



THE WEALTH OF NATIONS.

Years XII.	Price of the Quarter of Wheat each Year.	Average of the differ- ent Prices of the same Year.	The average Price of C H A P. each Year in Money of the present Times. XI.
	£. s. d.	£. s. d.	£. s. d.
1453	— 5 4	— — —	— 10 8
1455	— 1 2	— — —	— 2 4
1457	— 7 8	— — —	— 15 4
1459	— 5 —	— — —	— 10 —
1460	— 8 —	— — —	— 16 —
1463	{ — 2 — — 1 8 }	— 1 10	— 3 8
1464	— 6 8	— — —	— 10 —
1486	1 4 —	— — —	1 17 —
1491	— 14 8	— — —	1 2 —
1494	— 4 —	— — —	— 6 —
1495	— 3 4	— — —	— 5 —
1497	1 — —	— — —	1 11 —
Total,			8 9 —
Average Price,			— 14 1

	£. s. d.	£. s. d.	£. s. d.
1499	— 4 —	— — —	— 6 —
1504	— 5 8	— — —	— 8 6
1521	1 — —	— — —	1 10 —
1551	— 8 —	— — —	— 2 —
1553	— 8 —	— — —	— 8 —
1554	— 8 —	— — —	— 8 —
1555	— 8 —	— — —	— 8 —
1556	— 8 —	— — —	— 8 —
1557	{ — 4 — — 5 — — 8 — 2 13 4 }	— 17 8½	— 17 8½
1558	— 8 —	— — —	— 8 —
1559	— 8 —	— — —	— 8 —
1560	— 8 —	— — —	— 8 —
Total,			6 0 2½
Average Price,			— 10 — 3/4



CSL

THE NATURE AND CAUSES OF

BOOK
I.

Years XII.	Price of the Quarter of Wheat each Year.			Average of the differ- ent Prices of the same Year.			The average Price of each Year in Money of the present Times.		
	£.	s.	d.	£.	s.	d.	£.	s.	d.
1561	—	8	—	—	—	—	—	8	—
1562	—	8	—	—	—	—	—	8	—
1574	2	16	—	2	—	—	2	—	—
	1	4	—						
1587	3	4	—	—	—	—	3	4	—
1594	2	16	—	—	—	—	2	16	—
1595	2	13	—	—	—	—	2	13	—
1596	4	—	—	—	—	—	4	—	—
1597	5	4	—	4	12	—	4	12	—
	4	—	—						
1598	2	16	8	—	—	—	2	16	8
1599	1	19	2	—	—	—	1	19	2
1600	1	17	8	—	—	—	1	17	8
1601	1	14	10	—	—	—	1	14	10

Total, 28 9 4

Average Price, 2 7 5 $\frac{1}{4}$



CSL
433

THE WEALTH OF NATIONS.

CHAP.
XI.

Prices of the Quarter of nine Bushels of the best or highest priced Wheat at Windsor Market, on Lady-Day and Michaelmas, from 1595 to 1764; both inclusive; the Price of each Year being the medium between the highest Prices of those Two Market Days.

Years.	£.	s.	d.	Years.	£.	s.	d.		
1595,	—	2	0	0	1621,	—	1	10	4
1596,	—	2	8	0	1622,	—	2	18	8
1597,	—	3	9	6	1623,	—	2	12	0
1598,	—	2	16	8	1624,	—	2	8	0
1599,	—	1	19	2	1625,	—	2	12	0
1600,	—	1	17	8	1626,	—	2	9	4
1601,	—	1	14	10	1627,	—	1	16	0
1602,	—	1	9	4	1628,	—	1	8	0
1603,	—	1	15	4	1629,	—	2	2	0
1604,	—	1	10	8	1630,	—	2	15	8
1605,	—	1	15	10	1631,	—	3	8	0
1606,	—	1	13	0	1632,	—	2	13	4
1607,	—	1	16	8	1633,	—	2	18	0
1608,	—	2	16	8	1634,	—	2	16	0
1609,	—	2	10	0	1635,	—	2	16	0
1610,	—	1	15	10	1636,	—	2	16	8
1611,	—	1	18	8					
1612,	—	2	2	4		16	40	0	0
1613,	—	2	8	8					
1614,	—	2	1	8½			2	10	0
1615,	—	1	18	8					
1616,	—	2	0	4					
1617,	—	2	8	8					
1618,	—	2	6	8					
1619,	—	1	15	4					
1620,	—	1	10	4					
	26	54	0	6½					
		2	1	6½					

D d 2



CSL

THE NATURE AND CAUSES OF

BOOK

I.

