Introduction: Capitalism and Dependence

Any book that claims in its title to be about the origins of capitalism might well seem hostage to the accusation of either arrogance or rhetorical abandon. It is hardly a small subject – it refers to a whole economic system. The use of the term capitalism is so pervasive today that trying to define what it means in practice seems as impossible as, say, defining Christian, Muslim, or Buddhist society. However, I will argue that England, Scotland, and some of the American Colonies, between roughly 1680 and 1760, became the first economies in which the use of capital spread widely enough *throughout society* to change not just economic practice, but culture and society as well. I will, though, primarily focus on England as it was by far the largest of these economies, as well as being the centre of an Atlantic economic system. It was also where the intellectual impetus for change originated in an outpouring of printed works. But this will certainly not be a nationalist history. The institutions of merchant capital all evolved – and were used throughout – Europe and other parts of the globe, and capital as paper money first became socially embedded in the Italian Renaissance cities, most notably Florence and Naples, and certain forms were also then used in Antwerp and the Dutch Republic. But unless further research throws up new evidence, it seems that it was in England and Scotland between *c.*1680 and 1750 that the practices, morals, and institutions of capital formation and maintenance spread *throughout* a national and imperial economic system.

My second aim here will be to create a transformational shift in the way we understand the concept of the financial revolution. This is usually understood as the successful establishment of the Bank of England as an institution that could, for the first time, successfully manage government debt by attracting private investment. It did so as a joint stock company, and, as such, was also part of the development of the London stock market, which expanded at the same time (see 'Government Paper Instruments' in Chapter 2). However, this was only one part of a much broader creation of financial investment capital. While merchant capital had existed for some time, and had long been involved with banking and

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state finance, the creation of capital in the countryside and other towns and cites in Britan and the Atlantic colonies was just as crucial and should equally be seen as comprising a much broader revolution in finance. I will present a new history of the origins of capital that will move the focus away from London to provide a more comprehensive perspective.

In doing so I will also provide a chronological continuation of my previous study of the culture of credit in early modern England.[1] Capital is first and foremost a financial concept. But many recent histories of capitalism look at social systems, forms of production, or business organisation without reference to the role of capital as a *thing* – that is as a socially constructed form of value. In Chapter 1 I will present a critical analysis of how historians have used the concept of capitalism. Here I argue that the financial history of capital needs to be integrated more fully into the histories of all social relations if we want to use history to refine a 'presentist' concept about financial power and its effect on society and political choice. It is a contention of what has been termed the 'new history of capitalism' that financial history is often too narrowly institutional in that it focuses primarily on economic growth and not the social effects of financialisation on broader society.[2] Finance, in these histories, when socialised, is generally presented as having a negative role on broader social relations. However, it will be a central contention of this book that capital was created institutionally through relations of interdependence first, and then, once created, was used by those who accumulated great amounts of it to become more powerful.

Marx, of course, placed capital at the centre of his theory of class exploitation, but talked of the 'capitalist system', not capitalism. Capitalism, after 1900, was eventually used as a term to refer to the opposite of socialism, and this inevitably meant that it became a broad and politically charged concept, rather than an analytical one. It is often now defined reductively by the degree of free market activity and individual property rights. For many, such as Milton Friedman, this is linked to the freedom of the individual to be able to choose and own what they want. This is claimed to be the best way of increasing economic growth and collective wealth, by incentivising energetic and imaginative people to come up with new services and technological advances through the profit motive. But, like many 'isms', it took form in the late nineteenth

[1] Craig Muldrew, *The Economy of Obligation: The Culture of Credit and Social Relations in Early Modern England* (London, 1998).
[2] Sven Beckert and Christine Desan, *American Capitalism: New Histories* (New York, 2018), pp. 1–31.

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century as a conceptual definition of a competitive economic organisation of society to counter socialist ideals of cooperation. However, it is no accident that the root 'capital' was used, and this derivation points us not towards market freedom, but rather towards an embodiment of abstract value, supported by an institutional structure to preserve financial value over time. Crucially, this process also allowed this value to be turned into paper currency to increase liquidity.

