ELEMENTS

OF

POLITICAL ECONOMY

BY

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THE HISTORY OF BRITISH INDIA.

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PREFACE.

There are few things of which I have occasion to advertize the Reader, before he enters upon the perusal of the following Work.

My object has been to compose a school-book of Political Economy; to detach the essential principles of the science from all extraneous topics, to state the propositions clearly and in their logical order, and to subjoin its demonstration to each.

I am myself persuaded, that nothing more is necessary for understanding every part of the book, than to read it with attention—such a degree of attention as persons of either sex, of ordinary understanding, are capable of bestowing.

They who are commencing the study ought to proceed slowly, and to familiarize themselves with the new combinations of ideas as they are successively presented to them. If they proceed to a subsequent proposition before they are sufficiently imbued with the first, they will of course experience a difficulty, only because they have not present to their memory the truth which is calculated to remove it. If they who begin the study of mathematics were to content themselves with merely reading and assenting to the demonstrations, they would soon arrive at doctrines which they would be unable to comprehend, solely because they had not, by frequent repetition, established in their minds those previous propositions, the prompt application of which was required.

In a work of this description I have thought it adviseable not to quote any authorities, because I am anxious that the learner should fix his mind upon the doctrine and its evidence, without any extraneous consideration. I cannot fear an imputation of plagiarism, because I profess to have made no discovery; and those men who have contributed to the progress of the science need no testimony of mine to establish their fame.

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ERRATA.

Page 26, line 15, *for* is, *read* are.
—— 30, — 5 from the bottom, *for* assurance, *read* reliance.
—— 96, — 7 from the bottom, *insert i*.
—— 162, — 3, *for* are immaterial evils, *read* is an immaterial evil.
—— 173, — 19, *for* There, *read* These.
—— 207, — 1, *before* which, *insert* for.
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ELEMENTS

OF

POLITICAL ECONOMY.

INTRODUCTION.

THE SUBJECT—ITS LIMITS—AND DIVISION.

POLITICAL ECONOMY is to the State, what domestic economy is to the family.

The family consumes; and in order to consume, it must be supplied by production.

Domestic economy has, therefore, two grand objects in view; the consumption and supply of the family. The consumption being a quantity always indefinite, for there is no end to the desire of enjoyment, the grand concern is to increase the supply.

Those things which are produced in sufficient abundance for the satisfaction of all, without the intervention of human labour; as air, the light of the sun, and water in most regions of the globe, are not subjects of care or providence; and therefore, accurately speaking, do not form part of the subject of domestic economy. The art of him who manages a family consists in regulating the supply and consumption of those things which cannot be obtained but with cost, in other words, with human labour, "the original purchase-money which is given for every thing."

The same is the case with Political Economy. It also has two grand objects, the Consumption of the Community, and that supply upon which the consumption depends. Those things which are supplied without the intervention of human labour, as nothing is required in order to obtain them, it is not necessary to take into the account. Had all things desired for consumption been found without the intervention of human labour, the Science of Political Economy would not have existed. No science is implied in putting forth the hand, and using. When labour, however, is to be employed, and the objects of desire can be multiplied only by a preconcerted plan of operations, it becomes an object of importance to ascertain by what means they may be produced with greatest ease and in greatest abundance, and upon these discoveries, when made, to frame a system of rules skilfully adapted to the end.

It is not indeed pretended, that writers on Political Economy have always limited their disquisitions to this class of objects. It seems, however, important to detach the science from all considerations not essential to it: I therefore premise, that, in the following pages, I have this alone in view; namely, to ascertain the laws according to which the production and consumption are regulated, of those commodities which the intervention of human labour is necessary to procure.

Though the Science of Political Economy in this manner divides itself into two grand inquiries, that which relates to Production, and that which relates to Consumption—it is evident that, before things are consumed, they require to be distributed. The laws of Distribution, therefore, constitute an intermediate inquiry between that which relates to Production and that which relates to Consumption. When commodities are produced and distributed, it is highly convenient, for the sake both of re-production and consumption, that portions of them should be exchanged for one another. To ascertain, therefore, the laws according to which commodities are exchanged for one another is a second inquiry, preliminary to that which relates to the last great topic of political economy, Consumption.

It thus appears, that four inquiries are comprehended in this science

1st. What are the laws which regulate the production of commodities:

2dly. What are the laws according to which the commodities produced by the labour of the community are distributed:

3dly. What are the laws according to which commodities are exchanged for one another:

4thly. What are the laws which regulate consumption.

CHAPTER I.

PRODUCTION.

The distinction between what is done by labour, and what is done by nature, is very often obscured. A few words, therefore, are necessary to fix the meaning of terms.

Labour produces its desired effects only by conspiring with the laws of nature. There is no commodity, or thing produced for consumption, which labour effects in any other way than by co-operating with the laws of nature.

It is found that the agency of man can be traced to very simple elements. He can, in fact, do nothing more than produce motion. He can move things towards one another, and he can separate them from one another: the properties of matter perform all the rest. He moves ignited iron to a portion of gunpowder, and an explosion takes place. He moves the seed to the ground, and vegetation commences. He separates the plant from the ground, and vegetation ceases. Why, or how, these effects take place, he is ignorant. He has only ascertained, by experience, that if he perform such and such motions, such and such effects will follow. In strictness of speech, it is matter itself which produces the effects. All that men can do is to place the objects of nature in a certain position. The tailor when he makes a coat, the farmer when he produces corn, do the same things exactly. Each makes motions; and the properties of matter do the rest. It would be absurd to ask, to which of any two effects the properties of matter contribute the most; seeing they contribute every thing, after certain portions of matter are placed in a certain position.

Most of the objects which man desires, are the effect, not of one operation, but of a series of operations, requiring the lapse of a certain time. A quantity of food, and of such other things as during that time are used by the men who labour, is necessary for the existence of the labour: not only labour, therefore, but the articles necessary for the maintenance of labour, are requisite to production.

It often happens that labour is employed upon certain materials which are more or less costly to procure. The woollen manufacturer must have his wool; the carpenter must have his wood; the blacksmith his iron; and other producers the raw material, each, of his particular commodity.

Labour may be also very much, in many cases, promoted by the use of certain machines. The man who scratched up the earth with his nails, or with a stick, was very much aided when he obtained the use of a spade; the man who dug with a spade was very much aided when he obtained the use of a plough. The use of instruments has been carried much farther in manufacturing than agricultural operations; from the spindle and distaff, the distance is immense to the vast and operose machinery which fills a modern manufactory.

The food, and other articles consumed by the labourers, the raw material on which they operate, and the instruments of all sorts which are employed in aiding their labours, are denominated capital. The requisites to production, then, are two—Labour and Capital.

It most frequently happens, that the persons who are willing to bestow their labour are poor, and not possessed of so much as even food sufficient to maintain them during the series of operations which are required to complete the commodity on which they are employed. Still more seldom are they possessed of any of the more costly machinery which contributes, on a great scale, to produce the commodities which men desire to consume.

A distribution, accordingly, takes place, of the persons who contribute to production, into two classes: the one, the class of Labourers; the other, the class of Capitalists: the one, the class who bestow the labour; the other, the class who furnish the food, the raw material, and the instruments of all sorts, animate or inanimate, simple or complex, which are employed in producing the effect.

In the employment of labour and machinery, it is often found, that the effects can be increased by skilful distribution, by separating all those operations which have any tendency to impede one another, by bringing together all those operations which can be made in any way to aid one another. & are [illegible]

As men in general cannot perform many different operations with the same quickness and dexterity with which they can by practice learn to perform a few, it is always an advantage to limit as much as possible the number of operations imposed upon each.

For dividing labour, and distributing the powers of men and machinery, to the greatest advantage, it is in most cases necessary to operate upon a large scale; in other words, to produce the commodities in great masses. It is this advantage which gives existence to the great manufactories; a few of which, placed in the most convenient situations, sometimes supply not one country, but many countries, with as much as they desire of the commodity produced.

CHAPTER II.

DISTRIBUTION.

We have already seen that two classes of persons are concerned in production; namely, Labourers and Capitalists. Each of these must have their share of the commodities produced: or, which comes to the same thing, of the benefit derived from them. When the Land is one of the instruments of production, another party comes in for a portion; I mean, the Owners of the Land. And these three form all the classes who immediately share, that is, divide among themselves, the whole of the annual produce of the country.

When the parties are determined among whom the whole of the produce is distributed, it remains to ascertain by what laws the proportions are established according to which the division is made. We shall begin with the explanation of Rent, or the share received by Landlords, as it is the most simple, and will facilitate the explanation of the laws upon which the shares of the Labourers and Capitalists depend.

SECTION I.

RENT.

LAND is of different degrees of fertility. There is a species of land; the elevated or stony parts, for example, of high mountains, loose sand, and certain marshes, which may be said to produce nothing. Between this and the most productive sort, there are lands of all the intermediate degrees of fertility. Lands of the highest fertility do not yield the whole of what they are capable of yielding, with the same facility. A piece of land, for example, may be capable of yielding annually ten quarters of corn, or twice ten, or three times ten. It yields, however, the first ten with a certain quantity of labour, the second ten not without a greater, the third ten with a greater still, and so on; every additional ten requiring to its production a greater cost than the ten which preceded it. This is well known to be the law according to which capital is applicable to the obtaining a greater and greater produce from the same portion of land.

Till the whole of the best land is brought under cultivation, and till it has received the application of a certain quantity of capital, all the capital employed upon the land is employed with an equal return. At a certain point, however, no additional capital can be employed upon the same land without a diminution of return. In any country, therefore, after a certain quantity of corn has been raised, no greater quantity can be raised but at a greater cost. If an additional quantity is raised, the capital employed upon the land may be distinguished into two portions, one producing a higher, another a lower return.

When capital producing a lower return is demanded to the land, it may be applied in either of two ways. It may be applied to new land of the second degree of fertility, then for the first time brought under cultivation; or it may be applied to the land of the first degree of fertility, which has already received all the capital which can be applied without a diminution of return.

Whether capital shall be applied to land of the second degree of fertility, or in a second dose to the land of the first degree of fertility, will depend, in each instance, upon the nature and qualities of the two soils. If the same capital which will produce only eight quarters when applied to the best land, will produce nine quarters when applied to land of the second degree of fertility, it will be applied to that land, and *vice versâ*.

The land of the different degrees of fertility; first, or highest; second, or next highest, and so on, may, for facility of reference, be denominated No. 1, No. 2, No. 3, &c. In like manner, the different doses of capital which may be applied to the same land, one after another, with less and less effect, may be denominated 1st dose, 2d dose, 3d dose, and so on.

So long as land produces nothing, it is not worth appropriating. So long as only a part even of the best land is required for cultivation, all that is uncultivated yields nothing; that is, nothing which has any value. It naturally, therefore, remains unappropriated; and any man may have it, who undertakes to render it productive.

During this time, land, speaking correctly, yields no rent. There is a difference, no doubt, between the land which has been cultivated, and the land which is yet uncleared for cultivation. Rather than clear the fresh land, a man will pay an equivalent, annual or otherwise, for the cost of clearing: and it is evident that he will pay no more. This, therefore, is not a payment for the power of the soil, but simply for the capital bestowed upon the soil. It is not rent, it is interest.

The time, however, comes, at which it is necessary either to have recourse to land of the second quality, or to apply a second dose of capital, less productively, upon land of the first quality.

If a man cultivates land of the second quality, upon which a certain quantity of capital will produce only eight quarters of corn, while the same quantity of capital upon land of the first quality will produce ten quarters; it will make no difference to him, whether he pay two quarters for leave to cultivate the first sort, or cultivate the second without any payment. He will therefore be content to pay two quarters for leave to cultivate the first soil; and that payment constitutes rent.

Let us suppose, again, that instead of cultivating land of the second quality, it is more adviseable to apply a second dose of capital to land of the first quality; and that while the first dose produces ten quarters, the second, of equal amount, will produce only eight quarters: it is equally implied in this, as in the former case, that, it being no longer possible to employ any more capital with so great an effect as the ten supposed quarters, there are persons who are willing to apply it with so little a return as eight. But if there are persons who are willing to apply their capital on the land with so little a return as eight quarters, the owners of the land may make a bargain, by which they will obtain all that is produced above eight. The effect upon rent is thus the same in both cases.

Rent increases, therefore, in proportion as the effect of the capital successively bestowed upon the land decreases. If population has arrived at another stage, when, all the land of second quality being cultivated, it is necessary to have recourse to land of third quality, yielding, instead of eight quarters, only six quarters, it is evident, from the same process of reasoning, that the land of second quality will now yield rent, namely, two quarters; and that land of first quality will yield an augmented rent, namely, two quarters more. The case will be exactly the same if, instead of having recourse to land of less fertility, a second and a third dose of capital, with the same diminution of produce, are bestowed upon land of the first quality.

We may thus obtain a general expression for Rent. In applying capital, either to lands of various degrees of fertility, or in successive doses to the same land, some portions of the capital so employed are attended with a greater produce, some with a less. That which yields the least, yields all that is necessary for re-imbursing and rewarding the capitalist. The capitalist will receive no more than this remuneration for any portion of the capital which he employs, because the competition of others will prevent him. All that is yielded above this remuneration the landlord will be able to appropriate. Rent, therefore, is the difference between the return yielded to that portion of the capital which is employed upon the land with the least effect, and that which is yielded to all the other portions employed upon it with a greater effect.

Taking for illustration the three stages mentioned above, of ten quarters, eight quarters, and six quarters, we perceive that rent is the difference between six quarters and eight quarters for the portion of capital which yields only eight quarters; the difference between six quarters and ten quarters for the portion of capital which yields ten quarters; and if three doses of capital, one yielding ten, and another eight, and another six quarters, are applied to the same portion of land, its rent will be four quarters for dose No. 1, and two quarters for dose No. 2, making together six quarters for the whole.

If these conclusions are well supported, the doctrine of rent is simple, and the consequences, as we shall see hereafter, are exceedingly important. There is but one objection which it seems possible to make to them. It may be said, that after land is appropriated, there is no portion of it which does not pay rent; no owner being disposed to give the use of it for nothing. This objection has, indeed, been raised. And it has been urged, that some rent is paid even for the most barren of the Scottish mountains.

When an objection is taken, it affects the conclusion, either to a material, or to an immaterial extent. Where the matter alleged in objection, even if admitted, would still leave the conclusion substantially, and to all practical purposes, true, the objection must be owing to one of two defects in the mind of the objector; either a confusion of ideas, which prevents him from seeing to how small a degree the matter which he alleges affects the doctrine which he denies; or a disposition to evade the admission of the doctrine, even though nothing solid can be found with which to oppose it.