Years.

Wheat per quarter.

£. s. d.

Years.

Wheat per quarter.

£. s. d.

1637,	—	2	13	0
1638,	—	2	17	4
1639,	—	2	4	10
1640,	—	2	4	8
1641,	—	2	8	0
1642,	Wanting to the account. The year 1646 supplied by his Highness Fleetwood.	0	0	0
1643,		0	0	0
1644,		0	0	0
1645,		0	0	0
1646,	—	2	8	0
1647,	—	3	13	8
1648,	—	4	5	0
1649,	—	4	0	0
1650,	—	3	16	8
1651,	—	3	13	4
1652,	—	2	9	6
1653,	—	1	15	6
1654,	—	1	6	0
1655,	—	1	13	4
1656,	—	2	3	0
1657,	—	2	6	8
1658,	—	3	5	0
1659,	—	3	6	0
1660,	—	2	16	6
1661,	—	3	10	0
1662,	—	3	14	0
1663,	—	2	17	0
1664,	—	2	0	6
1665,	—	2	9	4
1666,	—	1	16	0
1667,	—	1	16	0
1668,	—	2	0	0
1669,	—	2	4	4
1670,	—	2	1	8

Carry over, 79 14 10

Brought over, 79 14 10

1671,	—	2	2	0
1672,	—	2	1	0
1673,	—	2	6	8
1674,	—	3	8	8
1675,	—	3	4	8
1676,	—	1	13	0
1677,	—	2	2	0
1678,	—	2	19	0
1679,	—	3	0	0
1680,	—	2	5	0
1681,	—	2	6	8
1682,	—	2	4	0
1683,	—	2	0	0
1684,	—	2	4	0
1685,	—	2	6	8
1686,	—	1	14	0
1687,	—	1	5	2
1688,	—	2	6	0
1689,	—	1	10	0
1690,	—	1	14	8
1691,	—	1	14	0
1692,	—	2	6	8
1693,	—	3	7	8
1694,	—	3	4	0
1695,	—	2	13	0
1696,	—	3	11	0
1697,	—	3	0	0
1698,	—	3	8	4
1699,	—	3	4	0
1700,	—	2	0	0

60) 153 1 8

2 11 0



THE WEALTH OF NATIONS.

Wheat per quarter.				Wheat per quarter.				C H A P.
Years.	£.	s.	d.	Years.	£.	s.	d.	XI.
1701,	—	1	17 8	Brought over,	69	8	8	
1702,	—	1	9 6	1734,	—	1	18 10	
1703,	—	1	16 0	1735,	—	2	3 0	
1704,	—	2	6 6	1736,	—	2	0 4	
1705,	—	1	10 0	1737,	—	1	18 0	
1706,	—	1	6 0	1738,	—	1	15 6	
1707,	—	1	8 6	1739,	—	1	18 6	
1708,	—	2	1 6	1740,	—	2	10 8	
1709,	—	3	18 6	1741,	—	2	6 8	
1710,	—	3	18 0	1742,	—	1	14 0	
1711,	—	2	14 0	1743,	—	1	4 10	
1712,	—	2	6 4	1744,	—	1	4 10	
1713,	—	2	11 0	1745,	—	1	7 6	
1714,	—	2	10 4	1746,	—	1	19 0	
1715,	—	2	3 0	1747,	—	1	14 10	
1716,	—	2	8 0	1748,	—	1	17 0	
1717,	—	2	5 8	1749,	—	1	17 0	
1718,	—	1	18 10	1750,	—	1	12 6	
1719,	—	1	15 0	1751,	—	1	18 6	
1720,	—	1	17 0	1752,	—	2	1 10	
1721,	—	1	17 6	1753,	—	2	4 8	
1722,	—	1	16 0	1754,	—	1	14 8	
1723,	—	1	14 8	1755,	—	1	13 10	
1724,	—	1	17 0	1756,	—	2	5 3	
1725,	—	2	8 6	1757,	—	3	0 0	
1726,	—	2	6 0	1758,	—	2	10 0	
1727,	—	2	2 0	1759,	—	1	19 10	
1728,	—	2	14 6	1760,	—	1	16 6	
1729,	—	2	6 10	1761,	—	1	10 3	
1730,	—	1	16 6	1762,	—	1	19 0	
1731,	—	1	12 10	1763,	—	2	0 9	
1732,	—	1	6 8	1764,	—	2	6 9	
1733,	—	1	8 4					
Carry over,	69	8	8					
				64) 129 13 6				
						2	0 6 $\frac{2}{3}$	

THE NATURE AND CAUSES OF

BOOK

I.