Here, I offer a deeply researched argument for the centrality of the institution of financial capital as a *social* phenomenon. Before it could significantly affect ways of doing business and relations of production, capital needed to progress beyond the high levels of the economy of merchants into wider society. This transformation took place successfully in Britain from roughly 1680 to 1760. This period is crucial because of a number of institutional changes, as well as a significant shift in the cultural history of morals and emotions. The 'financial revolution', which saw the creation of the Bank of England and the stock market, has been well studied, but changes in local credit networks involving better accounting, paper notes, and increased mortgaging were arguably even more important. Equally significant was the evolution of the idea of self-control, which came to supplant the institutional mediation of local law courts. I argue that this was a move that allowed the idea and practice of savings to move from taking the form of a debt owed to becoming interest-bearing capital.

Capital in this study will also be taken to be what Adam Smith called 'circulating capital' as opposed to 'fixed capital'. Fixed capital consists of material things such as land, buildings, and machines. In this sense, capital has existed since the beginnings of the history of agriculture, and in one sense the history of property is a history of how such capital was used and divided for people's livelihoods.[3] Ancient states could mobilise resources to increase agricultural production through irrigation, and markets certainly existed. However, extractive institutions to build religious and political monuments, and to pay for the lifestyles of the elites who governed them, was also a socially important way of using such productive capital. Circulating capital, however, was much rarer. Most market transactions were done with precious metals or some other form of physical currency, or through local interpersonal credit transactions.[4] Trade and merchants have also existed for millennia in both the east and

[3] Such a broad definition is adopted in Larry Neal and Jeffrey G. Williamson, *The Cambridge History of Capitalism. Volume I, The Rise of Capitalism: From Ancient Origins to 1848* (Cambridge, 2014).

[4] David Graeber, *Debt: The First 5,000 Years* (New York, 2011), chs. 3, 5.

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the west, and they created ways of exchanging value without forms of metallic or other physical currency, but in ancient societies their activity was small compared to the state and agriculture. But before the early modern period the only sustained effort to create circulating capital to supplement coins, which could be used throughout society, took place during the Song dynasty (960–1279) in China, which created an official state-issued paper currency.[5]

I have chosen to focus on financial capital as forming the basis of capitalism because, in contrast to fixed capital, it is ephemeral. It needs to be socially created by institutions. Its value might be signified by numbers written on various forms of paper, and it might be legally secured by attachment to some material object, but its value is like the thoughts that become books. It is abstract but exists through time in a *written* form. Of course, land, together with other more tangible assets such as buildings, bodies, and goods, have remained central to the capitalist system as forms of collateral. Capital is also supported by an institutional structure involving the production of paper instruments of credit that keep their value over time, such as bonds, bills, and mortgages. It is my intention in this book to examine capital as a 'thing', as it existed in notes and shares, as well as money in an account book. The approach will be to provide a contextual rather than a linear economic history, which tests whether money or capital worked efficiently, or whether certain institutions or cultural practices worked 'better' than other factors, to promote economic growth. The theoretical philosophy of the book is a narrative explanation focusing on exploring the interconnectedness of events, or what we might want to call narrative causation of historical change.[6]

The formative period that will be the subject of this study saw a confluence of a number of factors in England, including an acceleration in the volume of overseas trade, the creation of joint stock companies by projectors to attract investment in speculative projects, and the massive expansion and formalisation of government borrowing, made possible by the creation of the Bank of England in 1695. The development of the legal concept of the 'equity of redemption', which made mortgaging property easier, was also crucial. Other legal changes made the use of informal paper bills and notes of hand valid negotiable instruments. Less

[5] Richard von Glahn, *Fountain of Fortune: Money and Monetary Policy in China, 1000–1700* (Berkeley, 2019), pp. 7–8, 43–8, 51–6, 247–8.

[6] For an excellent discussion of how economic historians and economists should deal with this question, see Sheilagh Ogilvie, '"Whatever Is, Is Right"? Economic Institutions in Pre-industrial Europe', *The Economic History Review* 60, no. 4 (2007), pp. 649–84.

