CHAPTER IX.

Capital.

Capital, in common language, is understood to be money. By political economists it is defined to be not only money but stock, buildings, and machinery. Properly, however, it is neither money nor stock, buildings and machinery.

In speaking of capital, we say that it is invested in stock, buildings, and machinery; but we equally say that it is invested in land. It would be evidently improper to say, of the latter, that capital was land, or land capital—and it is equally so with respect to the former.

Neither is it proper to term money capital. We speak of a miser's money, but not of his capital. It is only capital when it bears interest, or is otherwise profitably employed. Before it can be so designated it must be spent, or lent to others who will spend and consume its value either commercially or actually.

It is the power of acquiring the means of annual consumption which gives value to property, and money is the medium by which this

power is conveyed. Hence the value of all property is computed in money. If two persons wish to exchange properties, they each estimate how great a quantity of consumable commodities they will command, that is, how much money they will sell for, and they regulate their bargain accordingly.

The value of money varies both with respect to the commodities it will command, and the interest which is given for it; the former being determined by the quantity of money in circulation, the latter by the demand for it on the part of those who wish to borrow, compared with the supply by those who have it to lend.

If property were subject to no changes of value, from alterations in its own powers of production or means of administering to the enjoyments of mankind, it would be constantly subject to fluctuations in value, as computed in money from the variations in the value of money itself. When money will only command $2\frac{1}{2}$ per cent. interest, an estate is worth twice the sum that it is when money will command five; and when money is depreciated in value, the price of the annual produce of the estate being increased, its total value in money is increased with it, and *vice versa*. Hence the value of money, and of property, the annual value of which is not regulated by the value of money, continually varies. Houses and property created by the expenditure of money, progressively change their value with it.

Many of those who save money have no desire to purchase property; partly because they do not wish to incur the trouble of managing property, the nature of which they probably do not understand, and partly because they think they can get better interest for it than any property that they can purchase will afford. They prefer, therefore, lending their savings at a given rate of interest to those who will engage to repay them in money when it shall be required; and as they, at all times know the value of money in property, by knowing the amount of the obligations which others are under to them, that is, the money which they have out at interest, they know the property they are worth.

On the other hand, men of landed property are seldom willing to sell their estates until they are so much in debt that they cannot avoid it. They will rather pay a rate of interest for money somewhat higher than the income of their estates will leave, compared with their value in money. For the repayment of this money when it is required, and the interest of it in the mean time, they pledge their estates. By this means, though they have virtually disposed of as much of them, as at their value, would be required to discharge the mortgage, yet they still retain them in their own hands, with the power of discharging it at their pleasure, possess the entire management of them, and lose or gain by any alteration which may take place in their value. The lender has no further concern with them than to know that they are a sufficient security for the principal and interest of his loan. Dwelling-houses, buildings of different kinds, mines, and property of a commercial nature, generally possess a greater annual value than the common rate of interest; and the owners of such property, rather than sell it, will often prefer borrowing money when in want of it, as they find it will be more profitable to do so.

The money thus acquired amounts virtually, on the part of the borrower, to a sale of property to the value of the sum borrowed, and the lender of the money, if his security be good, is actual possessor of as much property as it would take, computing its value in money, to satisfy the debt. But it has no reference whatever to the particular nature of the property pledged for its security. Mortgages are merely a precaution to which creditors think it necessary to resort, in order to prevent persons getting into more debt than their property will redeem, or from the state of the laws, which make it difficult to compel a person to surrender his estate for the payment of his debts, if he be not in trade, without he does so voluntarily. If the lender has no particular security, the property of his debtor, to the value of his debt, is still virtually his.

The debt which an individual contracts has reference to his property generally; and it is not unfrequent in trade to credit individuals to considerable amounts, without a guarantee of any kind; but it is always upon the presumption that they have property sufficient to meet their engagements. After the money is borrowed, it is spent and disappears, and the produce of it is either totally consumed, and the property of the party, to the value of the debt, is virtually sold to the lender, or an accumulation of stock, buildings, machinery, or some property of value takes place, which is pledged, with the general property of the borrower, for the repayment of the money when it is called for. But whether the money be spent in actual or commercial consumption, is quite immaterial to the lender, if there be only property of one kind or other to repay him. If his security be good, it is the same to him whether the property of his creditor consists of stock, of buildings, or of land.

Money thus lent, is, properly speaking, capital. Capital is to property what a pound sterling is to money. Though there is no such coin as a pound sterling, its value in money is

clearly understood. An obligation to pay a pound sterling, is an obligation to pay its amount in British coin. In the same manner there is no such identical property as capital. It is the value of property expressed in money, and a person with capital possesses either directly or indirectly property equal to its value.

Capital, no doubt, often exists without representing any property that is tangible, and yet is still capital. Thus tradesmen often have considerable sums in book debts, due by persons who depend upon their labour, or life incomes alone, for the means of repaying them; yet if these debts are safe and will be repaid, they are as much capital to the tradesman to whom they are owing, as if the amount of them were vested in lands, buildings, or stock, or rested on the most unquestionable securities. In this case, however, the laws give the tradesman a mortgage upon the future labour or incomes of the persons thus credited. His capital becomes vested in the lives of the parties he trusts; the same as capital is vested in slaves, who out of their labour repay the principle and interest of their cost. He has a life interest in the labour or income of his debtors, the same as they may have in estates or other property.