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
	10	18	12 8		10	16	18 2
	1	17	3½		1	13	9½



THE WEALTH OF NATIONS.

B O O K II.

Of the Nature, Accumulation, and Employment of Stock.

INTRODUCTION.

Introduct.

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 beforehand 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 cloaths 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 mens 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



CSL

THE NATURE AND CAUSES OF

BOOK
II.

cannot be made till such time as the produce of his own labour has not only been compleated, 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 entirely to his peculiar business, unless there is beforehand 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 compleated, 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



THE WEALTH OF NATIONS.

Introduct.

than what would have been necessary in a ruder state of things, must be accumulated beforehand. 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



THE NATURE AND CAUSES OF

BOOK
II.

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,

C H A P. 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



THE WEALTH OF NATIONS.

CHAP.
I.

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 derive a revenue from the greater part of it; reserving only so much for his immediate consumption as may maintain him till this revenue begins to come in. His whole stock, therefore, is distinguished into two parts. That part which, he expects, is to afford him this revenue, is called his capital. The other is that which supplies his immediate consumption; and which consists either, first, in that portion of his whole stock which was originally reserved for this purpose; or, secondly, in his revenue, from whatever source derived, as it gradually comes in; or, thirdly, in such things as had been purchased by either of these in former years, and which are not yet entirely consumed; such as a stock of cloaths, household furniture, and the like. In one, or other, or all of these three articles, consists the stock which men commonly reserve for their own immediate consumption.

THERE are two different ways in which a capital may be employed so as to yield a revenue or profit to its employer.

FIRST, it may be employed in raising, manufacturing, or purchasing goods, and selling them again with a profit. The capital employed in this manner yields no revenue or profit to its employer, while it either remains in his possession, or continues in the same shape. The goods of the
merchant



THE NATURE AND CAUSES OF

BOOK II.

merchant yield him no revenue or profit till he sells them for money, and the money yields him as little till it is again exchanged for goods. His capital is continually going from him in one shape, and returning to him in another, and it is only by means of such circulation, or successive exchanges, that it can yield him any profit. Such capitals, therefore, may very properly be called circulating capitals.

SECONDLY, it may be employed in the improvement of land, in the purchase of useful machines and instruments of trade, or in such-like things as yield a revenue or profit without changing masters, or circulating any further. Such capitals, therefore, may very properly be called fixed capitals.

DIFFERENT occupations require very different proportions between the fixed and circulating capitals employed in them.

THE capital of a merchant, for example, is altogether a circulating capital. He has occasion for no machines or instruments of trade, unless his shop, or warehouse, be considered as such.

SOME part of the capital of every master artificer or manufacturer must be fixed in the instruments of his trade. This part, however, is very small in some, and very great in others. A master taylor requires no other instruments of trade but a parcel of needles. Those of the master shoemaker are a little, though but a very little, more expensive. Those of the weaver rise a good deal above those of the shoemaker. The far greater part of the capital of all such master artificers,



artificers, however, is circulated, either in the wages of their workmen, or in the price of their materials, and repaid with a profit by the price of the work. C H A P.
I.

IN other works a much greater fixed capital is required. In a great iron-work, for example, the furnace for melting the ore, the forge, the flitt-mill, are instruments of trade which cannot be erected without a very great expence. In coal-works and mines of every kind, the machinery necessary both for drawing out the water and for other purposes, is frequently still more expensive.

THAT part of the capital of the farmer which is employed in the instruments of agriculture is a fixed; that which is employed in the wages and maintenance of his labouring servants, is a circulating capital. He makes a profit of the one by keeping it in his own possession, and of the other by parting with it. The price or value of his labouring cattle is a fixed capital in the same manner as that of the instruments of husbandry: Their maintenance is a circulating capital in the same manner as that of the labouring servants. The farmer makes his profit by keeping the labouring cattle, and by parting with their maintenance. Both the price and the maintenance of the cattle which are bought in and fattened, not for labour, but for sale, are a circulating capital. The farmer makes his profit by parting with them. A flock of sheep or a herd of cattle that, in a breeding country, is bought in, neither for labour, nor for sale, but



CSL

THE NATURE AND CAUSES OF

BOOK
II.