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formal, but equally important, social changes also occurred. The concept of interest gained social currency, and the interest rate became not just tolerated but normative and foundational. In the realm of theology and philosophy, the idea of the emotional and thinking self was enormously developed in works such as John Locke's *Theory of Human Understanding* and Richard Cumberland's *Laws of Nature*. This led to the evolution of the idea of self-control, which came to supplant the institutional mediation of local law courts. All of these factors worked to create a financial system embedded within society, which was firmly in place by the time Adam Smith was writing *The Wealth of Nations*, published in 1776. By this time, the mainland British economy, as well as some American Colonies, was cemented by a system of country banks and the Banks of England and Scotland, all connected by a bill system that moved through London.

This study takes a significantly different approach from those that argue that Britain had better and more 'representative' institutions, which made financial capital more secure. Instead, it argues that it was legal flexibility that permitted local credit markets to be transformed through the use of new forms of savings and currency in an *evolutionary* way. Institutional flexibility was, in fact, more crucial than security. The creation of trust in new forms of capital was the decisive factor, and no new institution created trust on its own. This was a complex process that involved changes in theology, ethics, and politics. As I argued in my monograph *The Economy of Obligation*, the early modern market between 1550 and 1700 was characterised more by trust than competition because of the prevalence of oral contracts. In that study I examined how the nature of such trust affected social organisation and the legalisation of society. What I defined before as a culture of credit was changed into something new and more protean: a culture of capital. During the period studied here, capital certainly changed social relations for many people, even if it was not until the 1820s that the first socialists would focus on it as dangerous to society itself.[7] The crux of the argument in my previous study of credit was that financial credit and social reputation were one and the same thing, and this naturally affected how people dealt with each other and wrote about their society. The use of capital increased gradually and did not change this overnight, and much has been written about how credit and reputation remained important. One

[7] Ali Digby, *Political Economy, the Labour Theory of Value, & the Chartist Movement* (PhD Thesis, Cambridge University, 2017).

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only has to look at the writings of Daniel Defoe to see that this was certainly the case in the early eighteenth century.[8]

But by the late seventeenth century, England had developed a comparatively well-integrated national economy centred on London, which over the course of the eighteenth century would expand to include Scotland, Ireland, and some American Colonies in an Atlantic system. This allowed changes adopted there to become more embedded, and thus to have a more lasting effect. England managed to transform its relatively informal system of credit into one that combined informal flexibility with institutional accountability at a local level. This was done through a process of public debate about the role of money and credit in the economy in the late seventeenth century, and allowed the formation and use of capital to spread beyond merchants and through the whole national economy. At almost the same time, Scotland and a number of American Colonies pursued the same goals but followed a different path within different legal systems. My method here will be to understand how institutional change took place by noting when people came to *collectively* accept that they could trust such practices and therefore they could trust each other using such practices.

The current book also focuses more on local towns and rural society to add to what we know about the middling sort in London. The premise behind this approach is that the practices of a great part of the inhabitants of the society needed to have changed if the argument is to be made that this was a move towards 'capitalism' as a social practice. It uncovers the ways in which credit transactions changed, and when and where these changes happened or did not happen. I have already made the argument that the concept of saving was a crucial lynchpin of Adam Smith's economic morality, and here I show how prevalent the practice was in both England and Scotland before Smith wrote.[9]

Before the rise of abstract financial capital, the type of wealth that held a steady value over time took the form of land. Aristocrats and other elite members of society were *rentiers* in the sense that they had property rights in land. An often-overlooked aspect of Marx's formulation of historical change is that once 'capital' emerges it represents a different and socially less embedded form of rent. But in its early manifestations capital was not as disembodied as it would become in the classic period of the

[8] Julian Hoppit, *Risk and Failure in English Business 1700–1800* (Cambridge, 1987), pp. 162–7.

[9] Craig Muldrew, 'Self-Control and Savings: Adam Smith and the Creation of Modern Capital', in Simon Middleton and James Shaw (eds.), *Market Ethics and Practices, c.1300–1850* (London, 2018), pp. 63–86.