That the matter alleged in this objection, even if allowed, would leave the conclusion, to all practical purposes, just where it was, can hardly fail to be acknowledged, as soon as the circumstances are disclosed. It cannot be so much as pretended that the rent paid for the barren mountains of Scotland is any thing but a trifle; an evanescent quantity, when we speak of any moderate extent. If it were 20*l.* for a thousand acres, that is, about one penny per acre, this would bear so small a proportion to the cost of cultivation, which would not be less than several pounds per acre, that it would little affect the truth of the conclusion we have endeavoured to establish.

Let us suppose, for the sake of the argument, that the worst species of land under cultivation pays one penny per acre; rent, in that case, would be the difference between the produce arising from different portions of capital, as explained above, with only one correction; namely, that one penny should be computed for each acre of the worst species of land under cultivation. Assuredly, if right in every other respect, we shall not be far wrong in our conclusion, by leaving this penny out of the question. A very slight advantage, in simplifying our language on the subject, would justify us in that omission.

But it is not true that our conclusions stand in need of any such correction, even for metaphysical exactness. There is land, such as the sands of Arabia, which yields nothing. Land is found at all the intermediate stages from this to the highest fertility. Some land, though not absolutely incapable of yielding any thing for the accommodation of man, could not be made to yield what would maintain the labourers required for its cultivation. That is land which can never be cultivated. There is land, the annual produce of which would just maintain the labour necessary for its cultivation, and no more. That is land which is just capable of being cultivated, but obviously incapable of ever paying rent. The objection, therefore, is not only practically immaterial, it is metaphysically unsound.

It may be asserted, that there is no country, of any considerable extent, in which there is not land incapable of yielding rent; that is, incapable of yielding to human labour more than would be necessary for the maintenance of that labour. That such, at least, is the case in this country, seems very unlikely to be disputed. There are parts of its mountains where nothing less tender than heath, others where nothing but moss, can vegetate. When it is asserted that every part of the mountains of Scotland pays rent, the state of the facts is misunderstood. It is only true that there is no tenant of any portion of any man's estate in the highlands of Scotland who does not pay rent. The reason is, because even in the mountains of Scotland there are spots in the valleys, the produce of which is considerable. It does not follow, though hundreds of acres of mountain are added to these valleys, that therefore every part of the mountain yields rent; it is certain that many parts neither do nor can.

Even where the land is not absolutely barren, and where there is still something for the more hardy of the useful animals to pick up, it is not to be allowed that rent is the necessary consequence. It ought to be remembered, that these cattle are capital, and that the land must afford enough not only to make the return for that capital, but to pay for the tendance of the cattle, of which, in such situations, they require, especially in winter, no inconsiderable portion. Unless the land yields all this, and something more, it cannot, it is obvious, yield any rent.

I assert, that in the greater part of this island, there is hardly a farm, of any considerable extent, which does not contain land, some of more, some of less fertility, varying from a high or moderate degree of fertility, down to land which yields not enough to afford any rent. Of course I do not request admission to this affirmation upon my authority; I rest it upon an appeal to the experience of those men who are best acquainted with the circumstances. If the state of the facts corresponds with the affirmation, it follows demonstratively, that the last portion of the land which is placed under cultivation yields no rent. In such farms as those we have now described, the tenant has bargained for a certain sum to the landlord. That sum, of course, was calculated upon the produce of that land which yielded not only the proper return for the capital with which it was cultivated, but something more. As the motive of the tenant to cultivate is wholly constituted by the proper return to his capital, if there is any portion of the barren land included in his farm which will just yield the profit of stock, and no more, though it will not afford any thing for rent, it affords to him the adequate motive for cultivation. It can hardly be denied that in the insensible degrees by which land declines from greater to less fertility, there will, in all considerable farms, be generally found a portion with this particular degree of fertility, and no more. That particular degree of fertility is an adequate motive for its cultivation.

The conclusion, however, may be established by the clearest evidence, without regard to the question, whether all land pays or does not pay rent. On land which pays the highest rent, we have seen that capital applied in successive doses is not attended with equal results. The first dose yields more, possibly much more, than the return for the capital. The second also may yield more, and so on. The rent, if accurately calculated, will be equal to all that is rendered by those several doses, over and above the profits of stock. The cultivator, of course, applies all those several doses of capital on which he has agreed to pay rent. But immediately after them comes another dose, which, though it yields nothing for rent, may fully yield the ordinary profits of stock. It is for the profits of stock, and them alone, that the farmer cultivates. As long, therefore, as capital applied to his farm will yield the ordinary profits of stock, he will apply capital, if he has it. I therefore conclude, with assurance, that in the natural state of things, in every agricultural country, one portion of the capital employed upon the land pays no rent; rent, therefore, consists wholly of that produce which is yielded by the other portions of capital, over and above the return which is due to them.

SECTION II.

WAGES.

Production is performed by labour. Labour, however, receives the raw material which it fashions, and the machinery by which it is aided, from capital; or, more properly speaking, these articles are the capital itself.

The labourer is sometimes the owner of all the capital which his labour requires. The shoemaker or tailor has, sometimes, not only the tools with which he works, but also the leather or cloth upon which his labour is employed. In all cases of that description, the commodity is wholly the property of the man by whose labour it is prepared.

In the greater number of cases, however, especially in the more improved stages of society, the labourer is one person, the owner of the capital another. The labourer has neither raw material nor tools. These requisites are provided for him by the capitalist. For making this provision the capitalist, of course, expects a reward. As the commodity which was produced by the shoemaker, where the capital was his own, belonged wholly to himself, and constituted the whole of his reward both as labourer and capitalist, so, in this case, the commodity belongs to the labourer and capitalist together. When prepared, the commodity, or the value of it, is to be shared between them. The reward to both must be derived from the commodity, and the reward of both makes up the whole of the commodity.

Instead, however, of waiting till the commodity is produced, and abiding all the delay and uncertainties of the market in which the value of it is realized, it has been found to suit much better the convenience of the labourers to receive their share in advance. The shape under which it has been found most convenient for all parties that they should receive it, is that of wages. When the share of the commodity which belongs to the labourer has been all received in the shape of wages, the commodity itself belongs to the capitalist, he having, in reality, bought the share of the labourer and paid for it in advance.

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1. *That the rate of wages depends on the proportion between Population, and Employment, in other words, Capital.*

We come now to the question as to what determines the share of the labourer, or the proportion in which the commodity, or commodity's worth, is divided between him and the capitalist. Whatever the share of the labourer, such is the rate of wages; and, *vice* *versâ*, whatever the rate of wages, such is the share of the commodity, or commodity's worth, which the labourer receives.

It is very evident, that the share of the two parties is the subject of a bargain between them; and if there is a bargain, it is not difficult to see on what the terms of the bargain must depend. All bargains, when left in freedom, are determined by competition, and the terms alter according to the state of supply and demand.

Let us begin by supposing that there is any number of capitalists with a certain quantity of food, raw material, and instruments, or machinery; that there is also a certain number of labourers; and that the proportion, in which the commodities produced is divided between them, has fixed itself at some particular point.

Let us next suppose that the labourers have increased in number one half, without any increase in the quantity of capital. There is the same quantity of the requisites for the employment of labour; that is, of food, tools, and material, as there was before; but for every 100 labourers there are now 150. There will be 50 men, therefore, in danger of being left out of employment. To prevent their being left out of employment they have but one resource; they must endeavour to supplant those who have forestalled the employment; that is, they must offer to work for a smaller reward. Wages, therefore, decline.

If we suppose, on the other hand, that the quantity of capital has increased, while the number of labourers remains the same, the effect will be reversed. The capitalists have a greater quantity than before of the means of employment; of capital, in short, from which they wish to derive advantage. To derive this advantage they must have more labourers than before. These labourers are all employed with other masters: to obtain them they also have but one resource—to offer higher wages. But the masters by whom the labourers are now employed are in the same predicament, and will of course offer higher to induce them to remain. This competition is unavoidable, and the necessary effect of it is a rise of wages.

It thus appears, that if population increases, without an increase of capital, wages fall; and that if capital increases, without an increase of population, wages rise. It is evident, also, that if both increase, but one faster than the other, the effect will be the same as if the one had not increased at all, and the other had made an increase equal to the difference. Suppose, for example, that population has increased one-eighth, and capital one-eighth; this is the same thing as if they had stood still, with regard to the effect upon labour. But suppose that, in addition to the above-mentioned one-eighth, population had increased another eighth, the effect, in that case, upon wages would be the same as if capital had not increased at all, and population had increased one-eighth.

Universally, then, we may affirm, other things remaining the same, that if the ratio which capital and population bear to one another remains the same, wages will remain the same; if the ratio which capital bears to population increases, wages will rise; if the ratio which population bears to capital increases, wages will fall.

From this law, clearly understood, it is easy to trace the circumstances which, in any country, determine the condition of the great body of the people. If that condition is easy and comfortable, all that is necessary to keep it so, is to make capital increase as fast as population; or, on the other hand, to prevent population from increasing faster than capital. If that condition is not easy and comfortable, it can only be made so by one of two methods; either by quickening the rate at which capital increases, or retarding the rate at which population increases; augmenting, in short, the ratio which the means of employing the people bear to the number of people.

If it were the natural tendency of capital to increase faster than population, there would be no difficulty in preserving a prosperous condition of the people. If, on the other hand, it were the natural tendency of population to increase faster than capital, the difficulty would be very great. There would be a perpetual tendency in wages to fall. The fall of wages would produce a greater and a greater degree of poverty among the people, attended with its inevitable consequences, misery and vice. As poverty, and its consequent misery, increased, mortality would also increase. Of a numerous family born, a certain number only would, from want of the means of well-being, be reared. By whatever proportion the population tended to increase faster than capital, such a proportion of those who were born would die: the ratio of increase in capital and population would thence remain the same, and wages would cease to fall.

That population has a tendency to increase faster, than capital has, in most places, actually increased, is proved, incontestably, by the condition of the population in almost all parts of the globe. In almost all countries the condition of the great body of the people is poor and miserable. This is an impossibility, if capital had increased faster than population. In that case wages, of necessity, would have risen, and would have placed the labourer in a state of affluence, far above the miseries of want.

This general misery of mankind is a fact which can be accounted for upon one only of two supposititions: either that there is a natural tendency in population to increase faster than capital, or that capital has, by some means, been prevented from increasing so fast as it has a tendency to increase. This, therefore, is an inquiry of the highest importance.

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2. *Proof of the tendency of Population to increase rapidly.*

The natural tendency of population to increase is to be collected from two sets of circumstances; the physiological constitution of the female of the human species, and the statements respecting the rate of procreation in different countries.

The facts respecting the physiological constitution of the human female are well ascertained, and are indubitable grounds of conclusion. The statements respecting the rate of procreation in different countries will be found to be, either suppositions with respect to matters of fact, upon the conformity of which suppositions to any real matters of fact we can have no assurance; or statements of facts, of such a nature, as prove nothing with regard to the points in dispute.

That the rate of increase in the numbers of mankind depends upon the constitution of the female, will not be disputed. The facts, which are fully ascertained in regard to the female of the human species, with the additions which the sciences of physiology and comparative anatomy enable that knowledge to derive from the analogy of other animals whose anatomy and physiology resemble those of the human species, afford the means of very satisfactory conclusions on this subject.

The females of those species of animals whose period and mode of gestation are similar to those of the female of our own species, and which bring forth one at a birth, are capable, when placed in the most favourable circumstances, of a birth every year, from the time when the power of producing begins till the time when it ends, omitting one year now and then, which, at the most, amounts to a very small proportion on the whole.

The suckling of the infant, in the case of the female of the human species, if continued more than three months, has a tendency to postpone the epoch of conception beyond the period of a year. This, it is to be observed, is the only physiological peculiarity which authorizes an inference of any difference in the frequency of the births in the case of the female of the human species, and that of those other species to which we have referred.

To reason correctly, we should make an allowance for that peculiarity. Let such ample allowance be made as will include all interruptions; let us say that one birth in two years is natural to the female of the human species. In Europe, to which we may at present confine our observations, the period of child-bearing in women extends, from sixteen or seventeen, to forty-five, years of age. Let us make still more allowance, and say it extends only from twenty to forty years of age. In that period, at the great allowance of two years to one birth, there is time for ten births, which may be regarded as not more than the number natural to the female of the human species.

Under favourable circumstances, the mortality among children is very small. Mortality among the children of very poor people is unavoidable, from want of necessary means of health. Among the children of people in easy circumstances, who know and practise the rules for the preservation of health, the mortality is small; and there can be no doubt, that, under more skilful modes of managing the food, and clothing, and air, and exercise, and education of children, even this mortality would be greatly diminished.

We may conclude, therefore, that in the most favourable circumstances, ten births are the measure of fecundity in the female of the human species; and that, of the children born, a small proportion would die before the age of maturity. For occasional instances of barrenness, and for this small degree of mortality, let us make much more than the necessary allowance, a deduction of one-half, and say, that every human pair, united at an early age, commanding a full supply of every thing necessary for physical welfare, exempt from the necessity of oppressive labour, and sufficiently skilled to make the best use of their circumstances for preventing disease and mortality among themselves and their children, will, one with another, rear five children. If this is the case, it is needless to exhibit an accurate calculation, to show that population would double itself in some moderate portion of years. It is evident, at once, that it would double itself in a small number of years.

To meet a conclusion so well established as this, recourse has been had to certain tables respecting population, and respecting births and deaths, in various countries. The reasoning from these tables avoids the point in dispute. I know no tables which exhibit any thing, even if we give them, what they never deserve, credit for exactness, except the mere fact with regard to the state of increase. They show, or pretend to show, whether a certain population is increasing or not increasing; and, if increasing, at what rate. But if it appeared from such tables, that the population of every country in the world were stationary, no man, capable of reasoning, would infer, that the human race is incapable of increasing. Every body knows, that in the greater number of countries, the population is stationary, or nearly so. But what does this prove, so long as we are not informed by what causes it is prevented from increasing? We know well that there are two causes by which it may be prevented from increasing, how great soever its natural tendency to increase. The one is poverty; under which, let the number born be what it may, all but a certain number undergo a premature destruction. The other cause is prudence; by which, either marriages are sparingly contracted, or care is taken that children, beyond a certain number, shall not be the fruit. It is useless to inform us that there is little or no increase of population in certain countries, if we receive not, at the same time, accurate information of the degree in which poverty, or prudence, or other causes, operate to prevent it.