but in order to make a profit by their wool, by their milk, and by their increase, is a fixed capital. The profit is made by keeping them. Their 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 characteristick is, that it affords no revenue or profit. It consists in the stock of food, cloaths, 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,



is, no doubt, extremely useful to him, it is as his cloaths and household furniture are useful to him, which, however, make a part of his expence, and not of his revenue. If it is to be lett 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 publick, 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. Cloaths, 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 masquerades are common, it is a trade to let out masquerade dresses for a night. Upholsterers frequently lett furniture by the month or by the year. Undertakers lett the furniture of funerals by the day and by the week. Many people lett furnished houses, and get a rent, not only for the use of the house, but for that of the furniture. The revenue, however, which is derived from such things, must always be ultimately drawn from some other source of revenue. Of all parts of the stock, either of an individual, or of a society, reserved for immediate consumption, what is laid out in houses is most slowly consumed. A stock of cloaths may last several years: a stock of furniture half a century or a century: but a stock



THE NATURE AND CAUSES OF

BOOK
II.

stock of houses, well built and properly taken care of, may last many centuries. Though the period of their total consumption, however, is more distant, they are still as really a stock reserved for immediate consumption as either cloaths or household furniture.

THE Second of the three portions into which the general stock of the society divides itself, is the fixed capital; of which the characteristick is, that it affords a revenue or profit without circulating or changing masters. It consists chiefly of the four following articles:

FIRST, of all useful machines and instruments of trade which facilitate and abridge labour:

SECONDLY, of all those profitable buildings which are the means of procuring a revenue, not only to their proprietor who lets them for a rent, but to the person who possesses them and pays that rent for them; such as shops, warehouses, work-houses, farmhouses, with all their necessary buildings; stables, granaries, &c. These are very different from mere dwelling houses. They are a sort of instruments of trade, and may be considered in the same light:

THIRDLY, of the improvements of land, of what has been profitably laid out in clearing, draining, enclosing, manuring, and reducing it into the condition most proper for tillage and culture. An improved farm may very justly be regarded in the same light as those useful machines which facilitate and abridge labour, and by means of which, an equal circulating capital can afford a much greater revenue to its employer.



THE WEALTH OF NATIONS.

C H A P.
I.

ployer. An improved farm is equally advantageous and more durable than any of those machines, frequently requiring no other repairs than the most profitable application of the farmer's capital employed in cultivating it:

FOURTHLY, of the acquired and useful abilities of all the inhabitants or members of the society. The acquisition of such talents, by the maintenance of the acquirer during his education, study, or apprenticeship, always costs a real expence, which is a capital fixed and realized, as it were, in his person. Those talents, as they make a part of his fortune, so do they likewise of that of the society to which he belongs. The improved dexterity of a workman may be considered in the same light as a machine or instrument of trade which facilitates and abridges labour, and which, though it costs a certain expence, repays that expence with a profit.

THE third and last of the three portions into which the general stock of the society naturally divides itself, is the circulating capital, of which the characteristick is, that it affords a revenue only by circulating or changing masters. It is composed likewise of four parts:

FIRST, of the money by means of which all the other three are circulated and distributed to their proper consumers:

SECONDLY, of the stock of provisions which are in the possession of the butcher, the grazier, the farmer, the corn-merchant, the brewer, &c. and from the sale of which they expect to derive a profit:

VOL. I.

E c

THIRDLY,



THE NATURE AND CAUSES OF

BOOK
II.

THIRDLY, of the materials, whether altogether rude, or more or less manufactured, of cloaths, furniture, and building, which are not yet made up into any of those three shapes, but which remain in the hands of the growers, the manufacturers, the mercers and drapers, the timber-merchants, the carpenters and joiners, the brick-makers, &c.

FOURTHLY, and lastly, of the work which is made up and compleated, but which is still in the hands of the merchant or manufacturer, and not yet disposed of or distributed to the proper consumers; such as the finished work which we frequently find ready-made in the shops of the smith, the cabinet-maker, the goldsmith, the jeweller, the china-merchant, &c. The circulating capital consists in this manner, of the provisions, materials, and finished work of all kinds that are in the hands of their respective dealers, and of the money that is necessary for circulating and distributing them to those who are finally to use, or to consume them.

Of these four parts three, provisions, materials, and finished work, are, either annually, or in a longer or shorter period, regularly withdrawn from it, and placed either in the fixed capital or in the stock reserved for immediate consumption.