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nineteenth century. Once 'capital' began to be created, then wealth could become abstracted away from the tenants who paid rent or purchasers owing money to tradesmen and merchants, and placed in the matrix of institutions needed to keep the value of a portfolio of stocks, annuities and other government debt, earning interest bonds, mortgages, and circulating bills of hand. This process was sufficiently developed by the nineteenth century for the first wave of radical socialist thinkers in England to begin to talk about the interests of 'capital' against labour and to argue that the value of labour was the ultimate source of saved capital owned by its wealthy possessors. This was followed, of course, by Karl Marx's massive investigation into both the historical and contemporary processes by which capital accumulated in the possession of certain groups, and how this related to social and political power. How social power was altered in the eighteenth century is also part of my investigation.

Since the publication of Thomas Piketty's book *Capital in the Twenty-First Century*, the question that occupied Marx, of how the formation of capital contributes to inequality, has returned to prominence. Piketty focused on the rates of return to financial capital, arguing that a system that provided steady income through a reasonably high interest rate is often more attractive than risky investment in innovation. This leads to increasing inequality over time, as entrepreneurs inevitably become rentiers and use their increasingly accumulating wealth to intervene in politics to protect their interests.[10] This part of the book has been most controversial with economists who point to the continuity of innovation in generating stock market returns. However, in subsequent work Piketty has moved to deal more with the social effects of inequality.[11] But, as an economic history, *Capital in the Twenty-First Century* offered an empirical investigation of changes in the ownership of capital of all sorts over time, and demonstrated how warfare and taxation in the twentieth century acted to erode the wealth of elites and then how governments of many different political views used taxation in the wake of the devastation of the Second World War to achieve an unprecedented degree of redistribution of wealth.[12]

However, this consensus broke down in the 1970s and financial markets were increasingly deregulated, marginal rates of taxation lowered for wealthier taxpayers and businesses, and laws passed to make

[10] Thomas Piketty, *Capital in the Twenty-first Century* (Cambridge, MA, 2014), pp. 52–5, 199–220, 571–2.
[11] Thomas Piketty, *Capital and Ideology* (Cambridge, MA, 2020).
[12] Piketty, *Capital in the Twenty-first Century*, pp. 140–64.

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unions less powerful. Such policies, unsurprisingly, reversed the trend of post-war moves to greater equality, and now in the twenty-first century most western societies are returning to late nineteenth-century rates of inequality. Overwhelmingly it is financial capital that has fuelled this process. While the real wages of workers and the lower- and middle-middle classes have roughly stagnated, the wealth of elites has risen in multiples of ten, twenty, or much more, held in the form of shares. This is the so-called 1 per cent that own most of our societies' non-government wealth. The 2008 financial crisis also demonstrated how much power the managers and beneficiaries of this system of capital production have, when taxpayers bailed out the banks and inequality continued to grow. The economist Joseph Stiglitz has termed this system shareholder capitalism, in which remuneration of elite shareholders has become the primary focus of American companies.[13]

In the early modern period there were certainly large-scale, powerful, and often cavalier owners of capital, such as the Medici family, or large merchants such as Robert Patterson, who earned wealth lending to governments to pay for expensive wars, or by producing cloth or importing expensive commodities such as pepper in the ever-developing global trade after 1495. However, the development of the system of capital formation I will discuss here was initially the idea of radical utopian social reformers of the Hartlieb circle during the period of the English Civil War and Commonwealth. Their primary aim was to alleviate poverty by creating more employment through industrialisation. To do this, they proposed a programme of what modern economists term liquidity creation, much more than capital formation. Basically, they said if the informal credit that existed in England at that time could be turned into paper credit that was as readily transferable as gold and silver coins, then this would allow consumers to purchase more things and for employers to pay more wages, thus kickstarting economic growth. Also, the profits from business or market-oriented farming could be lent out as interest, and then this type of capital could be used to create paper credit. Thus, the early history of capital as it spread away from merchants and government debt was not primarily one of inequality, but rather the formation of new forms of trust that would allow circulating paper instruments to maintain their value beyond only the use of a small elite group of merchants and bankers. Also, most inequality in any early modern society before 1600, apart from major trading

[13] Joseph Stiglitz, *People, Power, and Profits: Progressive Capitalism for an Age of Discontent* (New York, 2020), pp. xiii, 102.

