of the wool, the milk, and the increase. The whole value of the seed, too, is properly a fixed capital. Though it goes backwards and forwards between the ground and the granary, it never changes masters, and therefore does not properly circulate. The farmer makes his profit, not by its sale, but by its increase.

The general stock of any country or society is the same with that of all its inhabitants or members; and therefore naturally divides itself into the same three portions, each of which has a distinct function or office.

The first is that portion which is reserved for immediate consumption, and of which the characteristic is, that it affords no revenue or profit. It consists in the stock of food, clothes, household furniture, &c. which have been purchased by their proper consumers, but which are not yet entirely consumed. The whole stock of mere dwelling-houses, too, subsisting at any one time in the country, make a part of this first portion. The stock that is laid out in a house, if it is to be the dwelling-house of the proprietor, ceases from that moment to serve in the function of a capital, or to afford any revenue to its owner. A dwelling-house, as such, contributes nothing to the revenue of its inhabitant; and though it is, no doubt, extremely useful to him, it is as his clothes and household furniture are useful to him, which, however, make a part of his expense, and not of his revenue. If it is to be let to a tenant for rent, as the house itself can produce nothing, the tenant must always pay the rent out of some other revenue which he derives, either from labour, or stock, or land. Though a house, therefore, may yield a revenue to its proprietor, and thereby serve in the function of a capital to him, it cannot yield any to the public, nor serve in the function of a capital to it, and the revenue of the whole body of the people can never be in the smallest degree increased by it. Clothes and household furniture, in the same manner, sometimes yield a revenue, and thereby serve in the function of a capital to particular persons. In countries where mas-

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 of which this latter capital is composed, money, provisions, materials, and finished work, the three last, 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 employed in maintaining the former, goes all to the maintenance of 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 neat produce from the neat revenue of the society, and what is necessary for maintaining the fixed ca-

pirating capital of a society is, in this respect, quite 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 profit. 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. 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, and a revenue derived from other funds, may replace their value to him, together with its profit, without occasioning any diminution either of his 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 neat revenue of the society, bear a very great resemblance to each other.

As those machines and instruments of trade, &c. which occasion 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.



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 conveniences 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.

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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, &c. 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, conveniences, 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, conveniences, and amusements, regularly distributed to him in their proper proportions.

Secondly, as the machines and instruments of trade, &c. 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 their 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 necessities and conveniences 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, conveniences, 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 necessities and conveniences 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.

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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 the 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, that annual produce cannot be immediately augmented by those operations of banking. One million, therefore, will be sufficient to circulate it after

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 quantity of circulation, if I may be allowed such an expression, will remain precisely the same as before. The 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. If eight hundred thousand pounds are poured

Eight hundred thousand pounds, therefore, will overflow, that sum being over and above what is employed in the circulation of the country. Though this sum cannot be employed at home, it is 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 money 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 money, of a million of those metals which filled it before.



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 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.



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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 an 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, &c. 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 re-produce, 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 re-producing, 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 con-



sumption, 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 may be 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 recompense 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 shillings 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, 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 recoinced, 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 re-payment, did not bring their silver into the Bank of Scotland; and there was, besides, some

\* See Ruddiman's Preface to Anderson's *Diplomata*, &c. *Scotiae*.



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 called 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 be-



come 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 conveniences 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 num-



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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 which the gold coin had fallen a few years ago) was recently obliged to purchase gold bullion at the high price of four pounds an ounce, which it soon after issued in coin at £3 : 17 : 10½ 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 government therefore, paid no seignorage, though the government was properly at the expense of the coinage, this loss of government did not prevent altogether the issue of the bank.

Scotch banks, in consequence of an excess of the same kind, were all obliged to employ constantly agents in 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 by the carriers at an additional expense of six or eight per cent. or fifteen shillings on the hundred. Those agents were not always able to draw the coffers of their employers so fast as they wished. In this case, the resource of the banks was to draw upon their correspondents in London bills to the extent of the sum which they wanted. Those correspondents afterwards drew upon the bank for payment of this sum, together with the commission, some of those banks, from







dit as are likely to keep it for several years. A bank, indeed, which lends its money without the expense of stamped paper, or of attorney's 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 had ever 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 must 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 B 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 be-



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 must 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 stor

der 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 thou-



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 or-



der 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 thou-



sand pounds which it circulated in bank-notes, this five per cent. might perhaps be considered as 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 by 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 re-drawing. 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 employ-



ing 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 a-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\*. 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 : 17 : 10½, at six per cent. interest, and was at the same time allowed to take in subscriptions for doubling its capital. In 1708, therefore, the capital of the bank amounted to £4,402,343, and it had advanced to government the sum of £3,375,027 : 17 : 10½.

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

In pursuance of the 3d 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 : 10. 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

\* James Postlethwaite's History of the Public Revenue, p. 301.



£9,375,027 : 17 : 10 $\frac{1}{2}$  ; and its capital stock amounted only to £8,959,995 : 14 : 8. 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. 25th, 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



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\* James Postlethwaite's History of the Public Revenue, p. 301

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 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 parts 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 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 de-



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 hath 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 currency 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 penny.

Where the issuing of bank-notes for such very small sums is allowed, and commonly practised, many more people are both enabled and encouraged to become



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 rivalship 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.

END OF VOLUME FIRST.