EVERY fixed capital is both originally derived from, and requires to be continually supported by a circulating capital. All useful machines and instruments of trade are originally derived from a circulating capital, which furnishes the materials



THE WEALTH OF NATIONS.

CHAP.

1.

materials of which they are made, and the maintenance of the workmen who make them. They require too a capital of the same kind to keep them in constant repair.

No fixed capital can yield any revenue but by means of a circulating capital. The most useful machines and instruments of trade will produce nothing without the circulating capital which affords the materials they are employed upon, and the maintenance of the workmen who employ them. Land, however improved, will yield no revenue without a circulating capital, which maintains the labourers who cultivate and collect its produce.

To maintain and augment the stock which may be reserved for immediate consumption, is the sole end and purpose both of the fixed and circulating capitals. It is this stock which feeds, cloaths, and lodges the people. Their riches or poverty depends upon the abundant or sparing supplies which those two capitals can afford to the stock reserved for immediate consumption.

So great a part of the circulating capital being continually withdrawn from it, in order to be placed in the other two branches of the general stock of the society; it must in its turn require continual supplies, without which it would soon cease to exist. These supplies are principally drawn from three sources, the produce of land, of mines, and of fisheries. These afford continual supplies of provisions and materials, of which part is afterwards wrought up



BOOK
II.

THE NATURE AND CAUSES OF

CSL

into finished work, and by which are replaced the provisions, materials, and finished work continually withdrawn from the circulating capital. From mines too is drawn what is necessary for maintaining and augmenting that part of it which consists in money. For though, in the ordinary course of business, this part is not, like the other three, necessarily withdrawn from it, in order to be placed in the other two branches of the general stock of the society, it must, however, like all other things, be wasted and worn out at last, and sometimes too be either lost or sent abroad, and must, therefore, require continual, though, no doubt, much smaller supplies.

LAND, mines, and fisheries, require all both a fixed and a circulating capital to cultivate them; and their produce replaces with a profit, not only those capitals, but all the others in the society. Thus the farmer annually replaces to the manufacturer the provisions which he had consumed and the materials which he had wrought up the year before; and the manufacturer replaces to the farmer the finished work which he had wasted and worn out in the same time. This is the real exchange that is annually made between those two orders of people, though it seldom happens that the rude produce of the one and the manufactured produce of the other, are directly bartered for one another; because it seldom happens that the farmer sells his corn and his cattle, his flax and his wool, to the very same person of whom he chuses to purchase the cloaths,



THE WEALTH OF NATIONS.

C H A P.
I.

cloaths, furniture, and instruments of trade which he wants. He sells, therefore, his rude produce for money, with which he can purchase, wherever it is to be had, the manufactured produce he has occasion for. Land even replaces, in part, at least, the capitals with which fisheries and mines are cultivated. It is the produce of land which draws the fish from the waters; and it is the produce of the surface of the earth which extracts the minerals from its bowels.

THE produce of land, mines, and fisheries, when their natural fertility is equal, is in proportion to the extent and proper application of the capitals employed about them. When the capitals are equal and equally well applied, it is in proportion to their natural fertility.

IN all countries where there is tolerable security, every man of common understanding will endeavour to employ whatever stock he can command in procuring either present enjoyment or future profit. If it is employed in procuring present enjoyment, it is a stock reserved for immediate consumption. If it is employed in procuring future profit, it must procure this profit either by staying with him, or by going from him. In the one case it is a fixed, in the other it is a circulating capital. A man must be perfectly crazy who, where there is tolerable security, does not employ all the stock which he commands, whether it be his own or borrowed of other people, in some one or other of those three ways.



CSL

THE NATURE AND CAUSES OF

BOOK
II.

IN those unfortunate countries, indeed, where men are continually afraid of the violence of their superiors, they frequently bury and conceal a great part of their stock, in order to have it always at hand to carry with them to some place of safety, in case of their being threatened with any of those disasters to which they consider themselves as at all times exposed. This is said to be a common practice in Turkey, in Indostan, and, I believe, in most other governments of Asia. It seems to have been a common practice among our ancestors during the violence of the feudal government. Treasure-trove was in those times considered as no contemptible part of the revenue of the greatest sovereigns in Europe. It consisted in such treasure as was found concealed in the earth, and to which no particular person could prove any right. This was regarded in those times as so important an object, that it was always considered as belonging to the sovereign, and neither to the finder nor to the proprietor of the land, unless the right to it had been conveyed to the latter by an express clause in his charter. It was put upon the same footing with gold and silver mines, which, without a special clause in the charter, were never supposed to be comprehended in the general grant of the lands, though mines of lead, copper, tin, and coal were, as things of smaller consequence.