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cities, was primarily the result of the unequal inheritance of land as a result of feudal warfare, not market competition.

Perhaps it is ironic, or simply inevitable, that the incredible success of the Commonwealth radicals would come to be used to create new inequalities and forms of power, but capital still needs good governance and adherence to certain social norms to keep its value in the face of ever-emerging new contingencies such as war, climate change, and resource shortages. Inequality fundamentally weakens the social solidarity needed to achieve this. The question of how and why society, social thought, and politics changed, creating the framework by which a concept like capital could come to exist and make sense, is thus more relevant than ever. Capitalism, as I shall argue here, is in fact not about liberty but about social dependence and prudence, and it still depends on institutions that maintain the value of savings that create capital. As even Milton Friedman has pointed out, the market is a system of mutual interdependence.[14]

The argument of this book will weave together five major themes, those of *institutions*, *ethics*, *beliefs*, *social relations*, and *practice*. Although these themes will always be present in one form or another, the book is organised into almost a sonata form with an introduction, thematic material, a development, a recapitulation, and finally a coda. The first two chapters are the introduction, and then Chapters 3 and 4 the thematic material. Chapters 5 and 6 on ethics are the development, while Chapters 7 and 8 offer a recapitulation of how the themes of institutional change presented in Chapters 3 and 4 affected society. There is finally an extended coda in Chapters 9 and 10 to end. As I've already indicated, the great majority of the deep history of social change will be about England, with Chapter 9 placing these changes in a broader context. The sources used vary widely from receipts in family estate collections, institutional records of towns, banks, and the post office, to pamphlets, philosophical texts, and sermons, but throughout I will rely heavily on ego documents, especially those of John Cannon, to provide evidence of practice. This is vital, since it is one of my major claims that it does not make sense to talk of capitalism until capital was used extensively *in practice*. As the title indicates, it is also very much a history of how the nature of the 'self' evolved in philosophy, theory, and everyday practice in a way that aligned with institutional change to make capital feasible beyond the confines of a wealthy elite group of merchants. The role of wealthier women as investors in state debt in the late seventeenth and eighteenth

[14] Milton Friedman, with the assistance of Rose D. Friedman, *Capitalism and Freedom* (Chicago, 1962), pp. 4–5, 12–13, ch. 1.

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centuries has recently received attention, and I will certainly be considering the role of women as practitioners in this and as users of paper currencies in England.[15] It will also be argued that the development of mortgaging to secure new capital was only possible after legal changes that dealt with the entailments created by women's property rights. But, because of the difficult nature of the records of the English law of real property, the full effect of this change will require much more work than offered here.

I will begin in Chapter 1 with an analysis of how historians of the early modern period have used the concept of capital. Chapter 2 will move on to outlining the history of previous institutions that created forms of capital in Europe, including land, dowries, banks, bills of exchange, and government debt. This part of the book consists largely of an assessment of the existing literature. For those who wish to move directly to the new research, this begins in Chapter 3, but the section on the pamphlet debate over currency in Chapter 2 is important for my reinterpretation of the financial revolution. This section examines the reasons why the system of informal oral credit, as it had developed over the previous 100-odd years, began to be criticised during the Commonwealth period. Many authors claimed that it was both inefficient and an obstacle to economic growth. Many pamphlets were published containing proposals for different sorts of banks, which would issue paper currency to speed up circulation. Some of these were based on previous European examples. The nature of these proposals is examined, together with a summary of how they related to the creation of the Bank of England. Its establishment is normally seen as the successful outcome of this debate, but in fact it was not primarily created as an institution to expand the supply of credit, but to help fund the government debt. The increasing cost of the War of Spanish Succession did, however, result in the issue of things like Exchequer or Treasury Bills, as well as South Sea and Bank stock to fund the war. The last part of the chapter will focus on the significant effect these multiple forms of paper currency had on liquidity within London.