That population, therefore, has such a tendency to increase as would enable it to double itself in a small number of years, is a proposition resting on the strongest evidence, which nothing that deserves the name of evidence has been brought on the other side to oppose.

3. *Proof that Capital has a less tendency than Population to increase rapidly.*

We come next to consider the tendency which capital may have to increase. If that should increase as fast as population, for every labourer produced, the means of employment and subsistence would also be produced, and no degradation of the great body of the people would ensue.

As soon as it is understood from what source all increase of capital must be derived, the opinion of its rapid increase can no longer be retained. All increase of capital is derived from savings. This is a proposition which excludes all exception. The evidence too is so clear, as hardly to require a statement. All capital is, of course, the result of production; it is a part of the annual produce of the land and labour of the country, gradually accumulated. But if any part of the annual produce is set apart to be employed as capital, the owner must abstain from consuming it. What is destroyed cannot be capital. All capital, therefore, is made out of that part of the annual produce which, instead of being devoted to consumption and enjoyment, is saved.

Now, though it is found, that, where property is secure, there is a considerable disposition in mankind to save; sufficient, where vast sources of consumption are not opened by the government, and where the difficulties of production are not very great, to make capital progressive; this disposition is still so weak, in almost all the situations in which human beings have ever been placed, as to make the progression slow.

That the same will continue to be the case, appears to be secured by the strongest principles of human nature.

The annual produce is always distributed in such a manner, that, either the great body of the people are liberally provided with what is necessary for subsistence and enjoyment, when of course a smaller portion goes to swell the incomes of the rich; or, the great body of the people are reduced to mere necessaries, and there is naturally a class of people whose incomes are large. To one or other of these two cases, the state of every community approximates. Let us search for the motives to saving in both.

1. In the case in which there is a class reduced to necessaries, and a class of rich, it is evident that the first have not the means of saving. The consideration of their motives, therefore, is needless. It is well known, however, that a class of rich men, in the middle of a class of poor, are not apt to save. The possession of a large fortune generally whets the appetite for immediate enjoyment. And the man who is already in possession of a fortune yielding him all the enjoyments which fortune can command, has a feeble inducement to save. Why should he deprive himself of present enjoyment, to accumulate that of which the use to him is so insignificant? Even that command over the sentiments of others, the only thing which riches beyond a moderate com-

pass ever give, is, at a certain elevation of fortune, yielded in sufficient quantity, if not to satisfy the minds of most men, at least to render the desire of accumulation a motive insufficient to counteract the powerful demand of immediate indulgence. In such a state of the social order, any rapid increase of capital may be regarded as morally impossible.

2. We are next to consider the state of the social order in which a large share of the annual produce is distributed among the great body of the people. In that situation neither the class which labours, nor that which is maintained without labouring, has any forcible motives to save.

When a man possesses, what we are now supposing possessed by the great body of the people, food, clothing, lodging, and all other things sufficient not only for comfortable, but pleasurable existence, he possesses the means of all the substantial enjoyments of human life. The rest is in a great measure fancy. The pleasures which can be added to those of which he is thus in possession are comparatively neither numerous nor strong. That any considerable proportion of mankind, with all the temptations of instant enjoyment, will forego, to any considerable degree, the most substantial pleasures, in order to accumulate the means of a few fanciful pleasures at a distant period, our experience of the laws of human nature forbids us to suppose. There are two sets of men, one in whom the reasoning power is strong, and who are able to resist a present pleasure for a greater one hereafter; another set in whom it is weak, and who can seldom resist the charm of immediate enjoyment. Of course, it is not in the latter class that the motive to save can be expected to prevail. The class, on the other hand, in whom reason is sufficiently strong to form a due estimate of pleasures, cannot fail to perceive that those which they can obtain by adding penny to penny, after all the rational desires are satisfied, are not equal to the pleasures which, in the circumstances we have supposed, they must relinquish to obtain them. Both the higher and the lower principles of our nature are in such circumstances opposed to accumulation; it cannot, therefore, take place. Even the love of ease, one of the most powerful of all the principles by which we are actuated, is here the steady foe of accumulation; because if any man is willing to dispense with the use of a certain portion of the good things which he may command by the fruits of his labour, he may to that extent dispense with labour, and indulge himself in all the luxury of ease. Command over the sentiments of other men by the possession of riches, it is unnecessary to mention; because all that can be obtained of it by the accumulations of the labourer, cannot constitute a prospect sufficiently brilliant to operate as a powerful incentive.

So far as to the strength of the motive which in the supposed circumstances can operate upon the labouring class. What remains of the annual produce, after the share of that class is deducted, is either distributed in large portions among a small number of very rich men, or among a large number of men of moderate fortunes.

We have already examined the state of the motives to accumulate when fortunes are large; and have found that it never can be such as to produce very considerable effects. We have now to examine the state of the motives to accumulate, in a society, in which there is a great number of moderate fortunes, without the prevalence of large. In the way of physical enjoyment, these fortunes yield every thing which the largest fortunes can bestow. There are only two motives, therefore, which in this situation can counteract the strong tendency to immediate enjoyment: either the desire of a command over the sentiments of mankind; or the wish to make a provision for children.

The classes of men in such a state of society are two: men of easy, but moderate fortunes; and a well paid body of labourers and artisans.

The first class, with fortunes equal to all the purposes of independence, of physical enjoyment, even of taste and elegance, who constitute the governing portion of society, and give the tone to its sentiments and amusements, are not in the situation of men whose imaginations are apt to be dazzled by the glare of superior riches, and likely to pay to their owners any remarkable devotion. The labouring classes are cringing and servile, where the frown of the rich man is terrible, and his little favours important. When placed in circumstances which give them completely the feeling of independence, and allow them opportunity for the cultivation of their minds, they are little affected by the glare of riches. This, therefore, is a state of society in which the possession of extraordinary wealth gives little command over the sentiments of others, and cannot constitute a powerful motive for saving.

With respect to the provision for children, if a man feels no great desire to make a larger than the ordinary moderate fortune for himself, he feels as little desire at the least to make it for his children. The provision which he desires to make for them can only, therefore, be such as to place them in the same situation which is held by himself. He will be anxious to afford to them the same means for beginning life advantageously, as were afforded, or would have been desirable, to himself. To this extent the desire of making a provision for children might be expected to be very general, and it would ensure a certain moderate increase of capital. This may therefore be considered, as perhaps the most favourable state of society for accumulation; with the exception of those cases in which people, with all the knowledge and power of civilized life, are transported into a country uninhabited, or nearly so, and have the power of cultivating without limit the most productive species of land. These are coincidences so extraordinary and so rare, that, in tracing the general laws of human society, it is only necessary to show that they are not forgotten.

Such are the moderate effects which can be expected to flow from the motives to accumulation: but the proof that it is the tendency of population to increase faster than capital does not depend upon this foundation, strong as it is. The tendency of population to increase, whatever it may be, greater or less, is at any rate an equable tendency. At what rate soever it has increased at any one time, it may be expected to increase at an equal rate, if placed in equally favourable circumstances, at any other time. The case with capital is the reverse. As capital continues to accumulate, the difficulty of increasing it becomes gradually greater and greater, till finally increase becomes impracticable. The evidence of this proposition results immediately from the law, as already explained, under which capital is employed upon the land.

Whether, after land of superior quality has been exhausted, capital is applied to new land of inferior quality, or in successive doses with diminished returns upon the same land, the produce of it is continually diminishing in proportion to its increase. If the return to capital is, however, continually decreasing, the annual fund from which savings are made is continually diminishing. The difficulty of making savings is thus continually augmented, and at last they must totally cease.

It thus sufficiently appears that there is a tendency in population to increase faster than capital. If this be established, it is of no consequence to the present purpose to inquire about the rapidity of the increase. How slow soever the increase of population, provided that of capital is still slower, wages will be reduced so low that a portion of the population will regularly die from the consequences of want. Neither can this dreadful consequence be otherwise averted than by finding means to prevent the increase of capital from falling short of that of population.

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4. *That forcible means employed to make capital increase faster than its natural tendency would not produce desirable effects.*

There are two modes in which artificial means may be employed to make population and capital keep pace together: expedients may be sought, either to diminish the tendency of population to increase;

or to accelerate beyond its natural pace the increase of capital.

The principal means by which legislatures have it in their power to alter the course of human actions, is by rewards and punishments. Neither is very applicable to the purpose of counteracting the tendency in the human species to multiply. Suppose a law were proposed for annexing penalties to the father and mother of a child, the circumstances of whom were inadequate to its maintenance, it would not be easy to find a mode of punishing which would be equal to the effect, without producing almost as much uneasiness in society as that which it would propose to remedy: neither would it be very possible to ascertain and define the state of circumstances which is, and that which is not, adequate to the maintenance of one, or two, or any other number of children. To apply rewards to the case of not having any children, in such a manner as to operate usefully upon the principle of population, would be still more difficult.

Legislation, in cases ill adapted to its direct, can sometimes produce considerable effects by its indirect operation; as when a desire which gratifies itself in a hurtful course of action, and cannot easily be counteracted by reward and punishment, is called to gratify itself in a less hurtful or an innocent direction. If legislatures have taken measures, as they very often have done, sometimes by direct, more frequently by indirect means, to stimulate the principle of population, such mischievous legislation may be corrected.

The powerful agency of the popular sanction might in this, as in other cases, be turned to great account; if an intense degree of disapprobation were directed upon the men who, by their folly, involved themselves, through a great family, in poverty and dependence,—of approbation upon those who, by their self command, preserved themselves from this misery and degradation.

The result to be aimed at is, to secure to the great body of the people all the happiness which is capable of being derived from the matrimonial union, preventing the evils which the too rapid increase of their numbers would entail. The progress of legislation, the improvement of the education of the people, and the decay of superstition, will, in time, it may be hoped, accomplish the difficult task of reconciling these important objects.

Such are the modes in which legislation can weaken the tendency in population to increase. It remains to inquire by what means it can strengthen the tendency in capital to increase. These are, also, direct and indirect. As the legislature, if skilful, has great power over the tastes of the community, it may contribute to render frugality fashionable, and expense disgraceful. The legislature may also produce that distribution of property which experience shows to be the most favourable to saving; but we have seen, that, even in this situation, the motive to saving produces no considerable effects. Sumptuary laws have been adopted in several countries. In this way the legislature has operated directly to increase the amount of savings. It would not, however, be easy to contrive sumptuary laws, the effect of which would be very considerable, without a minute and vexatious interference with the ordinary business of life.

There is certainly one course by which the legislature might produce considerable effects upon the accumulation of capital; because it might lay hold of any portion which it pleased of the net produce of the year, and convert it into capital. We have only, therefore, to inquire in what manner this could be performed, and what effects it would produce.

The mode of taking whatever portion it might find expedient, is obvious and simple. An income tax, of the proper amount, would effectually answer the purpose.

The legislature might employ the capital thus forcibly created in one or other of two ways: it might lend it to be employed by others; or it might retain the employment in its own hands.

The simplest mode, perhaps, would be, to lend it to those manufacturers and capitalists who might apply for it, and could give security for the repayment. The interest of what was thus laid out in one year might be employed as capital the next. Every annual portion would thus make compound interest, and, so long as interest remained pretty high, would double itself in a small number of years. If wages appeared likely to fall, a higher income tax would be required. If wages rose higher than seemed to be necessary for the most desirable condition of the labourer, the income tax might be reduced.

Without waiting to inquire whether a machinery capable of producing these effects be or be not practicable, we may proceed to another consideration, which seems calculated to decide the merits of the scheme.

According to the progress above supposed, the increase of population would be rapid. The progress would also be rapid, in the necessity of applying capital to land of a worse and worse quality, or in doses attended with a less and less return.

In proportion as capital is attended with less and less of annual return, the owners of capital have less and less income. In process of time, the income from capital would be so diminished that none but the owners of large masses of capital would derive from it the means of existence. This is the extreme state of things to which the operation of the scheme, supposing it not impracticable, certainly tends.

It remains to inquire how far these effects are to be considered as good.

We suppose that the wages of labour remain the same. All who are not subsisted by the wages of labour, live either upon the produce of stock, or upon the rent of land. The course of things, in the case supposed, tends, we have seen, to the poverty of those who live upon the produce of stock: it increases, however, the rent of land. With the exception of the owners of land, all the rest of the community would be labourers, and capitalists almost equally poor. As often as land were offered to sale, a great amount of capital would of course be given for it; nobody, therefore, would be able to buy more than a very limited portion.

In this state of things, sales of land would either be frequent, or they would be rare. It is necessary to consider what would be the effects in either case.

If sales went on, it being the nature of land, as of other property, to change hands continually, the whole land would be divided, at last, into very small portions; covered by a dense population, no portion of whom would be in circumstances much better than those of the labourer. Is this, in itself, a desirable state of things? Is it either followed or preceded by a desirable state of things?

When any of those accidents occur by which the annual produce is for one year, or a few years, reduced considerably below the usual standard, in a country in which a considerable proportion of the people have better incomes than those who live upon wages, considerable savings may be made from their expenditure, to mitigate the effects of the deficiency. In a country in which all were reduced to the state of wages, any considerable diminution of the usual supply would diffuse general, irremediable calamity.

All the blessings which flow from that grand and distinguishing attribute of our nature, its progressiveness, the power of advancing continually from one degree of knowledge, one degree of command over the means of happiness, to another, seem, in a great measure, to depend upon the existence of a class of men who have their time at command; that is, who are rich enough to be freed from all solicitude with respect to the means of living in a certain state of enjoyment. It is by this class of men that knowledge is cultivated and enlarged; it is also by this class of men that it is diffused; it is this class of men whose children receive the best education, and who are prepared for all the higher and more delicate functions of society—as legislators, judges, administrators, teachers, inventors in all the arts, and superintendents in all the more important works, by which the dominion of the human species is extended over the powers of nature.