CHAP.



THE WEALTH OF NATIONS.

C H A P. II.

Of Money considered as a particular Branch of the general Stock of the Society, or of the Expence of maintaining the National Capital.

IT has been shewn 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 these three parts; every part of it which goes neither to rent nor to wages, being necessarily profit to somebody.

C H A P.
II.
}

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



CSL

THE NATURE AND CAUSES OF

BOOK
II.

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 expence 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 expence 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

is in proportion to the neat revenue, and not to the gross.



too is in proportion, not to their gross, but to their neat revenue.

THE whole expence 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, &c. 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, &c. 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 expence which is properly laid out upon a fixed capital



THE NATURE AND CAUSES OF

BOOK
II.

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, cloathing 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 mechanicks, 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 expence 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



THE WEALTH OF NATIONS.

CHAP.
II.

it all the advantage and conveniency which the society can derive from that work.

THE expence of maintaining the fixed capital in a great country, may very properly be compared to that of repairs in a private estate. The expence 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 expence 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



CSL

THE NATURE AND CAUSES OF

BOOK
II.

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, &c. require a certain expence, first to erect them, and afterwards to support them, both which expences, 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 expence, first to collect it, and afterwards to support



port it, both which expences, 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.

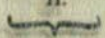
SECONDLY, as the machines and instruments of trade, &c. which compose the fixed capital either of an individual or of a society, make no part either of the gross or of the neat revenue of either; so money, by means of which the whole revenue of the society is regularly distributed among all its different 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



THE NATURE AND CAUSES OF

BOOK
II.

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



THE WEALTH OF NATIONS.

CHAP.
II.

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



CSL

THE NATURE AND CAUSES OF

BOOK
II.

sumable 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

†

be



THE WEALTH OF NATIONS.

CHAP.
II.

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, &c. 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 expence of erecting and supporting those machines, which does not diminish the productive powers of labour, is an improvement of the neat revenue of the society; so every saving in the expence 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 expence of supporting the fixed



CSL

THE NATURE AND CAUSES OF

BOOK
II.

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 expence 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

CSL
435

THE WEALTH OF NATIONS.

CHAP.
II.

lieve 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



CSL

THE NATURE AND CAUSES OF

BOOK
II.

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



THE WEALTH OF NATIONS.

C H A P.
II.

to fill that channel. Whatever, therefore, is poured into it beyond this sum, cannot run in 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 the 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 an ad-



THE NATURE AND CAUSES OF

BOOK
II.

dition to the neat revenue of their own country.

It is like a new fund, created for carrying on a new trade; domestick 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 expence and consumption without increasing production, or establishing any permanent fund for supporting that expence, 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



cessary 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 expence 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 expence 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.



CSL

THE NATURE AND CAUSES OF

BOOK

II.

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



THE WEALTH OF NATIONS.

CHAP.
II.

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 mechanicks, 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



CSL

THE NATURE AND CAUSES OF

BOOK

II.

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 seldom. 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 publick 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



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 re-coined, amounted to 411,117*l.* 10*s.* 9*d.* sterling. No account has been got of the gold coin; but it appears from the antient 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

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



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 WEALTH OF NATIONS.

C H A P.
II.

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 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 re-payment 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,



CSL

THE NATURE AND CAUSES OF

BOOK
II.
}

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



THE WEALTH OF NATIONS.

C H A P.
II.

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



CSL

THE NATURE AND CAUSES OF

BOOK
II.

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 of 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;



THE WEALTH OF NATIONS.

C H A P.
II.

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 expences which are common to every branch of trade; such as the expence of house-rent, the wages of servants, clerks, accountants, &c.; the expences peculiar to a bank consist chiefly in two articles: First, in the expence 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 expence 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 expence, not only



CSL

THE NATURE AND CAUSES OF

BOOK
II.


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 expence 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 further the expence 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 expence 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



THE WEALTH OF NATIONS.

C H A P.
II.


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 expence 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 coin-



THE NATURE AND CAUSES OF

BOOK
II.

age 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*l*. 17*s*. 10½*d*. 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 expence of the coinage, this liberality of government did not prevent altogether the expence 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 expence 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 expence 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 a 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



THE WEALTH OF NATIONS.