In Chapter 3, I will examine in detail an entirely new source: collections of bundles of loose receipts, notes, and bills in local record offices to demonstrate how older forms of oral credit were augmented by the use of informal local forms of paper currency to add liquidity to local transactions. This is linked to the changing legal status of paper bills and notes. I will also look at the continuing shortage of silver coins and how the

[15] See Chapter 4, fn. 48.

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increasing minting of guineas was used to make the circulation of local notes work by providing enough coins to make notes over one pound in value redeemable for cash amounts. This chapter also uses the evidence provided by the extraordinary *Chronicles* of John Cannon as a sort of micro-history within my argument. This is a 500,000-word set of memoirs, diary entries, and record of his scrivening activities from *c.*1720 to 1742. I examine in detail his diary entries of the bills and notes he wrote for people in his community. His descriptions of how they were accepted and trusted provide an almost unique window into the world of emerging local paper credit. In other chapters I will also use Cannon's memoirs as a sort of running micro-history that, with its huge detail, is able to illuminate much of how local paper instruments and mortgages, for example, worked, and what disputes and emotions they gave rise to. Here I will also examine how the increasing provision of education in mathematics and accounting was necessary for this change to occur.

Finally, there will be a section on the increasing use of inland bills of exchange and their relation to local notes of hand by examining the diary of the mid-eighteenth-century Sussex shopkeeper Thomas Turner, as well as the letters of local tradesmen such as the mercer Joseph Symson of Kendal. This discussion will reinforce the argument made some time ago by Eric Kerridge on the rise of the use of the inland bill. I will use the records of the Royal Mail to show just how developed the national bill market was by the early eighteenth century, as the transfer of such paper instruments was a major part of its growing business.

Chapter 4 focuses on the change in the law known as the equity of redemption, which took form in the late seventeenth century and made the title to mortgaged land more secure through the provision that rents could be sequestered to pay off a loan after the due date, to avoid the title to the property reverting to the lender. This legal change led to a rapid expansion of mortgaging and associated conveyancing. Again, an in-depth study of the *Chronicles* of the scrivener John Cannon will demonstrate the potential scale of capital formation in the early eighteenth century as a result of mortgaging. It also demonstrates how interest-bearing loans, based on the security of property, became a source of both income and, more importantly, stable abstract value that could be used to increase the money supply by underpinning the creation of local notes and bills. Mortgage income could also smooth credit flows by providing capital when outgoings were greater than incomings. In the past this would have triggered the need to litigate to increase incoming income, but now money could be borrowed. This chapter will also examine savings held in the form of bonds.

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Chapter 5 moves from examining institutional changes to the cultural history of morals and emotions by examining how the evolution of the idea of the self came to supplant the institutional mediation of local law courts. It traces how three concepts – self-love, happiness, and interest – were developed and disseminated as religious and interpersonal ethics, all related to the development of the self within the singular mind. I argue that this was a crucial move that allowed the idea and practice of savings to move from taking the form of a debt owed, to the interest-bearing capital described above. It also validated the crucial concept of interest within religion, and this was related to the increasing moral acceptance of the interest rate. Although a legal interest rate had existed from the Elizabethan Act of 1571, interest rates are difficult to find mentioned explicitly in the seventeenth century. By the eighteenth, however, they had become commonplace.

Chapter 6 examines how the theological ideas discussed in Chapter 5 were successfully disseminated throughout English society. To do this, it examines the religious split between the established Church of England and Non-Conformity. The development of the theology of self-love, happiness, and interest is examined in the writings of the enormously influential philosopher and theologian Richard Cumberland. I then discuss how this evolved into Latitudinarianism, and use an examination of printed sermons as they commented on these ethical concepts, as well as on consumption and worldly goods. I also look at how diary writers commented on sermons they heard. The writings of the Anglican ministers Joseph Butler and Josiah Tucker are examined to show how these ideas became directly linked to economic thought. The concurrent development of Non-Conformist theology relating to the same concepts is traced through the writings of John Locke on the mind, and the diary of the student lawyer Dudley Ryder. Here I argue that Locke's idea of the penal self, in which misbehaviour was seen to cause mental pain through feelings of guilt, meant that Non-Conformists placed an extra premium on honest behaviour. The Third Earl of Shaftesbury and his theory of polite sociability is also investigated to show how it provided a less austere means to disseminate Locke's psychology of the mind. Central to this investigation will be the process by which individual selves were able to become comfortable with trusting new institutions by using the concept of interest as a form of commitment.