It is also, in a peculiar manner, the business of those whose object it is to ascertain the means of raising human happiness to its greatest height, to consider, what is that class of men by whom the greatest happiness is enjoyed. It will not probably be disputed, that they who are raised above solicitude for the means of subsistence and respectability, without being exposed to the vices and follies of great riches, the men of middling fortunes, the men to whom society is generally indebted for its greatest improvements, are, indeed, the men, who, having their time at their own disposal, freed from the necessity of manual labour, subject to no man's authority, and engaged in the most delightful occupations, obtain, as a class, the greatest sum of human enjoyment. For the happiness, therefore, as well as the ornament of our nature, it is peculiarly desirable that a class of this description should form as large a proportion of each community as possible. For this purpose it is absolutely necessary that population should not, by a forced accumulation of capital, be made to go on, till the return to capital from the land is very small. To enable a considerable portion of the community to enjoy the advantages of leisure, the return to capital must evidently be large. There is a certain density of population which is convenient, both for social intercourse, and for that combination of powers by which the produce of labour is increased. When these advantages, however, are attained, there seems little reason to wish that population should proceed any further. If it does, instead of increasing the net revenue derived from the land and labour of the country, or that portion of the annual produce which exceeds what is necessary for replacing the capital consumed, and maintaining the labourers, it lessens that important fund on the largeness of which the happiness of society to so great a degree depends.

It appears, therefore, by strong evidence, that the state of society in which the increase of population has reduced the whole, or nearly the whole, of the community, to the state of those who live even upon liberal wages, is not, in itself, a desirable state.

The evidence which proves this to be a state of things unfavourable to human happiness, proves also, that the state which precedes it is unfavourable. It is evident, that whatever be the disadvantages adhering to the state of things in which the income of all, except the receivers of rent, is reduced to the level of wages, the disadvantages of the state which immediately precedes it are, with a slight diminution, the same.

What state of things succeeds to that in which an income not above the rate of liberal wages is with a slight exception the lot of all, is the third and last of the questions involved in this part of the inquiry. If the forcible mode of accumulation, by means of the income tax, is carried beyond that boundary, there is immediately a diminution of the income of those who live upon the profits of stock below the rate of liberal wages, followed by all the miseries which such a state of poverty implies: If the forcible accumulation of capital is abandoned, either the rate of births must be diminished, or population increases beyond capital, wages fall, and all the evils of insufficient wages fall upon the labouring class.

This analysis has been long and tedious. It thence, however, appears, that human happiness cannot be secured by taking forcible methods to make capital increase as fast as population. On the other hand, it has been seen, that if births take place, more numerous than are required to uphold a population corresponding to the state of capital, human happiness is immediately impaired. The grand practical problem, therefore, is, to find the means of limiting the number of births. It has also appeared, that, beyond a certain state of density in the population, such as to afford in perfection the benefits of social intercourse and of combined labour, it is not desirable that population should increase. The precise problem, therefore, is, to find the means of limiting births to that number which is necessary to keep up the population, without increasing it. Were that accomplished, while the return to capital from the land was yet high, the reward of the labourer would be ample, and a large surplus would still remain. If the natural laws of distribution were allowed to operate freely, the greater part of this net produce would find its way, in moderate portions, into the hands of a numerous class of persons exempt from the necessity of labour, and placed in the most favourable circumstances both for the enjoyment of happiness, and for the highest intellectual and moral attainments. Society would thus be seen in its happiest state.

We have yet to mention, that government, instead of lending, may itself employ the capital which it forcibly creates. It is evident, however, that whether government employs this capital, or lends it to be employed by others, all the effects, which we have traced as arising necessarily from its increase, will be the same. The best mode, perhaps, which could be invented for employing, by government itself, a portion of the annual produce, forcibly taken from the owners, to accelerate the growth of capital, would be that which has been so earnestly pressed upon the public attention by Mr. Owen, of New Lanark. Mr. Owen proposes, that the portion of the annual produce thus converted into capital should be employed by government in making certain establishments; each of a mixed nature, partly for agricultural, partly for manufacturing industry; in erecting the houses, in providing the instruments or machinery, the previous subsistence, and raw materials which might be required. In these establishments, Mr. Owen is of opinion that labour might be employed under great advantages, and with unexampled means of felicity to the individuals employed. Mr. Owen, however, must intend one of two things;—either that population should go on, or that it should stop. If it is to go on, capital of course holding pace with it, all the evils which would as above result from the forcible increase of capital when lent by government, would result from its forcible increase when employed in those establishments. If Mr. Owen means that population should not go on, and if expedients can be employed to limit sufficiently the number of births, there is no occasion for these establishments, still less for the forcible and painful abduction of a part of their income from the people. The limitation of the number of births, by raising wages, will accomplish every thing which we desire, without trouble and without interference. The limitation of the numbers, if that object can be attained, may be carried so far as not only to raise the condition of the labourer to any state of comfort and enjoyment which may be desired, but to prevent entirely the accumulation of capital.

SECTION III.

PROFITS.

WHEN it is established that the whole of the annual produce is distributed as rent, wages of labour, and profits of stock; and when it is ascertained what regulates the portion which goes to rent, and what the portion which goes to wages, the question is also determined with regard to profits of stock; for it is evident that all which remains is included under that denomination.

From what has been already explained with regard to rent, it appears that it is something altogether extraneous to what may be considered as the return to the productive operations of capital and labour. As soon as it is necessary to apply capital to land of an inferior quality, or in a further dose with inferior return, all that is yielded more than this inferior return, is as if it did not exist, with respect to the capitalist and labourer. Whatever is yielded beyond this lowest return either on particular spots of ground, or to particular portions of capital, might be annihilated, the moment it is produced, without affecting the portion which goes to either of those two classes. As soon as a new portion of capital has to be employed with inferior return, it is the same thing as if the productive powers of all the capital employed upon the land were reduced to the same standard; that there were no difference in the return made from one portion of land, or to one portion of capital, and another; but that a quantity of produce, equal to the additional return which used to be made to the former portions of capital, were, by miracle, rained down from heaven upon the possessors of the land which yielded it. The portion which goes in the shape of rent to the landlord, and is over and above that return which is made to the whole of the capital and labour employed upon the land, is, in fact, the result of an accident. Suppose that all the land cultivated in the country were of one uniform quality, and yielded the same return to every portion of the capital employed upon it, with the exception of one acre: that acre, we shall suppose, yields six times as much as any other acre. What, in this case, would be produced upon all the other acres, might justly be regarded as the return made to the labour and capital employed upon the land; and the whole of that return. The additional five-sixths, accruing from the singular acre, would not be considered as return made to labour and capital; it would be considered as the accidental product of a particular virtue in that particular spot. But what is true of this single acre is equally true of any number of acres, as soon as that event occurs which diminishes the return to any portion of capital, and induces all the owners of capital to limit their own receipts from their capital to the measure of that diminished return.

It thus fully appears, that all which can be considered as the produce of the joint operations of capital and labour upon the land, is the return to that portion of capital which is applied without paying any rent, and which measures the quantity of the produce, allowed to remain, after the rent is deducted, as the return to all the other portions of labour and capital employed upon the land. All, therefore, which can be considered as the real product of labour and capital remains to be shared between the labourer and capitalist, after the rent is withdrawn. It follows that, in considering what regulates wages and profits, rent may be left altogether out of the question. Rent is the effect, and not the cause, of the diminished produce which the capitalists and labourers have to divide between them.

When any thing is to be divided wholly between two parties, that which regulates the share of one, regulates also, it is very evident, the share of the other; for whatever is withheld from the one, the other receives; whatever, therefore, increases the share of the one diminishes that of the other, and *vice versâ*. We might, therefore, with equal propriety, it should seem, affirm that wages determine profits, or that profits determine wages; and, in framing our language, assume whichever we pleased, as the regulator or standard.

As we have seen, however, that the proportion of the shares between the capitalist and labourer depends upon the relative abundance of population and capital, and that population, as compared with capital, has a tendency to superabound, the active principle of change is on the side of population, and constitutes a reason for considering population, and consequently wages, as the regulator.

Wherefore, as the profits of stock depend upon the share which is received by its owners of the joint produce of labour and stock, profits of stock depend upon wages—rise as wages fall, and fall as wages rise.

It may be said, however, that profits of stock depend not solely upon the share received of that which is divided, but also upon the magnitude of the whole that is to be divided: that profits, therefore, depend upon two things; upon the share which goes to the capitalist of the joint produce of capital and labour, and also upon the magnitude of the return which is made to labour and capital.

To speak clearly on this point, we must remove an ambiguity which adheres to the word profits. Profits may mean the quantity of commodities—the number of quarters of corn, or yards of cloth, which the capitalist receives, as the return for a certain quantity of food, raw materials, and tools employed: or the term profits may, as it most commonly does, refer not to the commodities themselves, but their relative values. In this latter sense it is that we use the term when we speak of the *rate* of profits; or when we say that profits are so much per cent. When we say that profits are so much per cent, we only mean to say that the value of that share of the produce which comes to the capitalist, bears a certain ratio to the value of all the commodities employed, as capital, in effecting the production. When we say, for example, that profits are ten per cent, we say that the share of the produce which comes to the capitalist would exchange for one-tenth of all the commodities employed, as capital, in the production of it.

Now, there can be no doubt, if we employ the term profits in the first sense—as denoting merely the quantity of commodities, that the same quantity of food, for example, and of implements of husbandry, employed as capital, will yield a greater number of quarters of corn, for any particular share of the produce, whether it be one-half, or one-third, or any other share which comes to the capitalist, when the return to capital from the land is great, than when it is small. In this sense, therefore, of the term profits, profits do depend upon two things; upon the quantity of return, as well as the state of wages. If, however, we use the term in the usual sense—to denote the ratio of values, it may be shown that profits, in that sense, depend wholly upon wages.

When the same quantity of labour and capital is employed upon two commodities, they will exchange for one another; in other words, the exchangeable value of the one is equal to that of the other. This is the same proposition as saying, that when two commodities have been produced at the same cost, they will exchange for one another. What is the reason that the half of a commodity is equal in value to the other half, but that an equal quantity of labour and capital was required to produce it? *

The value of commodities, therefore, is determined by the quantity of capital and labour necessary to produce them. If the same quantity of capital and labour, which previously produced a certain quantity of a particular commodity, becomes, by means of some discovery, capable of producing double the former quantity, the whole of the enlarged quantity is of no more value than the small quantity had been before; the value of each ounce, or yard, sinking one half. In like manner, when the case is reversed, as in land, and

* It has been found necessary here to anticipate a little what is contained in the chapter where the causes which regulate the exchangeable value of commodities are explained at length. The reader is referred to that chapter for fuller satisfaction.

the same quantity of labour and capital yields a diminished quantity of produce, the value of the diminished quantity remains as great as that of the larger quantity had been before. But if the value of that which is divided as wages of labour and profits of stock remains the same, it is obvious and certain, that the proportion of that value which goes as profits of stock depends wholly upon that which goes as wages. The rate of profits, therefore, or the ratio which the value of that which is received by the capitalist bears to the value of the capital, depends wholly upon wages.

The diminution of the return which is made to capital employed upon the land, by the necessity of having recourse to less fertile land, or successive doses of capital upon the same land, diminishes the return which is made to capital in manufacturing, and all other species of industry.

We have seen that the diminution of the return to capital employed upon the land is inevitable; but what is the rate of profits in any one employment must be the rate of profits in all employments. No one would continue to employ his capital in agriculture, if, by withdrawing it to another occupation, he could obtain greater advantages. All other profits, therefore, must sink to the level of agricultural profits. The steps by which this effect is produced remain to be explained.

When the demand arrives for such an additional quantity of corn as can only be produced by recourse to inferior lands, or fresh doses of capital on the same land with inferior returns, the cultivators, of course, demur to employ their capital less productively than before; the demand for corn, therefore, increases, without a proportional increase of supply. The exchangeable value of corn, by consequence, rises; and when it has risen to a certain height, the cultivator can obtain as high profits by raising it under the necessity of a diminished produce, as are obtained by any other owners of stock.

By this process his profits are not kept up to their former level, but all other profits are brought down to that to which he has been reduced. By the rise in the value of corn, the cost of maintaining labour is increased. A certain quantity of the necessaries of life must be consumed by the labourer, whether they cost little or much. When they cost more than they did before, his labour costs more than it did before; though the quantity of commodities which he consumes may remain precisely the same. His wages, therefore, must be considered as rising, though his real reward may not be increased.

By this change, in the cost of producing and in the value of corn, all the owners of capital are constrained to give higher wages to their labourers.

Their profits, therefore, as we have just seen, are reduced. The farmer, also, is obliged, and for the same reason, to give higher wages. Of the produce of the labour and capital which he employs, he is obliged to give a greater share to his labourers; his profits, therefore, are reduced, in the same manner, and to the same degree, as those of other capitalists. The price of his commodity has risen; but that is only so far as to compensate for the peculiar disadvantage under which he has fallen. The quantity of produce which his capital returns is diminished. The quantity of produce which is returned to the capital of others is not diminished. The value of his commodity rises so far as to compensate for this diminished return which is peculiar to himself. But that diminution of profits which arises from increase of wages he has to share in common with all. There is no increase of value to compensate for that enhancement of expense.

It thus appears, that in proportion as population increases, and as capital is forced upon land of less and less fertility, the profits of stock are gradually and incessantly reduced.

CHAPTER III.

INTERCHANGE.

SECTION I.

NATURE OF THE ADVANTAGE DERIVED FROM THE INTERCHANGE OF COMMODITIES, AND THE PRINCIPAL AGENTS EMPLOYED IN IT.

When two men have more than they need, one, for example, of food, another of cloth, while the first desires more of cloth than he possesses, the second more of food; it will be a great accommodation to both, if they can perform an exchange of a part of the food of the one for a part of the cloth of the other; and so in other cases.

In performing exchanges there are two sets of persons, the intervention of whom is of great advantage: the first are Carriers, the second Merchants.

When the division and distribution of labour has been carried to any considerable extent, goods are produced at some, often at a very considerable distance, from the place where they are wanted for consumption. It is necessary that they should be conveyed from the one place to the other. Carriers are of two sorts: Carriers by Land, and Carriers by Water. For the business of carriage, both capital and labour are required. In land carriage, the waggons or carts, the horses or other cattle, and the maintenance both of them and of the necessary number of men;—in carriage by water, the ships, and the maintenance of the men who navigate them, constitute the capital required.

In procuring articles, as men have occasion to consume them, it would be very inconvenient to repair, in each instance, to the several manufacturers and producers of each, who may often live at a very considerable distance one from another. A great deal of trouble is saved to consumers, when they find assembled in one place the whole, or any considerable proportion, of the articles which they use. This convenience gives rise to the class of merchants, who buy from the manufacturers, and keep ready for use, all those articles for which they expect a profitable demand.