CHAP.
II.

drawing a second sett 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 journies; 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 be-



CSL

THE NATURE AND CAUSES OF

BOOK
II.

fore; 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 expence 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 WEALTH OF NATIONS.

CSL
45

CHAP.
II.

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 expence can ever be necessary for replenishing the coffers of such a bank.



THE NATURE AND CAUSES OF

BOOK
II.

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



THE WEALTH OF NATIONS.

C H A P.
II.*Summary*

scarce ever to require any extraordinary expence 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 expence, 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 expence 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



CSL

THE NATURE AND CAUSES OF

BOOK
II.

ing 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 enquire 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



THE WEALTH OF NATIONS.

CHAP.
II.

rity 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



CSL

THE NATURE AND CAUSES OF

BOOK
II.

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 of 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 further assistance from banks 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 its 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-house, his work-houses and warehouses, the dwelling-houses of his workmen, &c.; of the capital which the undertaker of a mine employs in sinking his shafts, in erecting



CSL

401

THE WEALTH OF NATIONS.

CHAP.

II.

ing engines for drawing out the water, in making roads and waggon-ways, &c.; of the capital which the person who undertakes to improve land employs in clearing, draining, enclosing, manuring and ploughing waste and uncultivated fields, in building farm-houses, with all their necessary appendages of stables, granaries, &c. The returns of the fixed capital are in almost all cases much slower than those of the circulating capital; and such expences, 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 ensure, 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



CSL

THE NATURE AND CAUSES OF

BOOK.
II.

people of good credit as are likely to keep it for several years. A bank, indeed, which lends its money without the expence of stamp paper, or of attornies 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 expence besides that of a few reams of paper. They complained of the contracted views and dastardly spirit of the directors of those banks,



THE WEALTH OF NATIONS.

CHAP.
II.

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 expence, 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.



CSL

THE NATURE AND CAUSES OF

BOOK
II.

THE practice of drawing and re-drawing 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



received those contents, had all of them in their order endorsed, that is, written their names upon the back of the bill; each endorser 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 endorsers 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 re-draws upon A in Edinburgh another bill, payable also two months after date. This prac-



CSL

THE NATURE AND CAUSES OF

BOOK
II.

tice 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 expence 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 expence. The projectors, no doubt, had in their golden dreams the most distinct vision of this great profit. Upon their awaking, however, either at the end of their projects, or when they were no longer



THE WEALTH OF NATIONS.

CHAP.
II.

able to carry them on, they very seldom, I believe, had the good fortune to find it*.

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 re-drew upon A in Edinburgh, he as regularly discounted either with the bank of England, or with some other bankers 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

* 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 ex-



CSL

THE NATURE AND CAUSES OF

BOOK
II.

paid 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.

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



THE WEALTH OF NATIONS.

C H A P.
II.

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 re-drawing 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

H h 3

another,



CSL

THE NATURE AND CAUSES OF

BOOK
II.

another, and when the same two persons do not constantly draw and re-draw 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 those 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



THE WEALTH OF NATIONS.

CHAP.
II.

had already gone too far, to make about discounting, not only alarmed, but enraged in the highest degree those projectors. Their own distrefs, of which this prudent and necessary reserve of the banks, was, no doubt, the immediate occasion, they called the distrefs of the country; and this distrefs of the country, they said, was altogether owing to the ignorance, puffillanimity, 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 publick credit of the country.

In the midst of this clamour and distrefs, a new bank was established in Scotland for the exprefs purpose of relieving the distrefs of the country. The design was generous; but the execution was imprudent, and the nature and causes of the distrefs 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 dis-



THE NATURE AND CAUSES OF

BOOK
II.

counted 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 flow and distant, such as the improvements of land. To promote such improvements was even said to be the chief of the publick 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



THE WEALTH OF NATIONS.

CHAP.
II.

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 stopped, 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 clear gain, without



THE NATURE AND CAUSES OF

BOOK
II.

without any other deduction besides the expence 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



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



CSL

THE NATURE AND CAUSES OF

BOOK
II.

they became due, paying them by other draughts upon 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 expence 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



THE WEALTH OF NATIONS.

C H A P.
II.