Chapter 7 moves back to institutions to deal with the general decline in litigation over failed credit, which began around 1690, and argues it came about largely because of changes in credit networks. It demonstrates how attorneys' businesses moved away from litigation to conveyancing, and how they profited by becoming local creditors.

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It also looks at the increasing use of local summary justice in the Courts of Requests in London, Bristol, and Newcastle to enforce the small debts of poor consumers, as well as the growing use of arrest and imprisonment in the common law courts. While the use of paper currency provided greater liquidity in credit markets and reduced the overall level of litigation massively, those debtors who went broke began to be treated in a much harsher fashion.

In Chapter 8 I argue that this eventually began to crystallise into an ideology of middle-class behaviour based on the ability to save and to maintain enough capital to prevent a cash flow crisis that would result in being arrested or imprisoned. This led to a new type of class-based thinking about society that was closely linked to the security that new forms of capital provided to successful savers. Such individuals were those who were able to accumulate large amounts of capital through entrepreneurship or inheritance, and not dissipate it through overspending. This was a small elite group who gradually came to be termed the middle class, to differentiate themselves from the middling sort of smaller traders. Crucially, this new class had capital worth tens of thousands of pounds – enough to be protected from the vicissitudes of supply and demand and business misfortune. The middling sort, on the other hand, continued to be faced with the prospect of insolvency, and were even more vulnerable to imprisonment for debt due to the changes in the law described in Chapter 7. Because of this, the middle class began to think of themselves as being morally better than the middling sort. They also increasingly thought of their capital as a form of property created out of righteousness, and that the role of the law was to protect it from those who were less able. Poverty was also no longer a just reason for not paying back a contracted debt. This was also the beginning of the legal doctrine of 'freedom of contract'.

Chapter 9 will examine the different trajectory that Scotland adopted to the problems it faced in the 1690s. After suffering a terrible famine in the middle of that decade, which England avoided, Scotland's leaders embarked on a plan to create a modern economy. Since Scotland suffered an even more acute shortage of specie than England, but did not need to bankroll foreign wars, it was decided to create the Bank of Scotland as an institution designed primarily to create specie substitute paper currency. This was done successfully by the mid-eighteenth century, when many local private note-issuing banks existed and Scotland was able to support a flourishing new linen industry. In addition to Scotland, many of the British Thirteen Colonies also issued paper currencies to meet demand for money in the face of even more acute specie shortages than Scotland. By doing so they were able to increase their

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consumption of British-produced goods. France also attempted to create a system of paper currency under the influence of the exiled Scot John Law, who had previously written pamphlets arguing for the link between currency, liquidity, and economic growth. However, for the French government the conversion of the huge debts it had built up fighting the War of Spanish Succession into currency was more important, and the result was over-issue, inflation, and collapse.

Finally, Chapter 10 will move to examine how the local issue of notes, wage payments, and the brokerage of bills of exchange over longer distances came together in the form of county banks after 1760. Certain tradesmen and industrialists moved from financing their own businesses to providing finance on a more exclusive basis to their communities in the form of institutions they then decided to call banks. This chapter will show how this took place, and how they became a part of local society. They emerged out of local practice, and did not generally copy London institutions such as Child's or Hoare's banks. It will also examine just how important the payment of industrial wage labour was in the formation of county banking. The chapter will end by placing Adam Smith's advocacy of banking and his discussion of capital in the context of the developments described in this book. It was Smith's contention that the value of labour converted into abstract capital was the wealth of a nation, and here I will look at how he drew on the developments in both England and Scotland. His was a 'capitalism' based on the ethics needed to create the conditions to make capital keep its value.

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