Money lent by banks in their own notes becomes capital on the same principles. It is employed in actual or commercial consumption by those who borrow it, and their personal labour, stock in trade, debts, or property of whatever description, is mortgaged for its repayment, independent of any particular mortgage or sureties which may be given.

Tradesmen, merchants, manufacturers, miners, &c. in estimating their capital, pay no respect to whether it consists of book debts, stock, buildings, machinery, money, or land, if land be necessary to their business. The value of each description of property in money is estimated, the whole is summed up together, and the total is the capital employed.

Nothing, perhaps, has contributed to greater confusion of ideas, than the want of a proper definition of capital. To common observation, it appears to be a mixture of property and credit, which eludes description. It is one thing to-day, and another to-morrow. Its value is better understood than its nature. Upon looking into political economy, however, for an analysis, it is found to be stock, buildings, and machinery. Whereas it is very well known, that many great capitalists have neither stock nor machinery, nor even buildings. "It has been usual," says a political economist of great celebrity, to whom the world is under great obligations, "in speaking of that portion of the national "revenue which goes to the capitalist in re-

"turn for the employment of his capital, to "call it by the name of the profits of stock. "But stock is not so appropriate an expression "in this case as capital. Stock is a general "term, and may be defined to be all the mate-"rial possessions of a country, or all its actual "wealth, whatever may be its destination; "while capital is that particular portion of "these possessions, or of this accumulated "wealth, which is destined to be employed "with a view to profit. They are often, how-"ever, used indiscriminately; and, perhaps, "no great error may arise from it, *but it may "be useful to recollect that all stock is not, pro-"perly speaking, capital, though all capital is "stock.*"

This is the generally received definition of capital by political economists, and I only give it in the language of the author I have quoted, because it is briefly and clearly stated. Nothing, however, can be more erroneous. Stock is the particular, and capital the general term. The stock of a tradesman is the commodities he has for sale. The stock of a farmer is the produce which either is ready, or is preparing for sale. The stock of a manufacturer the same. A stock of cattle must be kept up, in order to consume the herbage of the land on which they are fed; so must a stock of raw materials by the manufacturer, in order to keep his men and machinery employed. In both cases, however, they are a stock preparing for consumption. When we speak of a person's stock simply, we always mean the stock which he has on hand, of the commodities he deals in, or produces for sale. It is also applied to machinery, to implements of husbandry, &c. but, in that case, the particular articles to which it refers, are mentioned. We thus say, his stock of implements of husbandry, his stock of machinery, his stock of carts and horses, &c. We also, no doubt, speak of a person's stock in trade, by which we mean his capital, or the value of his property in trade, but this is an abuse of the term, which political economists have aided to perpetuate.

Stock has reference to the quantity, capital to the value of the commodities. A tradesman's stock of commodities may be large, while the capital, which his stock is worth, is small; whereas if a scarcity of the particular commodity he deals in, were to occur, his capital might be rendered comparatively large, while his stock was small. Thus stock is the term of particular application, while capital is the general term; and so far from their being in the least degree synonymous, they are in direct opposition to each other. There is no manner in which the term capital is more correctly applied than to the capital of a public

bank, while there is nothing unreasonable in the supposition, that such capital might be lent out altogether upon the security of land, in which case it could have no reference to stock of any description; yet by an abuse of language we call the capital of such banks their capital stock, and instead of joint capital, we call them joint stock companies. It might not be improper to speak of the stock of capital possessed by a bank, but in that case stock would be synonymous with quantity.

Capital is not usually applied to land, except it be to express the interest which the mortgagee may possess in it. That, however, perhaps, principally arises from its not being so frequently bought and sold for money, as the property of tradesmen, and from the value of its annual produce not depending upon the rate of interest. But a person's capital in land, is the value of his land in money, the same as a tradesman's capital in stock is the value of his stock in money. A person may employ a capital by speculating in land, the same as by speculating in stock, and some do so. In which case it is evident that the amount of their capitals must be determined by the value of their stock in land.

Hence capital is an abstract term. When we speak of a person's capital, we speak of his property, but it is his property valued or expressed in money. Money itself is not capital until it is converted into property, or exchanged for it, by loans upon the security of annual income, or by the purchase of it.

Neither is land, nor stock, buildings and machinery, capital. Capital is their value in money. It is merely the term by which their value is expressed; and when we speak of any description of property, with respect to the capital it contains, we say that we have invested so much capital in it.

CHAPTER X.

Principles which regulate the Saving of Money.

As all the income of society is, and must be, annually consumed, all the money which is borrowed, in order to be spent by one person, class, or body of individuals, must be necessarily saved by another.

If every person himself spent the share which he received of the 430 millions of national income, there would be no money to be lent. Those who are enabled to lend money, or purchase the property of others, are those who have first saved it out of their incomes; and if nobody did save, to borrow would be impossible.

On the other hand, if no one consumed more than his annual income, to lend money, and acquire property by saving it, would be equally impossible. No person would dispose of his property, either by borrowing money upon it, or by selling it, if he did not want the money, which he thus gave up his annual means of subsistence to acquire; and if he neither expended, nor wished to expend more than his annual income, he could not want it. In this case, no