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 re-drawers 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 expence 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



CSL

THE NATURE AND CAUSES OF

BOOK

III

vate 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



tions 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 Tor, 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 one million two hundred thousand pounds, for an annuity of one hundred thousand pounds; or for 96,000*l.* a year interest, at the rate of eight per cent., and 4,000*l.* a year for the expence 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 engraftment of 1,001,171*l.* 10*s.* Its whole capital stock, therefore, amounted at this time to 2,201,171*l.* 10*s.* This engraftment is said to have been for the support



THE NATURE AND CAUSES OF

BOOK
II.

port of publick 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 recoinage 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. vii. the bank advanced and paid into the exchequer, the sum of 400,000*l.*; making in all the sum of 1,600,000*l.* which it had advanced upon its original annuity of 96,000*l.* interest and 4,000*l.* for expence 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*l.* 17*s.* 10½*d.* 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*l.*; and it had advanced to government the sum of 3,375,027*l.* 17*s.* 10½*d.*

By a call of fifteen per cent. in 1709, there was paid in and made stock 656,204*l.* 1*s.* 9*d.*; and by another of ten per cent. in 1710, 501,448*l.* 12*s.* 11*d.* In consequence of those two calls, therefore, the bank capital amounted to 5,559,995*l.* 14*s.* 3*d.*

* James Poslethwaite's History of the Publick Revenue, page 301.



THE WEALTH OF NATIONS.

C H A P.
II.

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*l.* 17*s.* 10*d.* 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*l.*; 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*l.* At this time, therefore, the bank had advanced to the publick 9,375,027*l.* 17*s.* 10½*d.*; and its capital stock amounted only to 8,959,995*l.* 14*s.* 8*d.* It was upon this occasion that the sum which the bank had advanced to the publick, 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 publick 11,686,800*l.* and its divided capital had been raised by different calls and subscriptions to 10,780,000*l.* 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*l.* without interest or repayment. This sum, therefore, did not increase either of those two other sums.



THE NATURE AND CAUSES OF

BOOK
II.

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 publick, 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 publick 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 publick, 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 those different operations, its duty to the publick 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 *l.*; a great part of it in



THE WEALTH OF NATIONS.

CHAP.
II.

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, enables the country to convert a



CSL

THE NATURE AND CAUSES OF

BOOK
II.

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 grafs 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 Dædalian 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



THE WEALTH OF NATIONS.

C H A P.
II.

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 consum-



CSL

THE NATURE AND CAUSES OF

BOOK
II.

ers; 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 ten pounds 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 re-
turns



THE WEALTH OF NATIONS.

CSL
C H A P.
II.

turns 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 twenty shillings, 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 five pounds, or even for twenty shillings, 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 five pounds. Paper money would then, probably, confine itself, in every part of the kingdom, to the circulation between



CSL

THE NATURE AND CAUSES OF

BOOK
II.

the different dealers, as much as it does at present in London, where no bank notes are issued under ten pounds value; five pounds 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 ten pounds are amidst the profuse expence 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, would 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 inflation 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



CSL

THE WEALTH OF NATIONS.

CHAP.

II.

dustry 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,



THE NATURE AND CAUSES OF

BOOK
II.

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 any time 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



ginning 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 in 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



THE NATURE AND CAUSES OF

CSL

BOOK

II.

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 the 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



THE WEALTH OF NATIONS.

C H A P.
II
—

ring those 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 a sixpence 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 twenty shillings 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, a hundred pounds



CSL

THE NATURE AND CAUSES OF

BOOK
II.

pounds payable fifteen years hence, for example, in a country where interest is at six per cent. is worth little more than forty pounds ready money. To oblige a creditor, therefore, to accept of this as full payment for a debt of a hundred pounds 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 a hundred pounds sterling was occasionally



casionally considered as equivalent, in some of the colonies, to a hundred and thirty pounds, and in others to so great a sum as eleven hundred pounds 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 five shillings sterling to pass in the colony for six and three-pence, and afterwards for six and eight-pence. A pound colony currency, therefore, even when that currency was gold and silver, was more than thirty per cent. below the value of a pound 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



CSL

THE NATURE AND CAUSES OF

BOOK
II.

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



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, that 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 or 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



CSL

THE NATURE AND CAUSES OF

BOOK
II.

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 publick, 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 publick. 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,



THE WEALTH OF NATIONS,

happen, becomes of less consequence to the publick. 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 publick, the freer and more general the competition, it will always be the more so.

CHAP.
II.

END OF THE FIRST VOLUME,

CSL-AS-54 (R)

AS056515

338.954 SMI-I

1 OCT 1966



CSL

Quarited

22-12-1928

10/4 1/2 0

193



264

264
Sh

CSL-AS-54 (R)
AS056515

338.954 SMI-I

CSL