In small towns, where one or a few merchants can supply the wants of all the population, the shop or store of one merchant contains articles of all, or most of the kinds in general demand. In places where the population is large, instead of a great number of shops, each dealing in almost all kinds of articles, it is found more convenient to divide the articles into classes, and each shop to confine itself to a particular class; one, for example, to hats, another to hosiery; one to glass, another to iron; and so on.

SECTION II.

WHAT DETERMINES THE QUANTITY IN WHICH COMMODITIES EXCHANGE FOR ONE ANOTHER.

When a certain quantity of one commodity is exchanged for a certain quantity of another commodity; a certain quantity of cloth, for example, for a certain quantity of corn; there is something which determines the owner of the cloth to accept for it such and such a quantity of corn; and, in like manner, the owner of the corn to accept such and such a quantity of cloth.

This is, evidently, the principle of demand and supply, in the first instance. If a great quantity of corn comes to market to be exchanged for cloth, and only a small quantity of cloth to be exchanged for corn, a great quantity of corn will be given for a small quantity of cloth. If the quantity of cloth, which thus comes to market, is increased, without any increase in the quantity of corn, the quantity of corn which is exchanged for a given quantity of cloth will be proportionally diminished.

This answer, however, does not resolve the whole of the question. If the quantity in which commodities exchange for one another depends upon the proportion of supply to demand, it is evidently necessary to ascertain upon what that proportion depends.

Demand creates, and the loss of demand annihilates, supply. When an increased demand arises for any commodity, an increase of supply, if the supply is capable of increase, follows, as a regular effect. If the demand for any commodity altogether ceases, the commodity is no longer produced.

The connexion, here, of causes and effects, is easily explained. If corn is brought to market, the cost of bringing it has been so much. If cloth is brought to market, the cost of bringing it has been so much. For the benefit of simplicity, the number of commodities in the market are here supposed to be two: it is of no consequence, with regard to the result, whether they are understood to be few or many.

The cost of bringing the corn to market has been either equal to that of bringing the cloth, or unequal. If it has been equal, there is no motive, to those who bring the cloth or the corn, for altering the quantity of either. They cannot obtain more of the commodity which they receive in exchange, by transferring their labour to its production. If the cost has been unequal, there immediately arises a motive for altering the proportions. Suppose that the cost of bringing the whole of the corn has been greater than that of bringing the whole of the cloth; and that the whole of the one is exchanged against the whole of the other, either at once, or in parts: the persons who brought the cloth have in that case possessed themselves of a quantity of corn at less cost, than that at which it was brought to market, by those who produced it; those, on the other hand, who brought the corn have possessed themselves of a quantity of cloth, at a greater cost than that at which it can be made and brought to market.

Here motives arise, to diminish the quantity of corn, and increase the quantity of cloth; because the men who have been producing corn, and purchasing cloth, can obtain more cloth, by transferring their means of production from the one to the other. As soon, again, as no more cloth can be obtained by applying the same amount of means to the production of cloth, than by applying them to corn, and exchanging it for cloth, all motive to alter the quantity of the one as compared with that of the other ceases. Nothing is to be gained by producing corn rather than cloth, or cloth rather than corn. The cost of production on both sides is equal.

It thus appears that the relative value of commodities, or, in other words, the quantity of one which exchanges for a given quantity of another, depends upon demand and supply, in the first instance; but upon cost of production, ultimately; and hence, in accurate language, upon cost of production, entirely. An increase or diminution of demand or supply, may temporarily increase or diminish, beyond the point of productive cost, the quantity of one commodity which exchanges for a given quantity of another; but the law of competition, wherever it is not obstructed, tends invariably to bring it to that point, and to keep it there.

Cost of production, then, regulates the exchangeable value of commodities. But cost of production is itself involved in some obscurity. It is probable that different ideas are very often included under that term by different persons.

Two instruments are commonly combined in production; Labour and Capital. The labourer is the owner of the one. The person who furnishes the instruments and materials for the labourer, is the owner of the other.

It is evident, therefore, either that cost of production consists in labour and capital combined; or that one of these may be resolved into the other. If one of them can be resolved into the other, it follows that cost of production does not consist in both combined.

The opinion, which is suggested by first appearances, undoubtedly is, that cost of production consists in capital alone. The capitalist pays the wages of his labourer, buys the raw material, and expects that what he has expended shall be returned to him, in the price, with the ordinary profits upon the whole of the capital employed. From this view of the subject, it would appear, that cost of production consists exclusively in the portion of capital expended, together with the profits upon the whole of the capital employed in effecting the production.

It is easy, however, to see, that in the term capital, thus understood, an ambiguity, and hence a fallacy, is involved. When we say that capital and labour, the two instruments of production, belong to two classes of persons; we mean that the labourers have contributed so much to the production, and the capitalists so much; and that the commodity, when produced, belongs, in certain proportions, to both. It may so happen, however, that one of these parties has purchased the share of the other, before the production is completed. In that case, the whole of the commodity belongs to the party who has purchased the share of the other. In point of fact, it does happen, that the capitalist, as often as he employs labourers, by the payment of wages, purchases the share of the labourers. When the labourers receive wages for their labour, without waiting to be paid by a share of the commodity produced, it is evident that they sell their title to that share. The capitalist is then the owner, not of the capital only, but of the labour also. If what is paid as wages is included, as it commonly is, in the term capital, it is absurd to talk of labour separately from capital. The word capital, as thus employed, includes labour and capital both. To say, therefore, that the exchangeable value of commodities is determined by capital, understood in this sense, is to say that it is determined by labour and capital combined. This, however, is returning to the point from which we set out. It is nugatory to include labour in the definition of the word capital, and then to say that capital, without labour, determines exchangeable values. If capital is understood in a sense which does not include the purchase money of labour, and hence the labour itself, it is obvious that capital does not regulate the exchangeable value of commodities.

If labour were the sole instrument of production, and capital not required, the produce of one day's labour in one commodity would exchange against the produce of one day's labour in another commodity. In the rude state of society, if the hunter and the fisherman desired to vary their food, the one by a portion of game, the other by a portion of fish, the average quantity which they took in a day would form the standard of exchange. If it did not, one of the two would be placed in a more unfavourable situation than his neighbour, with perfect power, which he would of course employ, to pass from the one situation to the other.

In estimating equal quantities of labour, an allowance would, of course, be included for different degrees of hardness and skill. If the products of each of two days' labour of equal hardness and skill exchanged for one another, the product of a day's labour, which was either harder, or required a greater degree of skill, would exchange for something more.

All capital consists really in commodities. The capital of the farmer is not the money which he may be worth, because that he cannot apply to production. His capital consists in his implements and stock.

As all capital consists in commodities, it follows, of course, that the first capital must have been the result of pure labour. The first commodities could not be made by any commodities existing before them.

But if the first commodities, and of course the first capital, were the result of pure labour, the value of this capital, the quantity of other commodities for which it would exchange, must have been estimated by labour. This is an immediate consequence of the proposition which we have just established, that where labour was the sole instrument of production, exchangeable value was determined by the quantity of labour which the production of the commodity required.

If this be established, it is a necessary consequence, that the exchangeable value of all commodities is determined by quantity of labour.

The first capital, as has just been seen, being the result of pure labour, bears a value in proportion to that labour. This capital concurs in production. And it is contended that as soon as capital concurs in production, the value of the commodity produced is determined by the value of the capital. But the value of that capital itself, we have just allowed, is determined by labour. To say, therefore, that the value of a product is determined by the value of the capital, is of no use, when you have to go beyond the value of the capital, and ask what it is by which that value is itself determined. To say that the value of the product is determined by the value of the capital, but the value of the capital is determined by the quantity of labour, is to say that the value of the product is determined by the quantity of labour.

It thus undeniably appears, that not only the value of the first capital, but, by equal necessity, that of the commodities which are produced by the first capital, is determined by quantity of labour. Capital in the second stage must consist in the commodities which are produced by that in the first stage. It must, therefore, be estimated by the quantity of labour. The same reasoning applies to it in every subsequent stage. The value of the first capital was measured by quantity of labour: the value of that which was produced by the first capital was valued by the value of the first: that, however, was valued by labour: the last, therefore, is valued by labour; and so on, without end, as often as successive productions may be supposed to be made. But if the value of all capital must be determined by labour, it follows, upon all suppositions, that the value of all commodities must be determined by labour.

To say, indeed, that the value of commodities depends upon capital, as the final standard, implies one of the most obvious of all absurdities. Capital is commodities. If the value of commodities, then, depends upon the value of capital, it depends upon the value of commodities; the value of commodities depends upon itself. This is not to point out a standard of value. It is to make an attempt for that purpose clearly and completely abortive.

It thus appears, by the clearest evidence, that quantity of labour, in the last resort, determines the proportion in which commodities exchange for one another.

SECTION III.

EFFECT UPON EXCHANGEABLE VALUES OF A FLUCTUATION IN WAGES AND PROFITS.

In stating that commodities are produced by two instruments, Labour and Capital, of which the last is the result of labour, we, in effect, mean, that commodities are produced by two quantities of labour, differently circumstanced; the one, *immediate* labour, that which is applied at once by the hand of the labourer; the other, *hoarded* labour, that which has been the result of former labour, and either is applied in aid of the immediate labour, or is the subject-matter upon which it is bestowed.

Of these two species of labour, two things are to be observed: First, that they are not always paid according to the same rate; that is, the payment of the one does not rise when that of the other rises, or fall when that of the other falls: And, secondly, that they do not always contribute to the production of all commodities in equal proportions.

If there were any two species of labour, the wages of which did not rise and fall in the same proportion, and which, contributing to the production of all commodities, did not contribute to them all in equal degrees, this circumstance, of their not contributing in equal degrees, would create a difference in exchangeable values, as often as any fluctuation took place in the rate of wages.

If all commodities were produced by a portion of skilled, and a portion of unskilled labour, but the ratio which these portions bore to one another were different in the case of different commodities; and if, as often as the wages of skilled labour rose, the wages of unskilled labour rose twice as much; it is very obvious, that, upon a rise of wages, those commodities, to the production of which a greater proportion of unskilled labour was applied, would rise in value as compared with those to which a less proportion was applied. It is evident, however, that though this difference in the ratios according to which the wages of two kinds of labour were changed, and the different proportions in which they were applied in the production of different commodities, would, upon a rise or fall in wages, alter the relative value of the commodities, it would do so, without in the least degree affecting the truth of the previous proposition, that quantity of labour determined exchangeable values.

The case is precisely the same when we consider that it is the two species of labour, called *immediate* and *hoarded*, which are applied in different proportions.

Three cases will conveniently exemplify the different degrees in which labour and capital contribute to production. These are the two extreme cases, and the medium. The first is that of commodities which are produced by immediate labour alone without capital; the second, that of commodities produced, one half by capital, one half by immediate labour; the third, that of commodities produced by capital alone without immediate labour. There are perhaps no species of commodities which perfectly coincide with either of the extremes. There are species, however, which approximate to both; and when the most simple cases are illustrated, as examples, allowance can easily and correctly be made for the differences of the rest.

If two species of labour are employed in the production of commodities; and if, when the payment of the one species of labour rises, that of the other falls; a commodity, in the production of which a greater portion of the first species of labour is employed, will, upon a rise in the payment of that species of labour, rise in exchangeable value, as compared with a commodity in which less is employed. The degree, however, in which it will rise, will depend upon two circumstances: first, upon the degree in which the payment of the one species of labour falls when the other rises; and, secondly, upon the degree in which the proportion of the labour of the first kind, employed in its production, exceeds the proportion of it which is employed in the production of the other commodity.

The first question, then, is, in what degree, when wages rise, do profits fall? And this is the only general question; for the degree in which the two species of labour combine in the production of different commodities, depends upon the circumstances of each particular case.

If all commodities corresponded with the first of the cases, assumed above as examples, and which we may, for the sake of abbreviation, designate by the terms No. 1, No. 2, and No. 3; in other words, if all commodities were produced wholly by labour, and capital were solely employed in the payment of wages, in that case, just as much as wages of labour rose, profits of stock would fall.

Suppose a capital of 1000*l.* to be thus employed, and profits to be 10 per cent., the value of the commodity would be 1100*l.*, for that would replace the capital with its profits. The commodity may be regarded as consisting of 1100 parts, of which 1000 would belong to the labourers, and 100 to the capitalist. Let wages, upon this, be supposed to rise 5 per cent.; in that case, it is evident, that instead of 100 parts of the 1100, the capitalist would receive only 50; his profits, therefore, instead of 10, would be only 5 per cent. Instead of 1000*l*., he would have to pay 1050*l*. in wages. The commodity would not rise in value to indemnify him, because we have supposed that all commodities are in the same situation; it would, therefore, be of the value of 1100*l*., as before, of which 50*l*. alone would remain for himself.

If all commodities corresponded with the case No. 2, profits would fall only half as much as wages rose. If we suppose that 1000*l*. were paid in wages, and 1000*l*. employed in fixed capital; that profits, as before, were 10 per cent., and this the whole expenditure; the value of the commodity would be 1200*l*. because that is the sum which would replace the capital expended and pay the profits of the whole. In this case the commodity might be considered as divided into 1200 parts, of which 200 would belong to the capitalist. If wages rose 5 per cent., and instead of 1000*l*. as wages, he paid 1050*l*., he would still retain 150*l*. as profits; in other words, he would sustain a reduction of only 2½ per cent.

The case would be precisely the same, if we supposed the 1000*l*. of capital, which is not employed in the payment of wages, to be employed, in any proportion, in the shape of circulating capital consumed in the course of the productive process, and requiring to be replaced. Thus, while 1000*l*. were employed in the payment of wages, 500*l*. might be employed as fixed capital in durable machinery, 500*l*. in raw material, and other expenses. If this were the state of the expenditure, the value of the article would be 1700*l.*; being the amount of the capital to be replaced, and 10 per cent. profits upon the whole. Of these 1700 parts, 1000 would be the share of the labourers, though paid in advance, and 700 the share of the capitalist, 200 being profits. If, now, wages were to rise 5 per cent., 1050 of the above 1700 parts would be the share of the labourers, and 650 only would remain to the capitalist, of which, after replacing his 500*l.* of circulating capital, 150 would remain as profits; a reduction of 2½ per cent. as before.

If all commodities corresponded with the third case, as no wages would be paid, profits could not be affected by the rise of them: and it is obvious, that, in proportion as commodities may be supposed to approach that extreme, profits would be less and less affected by such a rise.

If we suppose, what is most probable, that, in the actual state of things, as many cases are on the one side of the medium as on the other, the result would be, in consequence of the mutual compensations that would take place, that profits would be reduced exactly half as much as wages rose.

The steps may be traced as follows:

When wages rise, and profits fall, it is evident that all commodities made with a less proportion of labour to capital, will fall in value, as compared with those which are made with a greater. Thus, if No. 1 is taken as the standard, that in which commodities are produced wholly by labour; all commodities belonging to that case will be said to remain of the same value; all belonging to any of the other cases will be said to fall in value. If No. 2 is taken as the standard, all commodities appertaining to that case will be said to remain of the same value; all belonging to any case nearer the first extreme, will be said to rise in value; all to any nearer the last extreme, to fall.

Those capitalists, who produce articles of case No. 1, have sustained an additional cost of 5 per cent.; but they exchange their commodity against other commodities. If they exchange them against those of case No. 2, where the capitalists have sustained an additional cost of only 2½ per cent., they will receive 2½ per cent. additional quantity. Thus, in obtaining goods produced under the circumstances of case No. 2, they obtain a certain degree of compensation, and sustain, by the rise of wages, a disadvantage of only 2½ per cent. In this exchange, however, the result, with respect to the capitalists who produce goods under the circumstances of case No. 2, is reversed. They have already sustained a disadvantage of 2½ per cent., in the production of their goods, and are made to sustain another disadvantage of 2½ per cent. in obtaining, by exchange, the goods produced under the circumstances of case No. 1.

The result, then, upon the whole, is, that all producers, who possess themselves, either by production or exchange, of goods produced under the circumstances of case No. 2, sustain a disadvantage of $2\frac{1}{2}$ per cent.; those who possess themselves of goods in cases approaching the first extreme, sustain a greater; those in cases approaching the last, a less disadvantage; that, if the cases on the one side are equal to those on the other, a loss of $2\frac{1}{2}$ per cent. is sustained upon the whole; that this, accordingly, is the extent to which, in practice, it may be supposed that profits are reduced.

From these elements it is easy to compute the effect of a rise of wages upon price. All commodities are compared with money, or the precious metals. If money be supposed to correspond with case No. 2, or to be produced, which is probably not far from the fact, by equal proportions of labour and capital, then all commodities produced under these medium circumstances are not altered in price by a rise of wages: those commodities which approach nearer the first extreme, or admit a greater proportion of labour than capital in their formation, rise in price: those which approach the second, that is, have a greater portion of capital than labour, fall: and upon the aggregate of commodities, or all taken together, there is neither fall nor rise.

SECTION IV.

OCCASIONS ON WHICH IT IS THE INTEREST OF NATIONS TO EXCHANGE COMMODITIES WITH ONE ANOTHER.

WE have already seen, that the benefits derived from the division and skilful distribution of labour, form part of the motives which give rise to the exchange of commodities. No men will confine themselves to the production of one only of the various articles needed for the well-being of the individual, unless they can, by its means, provide themselves with others.

There is another circumstance which very obviously affords a motive to exchange. Some commodities can only be produced in particular places. Metals, coals, and various other commodities of the greatest importance, are the product of particular spots. The same is the case with certain vegetable productions, to which every soil and climate are not adapted. Some commodities, though not confined to particular spots, can yet be more conveniently and cheaply produced in some places than in others; commodities, for example, which require a great consumption of fuel, in a coal country; commodities, the manufacture of which requires a strong motive power, where a sufficient fall of water can be obtained; commodities which require an extraordinary proportion of manual labour, where provisions, and consequently labour, are cheap.

These are all obvious causes. There is another cause which requires rather more explanation. If two countries can both of them produce two commodities, corn, for example, and cloth, but not both commodities with the same comparative facility, the two countries will find their advantage in confining themselves, each to one of the commodities, and bartering for the other. If one of the countries can produce one of the commodities with peculiar advantages, and the other the other with peculiar advantages, the motive is immediately apparent, which should induce each to confine itself to the commodity which it has peculiar advantages for producing. But the motive may no less decidedly exist, where one of the two countries has facilities superior to the other in producing both commodities.

By superior facilities, we mean the power of producing the same effect with less labour. The conclusion, too, will be the same, whether we suppose the labour to be more or less highly paid. Suppose that Poland, for example, can produce corn and cloth with less labour than England, it will not follow that it may not be the interest of Poland to import one of the commodities from England. If the degree in which it can produce with less labour, is the same in both cases; if, for example, the same quantity of corn and cloth which Poland can produce, each with 100 days' labour, requires each 150 days' labour in England, Poland will have no motive to import either from England. But if, while the same quantity of cloth which, in Poland, is produced with 100 days' labour, can be produced in England with 150 days' labour, the facts are such, that the corn which is produced in Poland with 100 days' labour, requires 200 days' labour in England; in that case, it will be the interest of Poland to import her cloth from England. The evidence of these propositions may thus be traced.

If the cloth and the corn, each of which required 100 days' labour in Poland, required each 150 days' labour in England, it would follow, that the cloth of 150 days' labour in England, if sent to Poland, would be equal to the cloth of 100 days' labour in Poland: if exchanged for corn, therefore, it would exchange for the corn of only 100 days' labour. But the corn of 100 days' labour in Poland was supposed to be the same quantity with that of 150 days' labour in England. With 150 days' labour in cloth, therefore, England would only get as much corn in Poland as she could raise with 150 days' labour at home; and she would, on importing it, have the cost of carriage besides. In these circumstances no exchange would take place.

If, on the other hand, while the cloth produced with 100 days' labour in Poland was produced with 150 days' labour in England, the corn which was produced in Poland with 100 days' labour could not be produced in England with less than 200 days' labour; an adequate motive to exchange would immediately arise. With a quantity of cloth which England produced with 150 days' labour, she would be able to purchase as much corn in Poland as was there produced with 100 days' labour; but the quantity, which was there produced with 100 days' labour, would be as great as the quantity produced in England with 200 days' labour. England, therefore, would obtain her corn with less labour, through the medium of her cloth.

Poland would profit in the same manner. A quantity of corn which cost her 100 days' labour, being equal to the quantity produced in England by 200 days' labour, would purchase, in England, the produce of 200 days' labour in any other commodity; for example, in cloth. But the produce of 150 days' labour in England in the article of cloth, is equal to the produce of 100 days' labour in Poland. If, with the produce of 100 days' labour, she can purchase, not the produce of 150, but the produce of 200, she gains to the amount of 50 days' labour; in other words, a third.

To produce exchange, there must be two countries and two commodities.

When both countries can produce both commodities, it is not greater absolute, but greater relative, facility, that induces one of them to confine itself to the production of one of the commodities, and to import the other.

When a country can either import a commodity, or produce it at home, it compares the cost of producing at home with the cost of procuring from abroad; if the latter cost is less than the first, it imports.

The cost at which a country can import from abroad depends, not upon the cost at which the foreign country produces the commodity, but what the commodity costs which it sends in exchange, compared with the cost which it must be at to produce the commodity in question, if it did not import it.

If a quarter of corn is produced in England with 50 days' labour, it may be equally her interest to import corn from Poland, whether it requires, in Poland, 50 days' labour, or 60, or 40, or any other number, to produce a quarter. Her only consideration is, whether the quantity of cloth with which she can import a quarter costs her less than 50 days' labour.

Thus, if labour in Poland produce corn and cloth, in the ratio of eight yards to one quarter; but, in England, in the ratio of ten yards to one quarter, exchange will take place.

Generally, then, when labour produces one of two commodities in a greater ratio to the other in one than in another of two countries, it is the interest of both to exchange.

SECTION V.

THE COMMODITIES IMPORTED ARE THE CAUSE OF THE BENEFITS DERIVED FROM A FOREIGN TRADE.

FROM what is stated in the preceding chapter, one general, or rather universal, proposition may be deduced. The benefit which is derived from exchanging one commodity for another, arises, in all cases, from the commodity *received*, not from the commodity given. When one country exchanges, in other words, when one country traffics with another, the whole of its advantage consists in the commodities *imported*. It benefits by the importation, and by nothing else.

This seems to be so very nearly a self-evident proposition, as to be hardly capable of being rendered more clear by illustration; and yet it is so little in harmony with current and vulgar opinions, that it may not be easy, by any illustration, to gain it admission into certain minds.

When a man possesses a certain commodity, he cannot benefit himself by giving it away. It seems to be implied, therefore, in the very fact of his parting with it for another commodity, that he is benefited by what he receives. His own commodity he might have kept, if it had been valued by him more than that for which he exchanges it. The fact of his choosing to have the other commodity rather than his own, is a proof that the other is to him more valuable than his own.

The corresponding facts are evidence equally conclusive in the case of nations. When one nation exchanges a part of its commodities for a part of the commodities of another nation, the nation can gain nothing by parting with its commodities; all the gain must consist in what it receives. If it be objected, that its gain consists in receiving money, it will presently appear, from the doctrine of money, that a nation derives no advantage, but the contrary, from possessing more than its due proportion of the precious metals.

In importing commodities which the country itself is competent to produce, as in the case, supposed above, of trade with Poland, we saw that England would import her corn from Poland, if she thus obtained with the produce of 150 days' labour in cloth, as much corn as it would have required 200 days' labour to produce in England. If it had so happened, that she could procure in Poland with the cloth, only as much corn as she could produce with the same quantity of labour at home, she would have had no advantage in the transaction. Her advantage would arise, not from what she would export, but wholly from what she would import.

The case in which a country imports commodities which she herself is incompetent to produce, is of still more simple investigation. That country, or, more properly speaking, the people of that country, have certain commodities of their own, but these they are willing to give for certain commodities of other countries. They prefer having these other commodities. They are benefited, therefore, not by what they give away; that would be absurd; but by what they receive.

SECTION VI.

A PARTICULAR COMMODITY, AS A MEDIUM, CONVENIENT FOR THE BUSINESS OF EXCHANGE.

IN exchanging commodities for one another directly or in the way of barter, the wants of individuals could not be easily supplied. If a man had only sheep to dispose of, and wanted bread or a coat, he might find himself subject to either of two difficulties; first, the man possessing the article which he wished to obtain, might be unwilling to accept of a sheep; or, secondly, the sheep might be of more value than the article which he wished to obtain, and could not be divided.

To obviate these difficulties, it would be fortunate if a commodity could be found which every man who had goods to dispose of, would be willing to receive, and which could be divided into such quantities as would adapt themselves to the value of the article which he wished to obtain. In this case, the man who had the sheep, and wanted bread or a coat, instead of offering his sheep to obtain them, would exchange it, first, for the equivalent quantity of this other commodity, and with that he would purchase the bread and other things for which he had occasion.

This, then, is the true idea of a medium of exchange. It is some one commodity, which, in order to effect an exchange between two other commodities, is first received in exchange for the one, and is then given in exchange for the other.

Certain metals, gold, for example, and silver, were found to unite, in a superior degree, all the qualities desired in a medium of exchange. They were commodities which every man who had goods to dispose of, was willing to receive for them in exchange. They could be divided into such portions as suited any quantity of other commodities which the purchaser desired to obtain. They possessed the further recommendation, by including a great value in a small bulk, of being very portable. They were also very indestructible; and less than almost any other commodities liable to fluctuations of value. From these causes, gold and silver have formed the principal medium of exchange in all parts of the globe.

The precious metals were liable to be mixed with baser metals in a manner in which it was not easy to detect; and thus a less value was apt to be received than that which was understood to be so. It was also found inconvenient in practice to perform the act of weighing every time that a purchase was to be made. An obvious expedient was calculated to remedy both inconveniences. Metal might be prepared of a fixed and determined fineness; it might be divided into portions adapted to all sorts of purchases; and a stamp might be put upon it, denoting both its weight and its fineness. It is obvious, that the putting of this stamp could only be entrusted to an authority in which the people had confidence. The business has generally been undertaken by governments, and kept exclusively in their own hands. The business of putting the precious metals in the most convenient shape, for serving as the medium of exchange, has been denominated coining; and the pieces into which they are divided have obtained the appellation of money.

SECTION VII.

WHAT REGULATES THE VALUE OF MONEY.

By value of money, is here to be understood the proportion in which it exchanges for other commodities, or the quantity of it which exchanges for a certain quantity of other things.

It is not difficult to perceive, that it is the total quantity of the money in any country, which determines what portion of that quantity shall exchange for a certain portion of the goods or commodities of that country.

If we suppose that all the goods of the country are on one side, all the money on the other, and that they are exchanged at once against one another, it is obvious that one-tenth, or one-hundredth, or any other part of the goods, will exchange against one-tenth, or any part of the whole of the money; and that this tenth, &c. will be a great quantity or small, exactly in proportion as the whole quantity of the money in the country is great or small. If this were the state of the facts, therefore, it is evident that the value of money would depend wholly upon the quantity of it.

It will appear that the case is precisely the same in the actual state of the facts. The whole of the goods of a country are not exchanged at once against the whole of the money; the goods are exchanged in portions, often in very small portions, and at different times, during the course of the whole year. The same piece of money which is paid in one exchange to-day, may be paid in another exchange to-morrow. Some of the pieces will be employed in a great many exchanges, some in very few, and some, which happen to be hoarded, in none at all. There will, amid all these varieties, be a certain average number of exchanges, the same which, if all the pieces had performed an equal number, would have been performed by each; that average we may suppose to be any number we please; say, for example, ten. If each of the pieces of the money in the country perform ten purchases, that is exactly the same thing as if all the pieces were multiplied by ten, and performed only one purchase each. The value of all the goods in the country is equal to ten times the value of all the money; as each piece of the money is equal in value to that which it exchanges for, and as t performs ten different exchanges in a year.

If the quantity of money, instead of performing ten exchanges in the year, were ten times as great, and performed only one exchange in the year, it is evident that whatever addition were made to the whole quantity, would produce a proportional diminution of value, in each of the minor quantities taken separately. As the quantity of goods, against which the money is all exchanged at once, is supposed to be the same, the value of all the money is no more, after the quantity is augmented, than before it was augmented. If it is supposed to be augmented one-tenth, the value of every part, that of an ounce for example, must be diminished one-tenth. Suppose the whole quantity 1,000,000 ounces, and augmented by one-tenth; whatever the loss of value to the whole must be communicated proportionally to every part; but what one-tenth of a million is to a million, one-tenth of an ounce is to an ounce.

If the whole of the money is only one-tenth of the above supposed sum, and performs ten purchases in the year, it of course exchanges each time against one-tenth of the goods. But if the tenth which exchanges against a tenth is increased in any proportion, it is the same thing as if the whole which exchanges against the whole were increased in that proportion. In whatever degree, therefore, the quantity of money is increased or diminished, other things remaining the same, in that same proportion, the value of the whole, and of every part, is reciprocally diminished or increased. This, it is evident, is a proposition universally true. Whenever the value of money has either risen or fallen, (the quantity of goods against which it is exchanged and the rapidity of circulation remaining the same,) the change must be owing to a corresponding diminution or increase of the quantity; and can be owing to nothing else. If the quantity of goods diminish, while the quantity of money remains the same, it is the same thing as if the quantity of money had been increased; and if the quantity of goods be increased, while the quantity of money remains unaltered, it is the same thing as if the quantity of money had been diminished. Similar changes are produced by any alteration in the rapidity of circulation. By rapidity of circulation is meant, of course, the number of purchases made in a given time. An increase in the number of these purchases has the same effect as an increase in the quantity of money; a diminution the reverse.

If there is any portion of the annual produce which is not exchanged at all, as what is consumed by the producer; or which is not exchanged for money; that is not taken into the account, because what is not exchanged for money is in the same state with respect to the money, as if it did not exist.

SECTION VIII.

WHAT REGULATES THE QUANTITY OF MONEY.

WHEN we have ascertained that quantity determines the value of money, we have effected little, till we have further ascertained what it is that regulates quantity.

The quantity of money may seem, at first sight, to depend upon the will of the governments, which assume to themselves the privilege of making it, and may fabricate any quantity they please.

Money is made under two sets of circumstances; either when government leaves the increase or diminution of it free; or when it endeavours to control the quantity, making it great or small as it pleases.

When the increase or diminution of money is left free, government opens the mint to the public at large, making bullion into coins for as many as require it.

It is evident that individuals possessed of bullion, will desire to convert it into coins, only when it is their interest to do so; that is, when their bullion, converted into coins, will be more valuable to them than in the shape of bullion.

This can only happen when the coins are peculiarly valuable, and when the same quantity of metal, in the state of coin, will exchange for more than in the state of bullion.

As the value of the coins depends upon the quantity of them, it is only when they are few in number that they have this value: it is the interest of individuals, when coins are thus high in value, to carry bullion to be coined; but by every addition to the number of the coins, the value of them is diminished, and at last the value of the metal in the coins, above the bullion, becomes too small to afford a motive for carrying bullion to be coined. If the quantity of money, therefore, should at any time be so small as to increase its value above that of the metal of which it is made, the interest of individuals operates immediately, in a state of freedom, to augment the quantity.

It is possible, also, that the quantity of money should be so large, as to reduce the value of the metal in the coin, below its value in the state of bullion; in that case, the interest of individuals operates immediately to reduce the quantity. If a man has possessed himself of a quantity of the coins, containing, we shall say, an ounce of the metal, and if these coins are of less value than the metal in bullion, he has a direct motive to melt the coins, and convert them into bullion: and this motive continues to operate till by the reduction of the quantity of money, the value of the metal in that state is so nearly the same with its value in bullion, as not to afford a motive for melting.

Whenever the coining of money, therefore, is free, its quantity is regulated by the value of the metal, it being the interest of individuals to increase or diminish the quantity, in proportion as the value of the metal in coins is greater or less than its value in bullion.

But if the quantity of money is determined by the value of the metal, it is still necessary to inquire what it is which determines the value of the metal. That is a question, however, which may be considered as already solved. Gold and silver are in reality commodities. They are commodities for the attaining of which labour and capital must be employed. It is cost of production, therefore, which determines the value of these, as of other ordinary productions.

We have next to examine the effects which take place by the attempts of government to control the increase or diminution of money, and to fix the quantity as it pleases. When it endeavours to keep the quantity of money less than it would be, if things were left in freedom, it raises the value of the metal in the coin, and renders it the interest of every body, who can, to convert his bullion into money. By supposition, the government will not convert it. He must, therefore, have recourse to private coining. This the government must, if it perseveres, prevent by punishment. On the other hand, were it the object of government to keep the quantity of money greater than it would be, if left in freedom, it would reduce the value of the metal in money, below its value in bullion, and make it the interest of every body to melt the coins. This, also, the government would have only one expedient for preventing, namely, punishment.

But the prospect of punishment will prevail over the prospect of profit, only if the profit is small. It is well known, that, where the temptation is considerable, private coinage goes on, in spite of the endeavours of government. As melting is a more easy process than coining, and can be performed more secretly, it will take place by a less temptation than coinage.

It thus appears, that the quantity of money is naturally regulated, in every country, by the value, in other words, by the productive cost, in that country, of the metals of which it is made; that government may, by forcible methods, reduce the actual quantity of money to a certain, but an inconsiderable extent, below that natural quantity; that it can also, but to a still less extent, raise it above that quantity.

When it diminishes the quantity below what it would be in a state of freedom, in other words, raises the value of the metal in the coins, above its value in bullion, it in reality imposes a seignorage. In practice, a seignorage is commonly imposed by issuing coins which contain rather less of the metal than they profess to contain, or less than that quantity to which they are intended to be an equivalent. By coining upon this principle, government makes a profit of the difference between the value of the metal in the coins, and that in bullion. Suppose the difference to be five per cent., the government obtains bullion at the market price, and makes it into coins which are worth five per cent. more than the bullion. Coins, however, will retain this value, only, if, as we have shown in the preceding section, they are limited in amount. To be able to limit them in amount, it is necessary that seignorage should not be so high as to compensate for the risk of counterfeiting; in short, that it should not greatly exceed the expense of coining.

SECTION IX.

SUBSTITUTES FOR MONEY.

THE only substitute for money, of sufficient importance to require explanation in this epitome of the science, is that species of written obligation to pay a sum of money, which has obtained the appellation of paper money.

The use of this species of obligation, as a substitute for money, seems to have originated in the invention of bills of exchange, ascribed to the Jews in the feudal and barbarous ages.

When two countries, as England and Holland, traded with one another; when England, for example, imported Dutch goods, and Holland imported English goods, the question immediately arose, how payment was to be made for them. If England was under the necessity of sending gold and silver for the goods which she had brought from Holland, the expense was considerable. If Holland was under the necessity of sending gold and silver to England, the expense was also considerable. It was very obvious, however, that if there were two individuals one of whom owed to the other £100, and the other owed to him £100, instead of the first man's taking the trouble to count down £100 to the second, and the second man's taking the same trouble to count down £100 to the first, all they had to do was to exchange their mutual obligations. The case was the same between England and Holland. If England had to pay a million of money to Holland, and had an equal sum to receive from Holland, instead of sending the money from England to Holland, it would save expense and trouble to consign to her creditors, in Holland, the money due to her in Holland; and those merchants in Holland, who owed money to England, and must have been at the expense of sending it, would be well pleased to be saved from that expense, by obeying an order to pay, in Holland, what they owed to a merchant in England. A bill of exchange was, literally, such an order. The merchant in England wrote to the merchant in Holland, who owed him a sum of money, "Pay, to such and such a person, such and such a sum"; and this was called drawing a bill upon that person. The merchants in Holland acted in the same manner, with respect to the persons in England, from whom they had money to receive, and to whom they had money to pay. When it so happened, that the money which the two countries owed to one another was equal, the payments balanced one another, and each country paid for the goods which it had received, free, altogether, from the expense of transmitting money. Even when it happened that one of the two owed more than it had to receive, it had only the balance to discharge, and was relieved from all the rest of the expense.

The advantage, therefore, derived from the invention and use of bills of exchange, was very considerable. The use of them was recommended by a still stronger necessity at the period of the invention, because the coarse policy of those times prohibited the exportation of the precious metals, and punished with the greatest severity any infringement of that barbarous law.

Bills of exchange not only served the purpose of discharging debts between country and country, they very often acted as a substitute for money, in the country to which they were sent. When a bill was drawn payable after a certain time, the merchant to whom it was sent, if he had a debt to pay, or purchase to make, without having money ready for the purpose, paid with the bill, instead of money. One of these bills would often pass through several hands, and be the medium of payment in a number of transactions, before it was finally discharged by the person on whom it was drawn. To this extent, it performed the precise functions of paper money, and led the way to the further use of that important substitute.

As soon as it was discovered that the obligation of a merchant of credit, to pay a sum of money, was, from the assurance that it would be paid as soon as demanded, considered of equal value with the money itself, and was without difficulty received in exchanges, as the money itself would have been received, there was motive sufficient to extend the use of the substitute. Those persons who had been accustomed to perform the functions of bankers, in keeping the money of individuals, and exchanging against one another the coins of different countries, were the first who issued promises to pay certain sums of money, in the expectation that they would operate, as substitutes for money, in the business of purchase and sale. As soon as the use of such a substitute for money has begun, nothing is wanting but freedom, and the confidence of the public in the written promises, to enable the paper to supersede the use of the metal, and operate, almost exclusively, as the medium of exchange.

It remains to inquire what are the advantages derived from the use of this substitute; and what are the inconveniencies to which it is liable.

SECTION X.

ADVANTAGES DERIVED FROM THE USE OF PAPER MONEY.

THE precious metals, which are necessary to perform the functions of a medium of exchange, are bought with the commodities of the country. The produce of the land, and manufactures, are exported; and instead of other commodities, to be turned to use, gold and silver, to be employed as the medium of exchange, are imported for them. The value of the gold and silver, when they alone perform the business of the medium of exchange, always bears a considerable proportion,—in countries but little advanced in the arts of exchange, a large proportion, to the whole of the annual produce of the country. If each piece performs a hundred purchases in the course of a year, the value of the money required is equal to a hundredth part of the whole of the annual produce. In countries in which money does not pass rapidly from hand to hand, it may be equal to a tenth of the whole of the annual produce.

It is evident that whatsoever part of the national property goes to provide the medium of exchange is wholly inoperative with regard to production. Nothing produces, but the immediate instruments of production; the food of the labourer, the tools or machinery with which he labours, and the raw material which he fabricates. If the whole, therefore, of the national property, which goes in this manner to provide a medium of exchange, equal to one-tenth, or one-hundredth part of the annual produce, could be taken from that employment, and converted into food, tools, and the materials of production, the productive powers of the country would receive a corresponding increase.

If it be considered that the annual produce is equal, not only to the whole of the net revenue of the country, but, along with this, to the whole of the capital, excepting only the part, comparatively small, which is fixed in durable machinery, it may be easily understood how vast an accession is made to the means of production, by providing a substitute for the precious metals, as a medium of exchange.

Paper is also far more convenient, as a medium of exchange. A large sum, in the shape of gold or silver, is a cumberous commodity. In performing exchanges of considerable value, the very counting of gold and silver is a tedious operation. By means of a bank note, the largest sum is paid as quickly as the smallest.

SECTION XI.

INCONVENIENCIES TO WHICH THE USE OF PAPER MONEY IS LIABLE.

The inconveniencies to which paper money is liable, seem all to be comprehended under three heads.

First,—The failure of the parties, by whom the notes are issued, to fulfil their engagements.

Second,—Forgery.

Third,—The alteration of the value of the currency.

1. The failure of the parties, by whom notes are issued, is an evil against which, under good institutions, the most powerful securities are spontaneously provided.

If competition were allowed to operate freely, and if no restriction were imposed on the number of partners who might be engaged in a bank, the business of banking, and of issuing notes, would naturally place itself on a footing which would render paper currency very secure.

The number of banks would of course be multiplied; and no one bank would be able to fill with its circulation more than a certain district.

As little risk, where the partners were numerous, would be incurred by each of them; as the profits would be very sure, and the importance of having a good currency would be sensibly felt, there would be motive sufficient, to all the principal noblemen and gentlemen of the county, or other district, to hold shares in the local bank, and add to the security of the public.

With such competition, any bank of doubtful credit would vainly endeavour to introduce its notes into circulation. The sense of interest keeps the attention sufficiently awake on such an occasion; and where education and knowledge are tolerably advanced, and the press is free, intellect is not wanting to guide the most ignorant to the proper conclusions. The people may be trusted to reject the notes of a suspected party, when they may have those of a party in whom they confide.

Another great advantage is gained by the scheme of numerous banks, each supplying, under the safeguard of freedom and competition, a limited district; that if one of them fails, the evil is limited, and produces inconvenience to but a small portion of the community.

The interest, also, which banks, where numerous, have in supplanting one another, places them on the watch to discover any symptom of deficiency on the part of a rival, and makes them keen to disclose it; while the knowledge which each of them has that it is vigilantly watched makes it careful to avoid any fault which can lead to a diminution of its credit.

In Scotland, where banking is nearly placed upon this desirable footing, and where paper money spontaneously filled the channels of circulation, long before the suspension of cash payments at the Bank of England, there have been few failures in the numerous banks which issued paper, notwithstanding all the fluctuations in the value of money, produced by that suspension, and all the convulsions of credit of which those fluctuations were the cause.

Such are the securities which the interest and intelligence of the parties would provide, without the intervention of the legislature. Of the securities which might be provided by the legislature, the following are two of those which most obviously present themselves.

It might be rendered imperative upon every bank to transmit to some organ of government two monthly statements, one of the amount of its notes, another of the securities with which it was provided to meet the demands to which it was liable. And appropriate powers might be granted for taking the necessary steps to protect the public, where proper securities might appear to be wanting.

As a great profit attends the issuing of notes in favourable circumstances, it is desirable that the benefit, if unattended with preponderant evil, should accrue to the public. The profit, it is observable, arising from the interest upon the notes as they are lent, is altogether distinct from the other benefit, arising from the conversion of a costly medium of exchange into instruments of production.

The issuing of notes is one of that small number of businesses which it suits a government to conduct; a business which may be reduced to a strict routine, and falls within the compass of a small number of clear and definite rules. As the public would, in this case, be its own banker, and could not fail in payments to itself, the evils, liable to arise from the failure of the parties who issue notes to fulfill their engagements, could not possibly have place. The people, in this case, would provide the funds to fulfill the engagements, and the people would receive them. Political Economy does not contemplate the misapplication of the funds provided by the people. The cases of national bankruptcy, and of the non-payment of a government paper, by which the people of various countries have suffered, have all been cases in which the Many have been plundered for the benefit of the Few. When the people, as a body, are to receive the payment which the people as a body provide the funds to make, it would be absurd to speak of their loss by a failure.

The chance of evil, then, from a failure in discharging the obligations contracted by the issue of paper money, is capable of being so much reduced, as to constitute no valid objection against an expedient, the benefits of which are great and indisputable. There are persons, however, who say, that if the benefits derived from paper money did surpass the chance of evil in quiet and orderly times, the case is very different in those of civil war, or foreign invasion.

Civil war, and foreign invasion, are words which raise up vague conceptions of danger; and vague conceptions of danger are too apt to exert a mischievous influence on the understanding.

In the first place, there is, in the present advanced stage of the civilized world, in any country having a good government and a considerable population, so little chance of civil war or foreign invasion, that, in contriving the means of national felicity, but little allowance can be rationally required for it. To adopt a course of action, disadvantageous at all times, except those of civil war and foreign invasion, only because it were good on those occasions, would be as absurd, as it would be, in medicine, to confine all men continually to that species of regimen which suits a violent disease. If the advantages which arise from the use of paper money, are enjoyed, without any considerable abatement, at all times, excepting those of civil war and foreign invasion, the utility of paper money is sufficiently proved.

To save ourselves from the delusion which vague conceptions of danger are apt to create, it is proper to inquire what are the precise evils which may arise from paper money during those rare and extraordinary times.

A civil war, or a foreign invasion, is attended with a great derangement of the circulating medium, when it is composed of gold and silver. At such a period there is a general disposition to hoard: a considerable proportion, therefore, of the medium of exchange is withdrawn from circulation, and the evils of a scarcity of money are immediately felt; the prices of commodities fall; the value of money rises; those who have goods to sell, and those who have debts to pay, are subject to losses; and calamity is widely diffused.

From the evils of hoarding, the community would be, in a great measure, secured by the prevalence of paper money. And there are many reasons which may draw us to conclude, that those arising from the diminution of credit would be very little to be feared.

If the paper were issued by a government which deserved the confidence of the people, a foreign invasion, which would concentrate the affections of the people towards the government, would not destroy the credit of its notes.

It would not be the interest of the invaders to destroy their credit, even in that part of the country of which they might be in possession, because it would not be their interest to impair its productive powers.

Nobody would lose, ultimately; because, even if the circulation of the notes were prevented in the districts possessed by the enemy, they would recover their value the moment the enemy were expelled.

The effects would not be very different, if the circulation were provided by a well-conducted system of private banking. It would be the interest of all parties to preserve the circulating medium in credit. It would be the interest of the enemy to preserve it in the districts which he possessed. At most, he could only prevent the circulation for a time; for, after his expulsion, the notes would be redeemed, either by the responsible parties who had issued them, or, if they had lost their property through the operations of the enemy, out of the compensation money which the government would allow.

It is not probable, that, even in a civil war, any considerable discredit should attend a well-established paper currency. The country is, of course, divided between the hostile parties, in portions more or less nearly equal. It is evidently not the interest of the government in that part of the country which it commands, to discredit the paper currency, whether it had been issued by itself, or by private bankers. As little is it the interest of the opposite party to do any thing which shall disorder the regularity of transactions in that part of the country where it governs, and from which all its means of prevailing over its opponents must be drawn. If the circulating medium consists of the notes of private bankers, situated within that part of the country, it is the interest, on a double account, of the party to protect them. It is its interest to protect them, even if they are paper of the government. For whom would it injure, as the holders of them, but its own people? Whose business would it disturb by the want of a circulating medium, but the people upon whose means and affections it wholly depended? By protecting the paper of the government, it makes it, in reality, its own.

Experience is in favour of all these conclusions; since it has been repeatedly found, that the presence of hostile armies, and even internal commotions, have occasioned little disturbance to a paper currency, the value of which was but tolerably secured.

2. Forgery, to which bank notes are exposed, is an evil of the same sort as counterfeiting. Though it is

an evil of great magnitude, under so imperfect a system of banking as that which is created by the existence of a great monopolizing establishment, like the Bank of England; under such a system of banking as that which we have been just contemplating, it would be inconsiderable. Where one great bank supplies the circulation of a great part of the country, there is opportunity for the circulation of a great amount of forged notes, and motive to incur both a great risk and a great expense. But if every bank supplied only a small district, only a small amount of the forged notes of such a bank could find their way into the circulation. Banks, too, which are subject to the useful principle of competition, are afraid to discredit their own notes and render the people shy of taking them, by refusing payment of such as are forged; they choose rather to pay them in silence, and exert themselves as well as they can to detect the authors of the forgery, and circumscribe its amount. In this manner the public are exempted from loss; and if a loss is willingly sustained by the banks, it is only because they find compensation.

3. The last of the three inconveniences, liable to arise from the use of paper money, is an alteration in the value of the currency.

This alteration is always an act of the government; and is not peculiar to paper money.

We have already seen, that the value of a metallic currency is determined by the value of the metal which it contains. That of a paper currency, therefore, exchangeable at pleasure, either for coins or for bullion, is also determined by the value of the metal which can be obtained for it. The reason is obvious. If the paper should at any time be reduced below the value of the metal, every person who held a bank note, the less valuable commodity, would demand for it the more valuable commodity, the metal. If the promise were, as in England, to pay an ounce of gold for *3l. 17s. 10½d.* of paper, the moment that *3l. 17s. 10½d.* in paper became of less value than an ounce of gold,—in the ordinary language, the moment that gold rose above the mint price, it would be the interest of the holders of the notes to demand gold in exchange.

But, in these circumstances, it would be the interest of those who issued the notes to raise their value by reducing their quantity. If they endeavoured to maintain the high quantity, they would be condemned perpetually to issue and perpetually to withdraw; because every man who became possessed of any of their notes would have an interest in bringing them back again for gold; and on each of these occasions the issuers would sustain a loss. They would issue the notes at the rate of *3l. 17s. 10½d.*; that is, they would receive a value of *3l. 17s. 10½d.* when they issued them; but when they received them back, and were obliged to pay for them in gold, they would be obliged to give a value greater than 3*l.* 17*s.* 10½*d.* Suppose that gold had risen to 4*l.* per ounce: they would receive for the notes, when they issued them, a value of 3*l.* 17*s.* 10½*d.*; they would pay for them, when they came back, a value of 4*l.*: they would lose, therefore, the difference.

It is thus the interest, both of issuers and holders, not to let the notes sink in value below the metals. And it is obviously not the interest of the issuers to lessen their quantity, beyond what is necessary to keep them of an equal value with the metal; because, the more they issue, the more they gain. If no coins were in circulation, though the issuers might diminish the quantity, and thereby raise the value of the currency, they could derive no profit from it. If 2*l.* 10*s.* of their notes could purchase an ounce of gold on issuing, they could not sell it again for more.

In the case of a metallic currency, government can reduce the value of the currency, only by lessening the quantity of the precious metal in the coins; otherwise, as soon as it reduced the value sufficiently to afford a motive for melting, the coins, as fast as issued, would dissappear. In the case of a paper currency, it is only necessary for government to withdraw the obligation to pay metal for it on demand, when the quantity may be increased, and thereby the value diminished to any amount.

Paper currency is issued without obligation to pay for it, in two ways: either, when government is the issuer, and renders its paper legal tender, without obligation to give metal for it in exchange; or when the paper currency is regulated by one great establishment, as the Bank of England, and government suspends its obligation to pay for its notes.

The effects of an increase of the quantity, and consequent diminution of the value of the currency in any particular country, are two: first, a rise of prices; secondly, a loss to all those persons who had a right to receive a certain sum of money of the old and undiminished value.

By the term *price,* I always understand the quantity of money which is given in exchange. An alteration in the value of money, it is obvious, alters the relative value of nothing else. All things—bread, cloth, shoes, &c. rise in value as compared with money; but not one of them rises in value as compared with another.

This difference of price is, in itself, of no consequence to any body. The man who has goods to sell gets more money for them, indeed; but this money will purchase him just the same quantity of commodities, as he was enabled to purchase with the price he obtained before. The man who has goods to purchase has more money to give for them; but he is enabled to do so, by getting just as much more for the commodities he has to sell.

With respect to the second effect of a degradation in the value of money, it is to be observed, that there exists at all times, in civilized countries, a number of obligations to pay certain sums of money to individuals; either all at once, as debts; or in succession, as annuities. It is very obvious, that the individual who has contracted with a man to receive 100*l.* sustains a loss when the currency is reduced in value and he receives no more than 100*l.* It is equally obvious that the party who has to pay the sum, is benefited to the same amount. These circumstances are reversed when the alteration which has taken place is an increase of the value. In that case, the man who has to pay sustains the loss; the man who receives payment acquires the gain. These losses are evils of great magnitude, as far as men's feelings and happiness are concerned; and they imply a gross violation of those rules for the guardianship of that happiness which are comprehended under the term justice. It is, however, no destruction, and consequently no loss, of property.

Mr. Hume has supposed that certain other effects are produced by the increase of the quantity of money. When an augmentation of money commences, individuals, more or fewer, go into the market with greater sums. The consequence is, that they offer better prices. The increased prices give encouragement to the producers, who are incited to greater activity and industry; and an increase of production is the consequence.

This doctrine implies a want of clear ideas respecting production. The agents of production are the commodities themselves, not the price of them. They are the food of the labourer, the tools and machinery with which he works, and the raw materials which he works upon. These are not increased by the increase of money: how then can there be more production? This is a demonstration that the conclusion is erroneous at which Hume has arrived. It may be satisfactory also to unravel the fallacy of his argument.

The man who goes first to market with the augmented quantity of money, either raises the price of the commodities which he purchases, or he does not raise it.

If he does not raise it, he gives no additional encouragement to production. The supposition, therefore, must be, that he does raise prices. But exactly in proportion as he raises prices, he sinks the value of money. He therefore gives no additional encouragement to production.

It will perhaps be said by a persevering objector, that the man who first goes to market with the additional quantity of money, raises the price of the commodities which he immediately purchases; that the producers of those commodities are therefore encouraged to greater industry, because the price of other commodities, namely, of all those which they have occasion to purchase, has not risen. But this he is not allowed to say. The first man who came with an additional quantity of money into the market to purchase the commodities of those producers, raised the price of those commodities. And why? Because he came with an additional quantity of money. They go into the market to purchase another set of commodities, and go with an additional quantity of money. They raise, therefore, the price of those commodities. And in this manner the succession of rises goes on. All those commodities with which no additional quantity of money has yet come in contact remain unaltered in price. The moment an additional quantity of money does come in contact with them, the price is proportionally raised.

The whole of the business of any country may be considered as practically divided into a great number of little markets, some in one place, some in another; some of one sort of commodity, some of another; the money, of course, distributed proportionally among them. Into each of these markets, in the ordinary state of things, there comes, on the one side, a certain quantity of commodities; on the other side, a certain quantity of money; and the one is exchanged against the other. Wherever any addition takes place in the quantity of goods, without any addition to the quantity of money, the price falls, and of necessity in the exact proportion of the addition which has been made. If this is not clear to every apprehension already, it may be rendered palpable by adducing a simple case. Suppose the market to be a very narrow one; of bread solely, on the one side; and money, on the other. Suppose that the ordinary state of the market is 100 loaves on the one side, and 100 shillings on the other; the price of bread, accordingly, a shilling a loaf. Suppose, in these circumstances, that the quantity of loaves is increased to 200, while the money remains the same: it is obvious that the price of the bread must fall one-half, or to six-pence per loaf. It would not be argument to say, that part of the bread would not be sold, but taken away unsold. If it is taken away unsold, it is the same thing, with respect to the market, as if it had never been brought. These conclusions, with respect to an increase in the quantity of commodities, no man disputes. Is it not obvious that the same conclusions are true with respect to an increase in the quantity of the opposite commodity—the money?

All the consequences, therefore, of altering the value of money, whether by raising or depressing it, are injurious. There is no security, however, against it, as it is a deed of government, but that which is the sole security against the misdeeds of government; its dependence upon the people. The obligation of paying the notes in the metal is a necessary security, where they are issued at pleasure by private bankers. If they were issued by a government strictly responsible to the people, it would not be indispensable; for in that case the utility of keeping gold at the mint price, or, in other words, the currency of the same value as if it was metallic, might be so distinctly understood, that it would not be the interest of those intrusted with the powers of government to allow it to vary.

We have already seen, in treating of the properties which recommended the precious metals for the instrument of exchange, that they were less than almost any other commodity subject to fluctuation of value. They are not, however, exempt from changes, partly temporary, and partly permanent. The permanent changes take place, agreeably to the principles already explained, only in consequence of a change in the cost of procuring them. The greatest change of this kind, recorded in history, is that which took place on the discovery of the mines of America, from which, with the same quantity of labour, a greater quantity of the metals was obtained. The temporary changes take place, like the temporary changes in the value of other commodities, by a derangement of the balance of demand and supply. For the payment of troops in a foreign country, or subsidies to foreign governments and other operations, a great quantity of gold or silver is sometimes bought up, and sent out of the country. This enhances the price, till the balance is restored by importation. The profit which may be acquired operates immediately as a motive to restore it. In the interval, however, an advantage may be derived from a paper money not convertible immediately into the metals. If convertible, gold will be demanded, paper will be diminished, and the value of the currency will be raised. If not convertible, the currency may be retained of the same, or nearly the same value as it was before. This, indeed, can scarcely be done, and the remedy applied with safety, unless where the whole is paper, and government has the supply in its own hands. In that case the sameness in the quantity of the currency, as it would be perfectly known, would be a sufficient index and security. If the price of gold rose suddenly above the mint price, or, in other words, above the rate of the bank notes, without any alteration in the quantity of the currency, the sameness in the quantity of currency would be a sufficient index that the rise was owing to a sudden absorption of the gold; which, after a time, would return. If in such circumstances the obligation of keeping up the value of the paper to that of the gold were suspended for a time, a sufficient security against any considerable alteration in the value of the currency would be found in the obligation of keeping the quantity of it the same; because, during any short period of time, there can be no such diminution or increase of the quantity of business to be done by it, as to require any material alteration.

SECTION XII.

THE VALUE OF THE PRECIOUS METALS DETERMINES WHETHER A COUNTRY SHALL EXPORT OR IMPORT.

METALLIC money, or, more generally speaking, the precious metals, are nothing more, considered strictly, and in their essence, than that commodity which is the most generally bought and sold, whether by individuals, or by nations.

In ordinary language it is immediately acknowledged, that those commodities alone can be exported, which are cheaper in the country from which they go, than in the country to which they are sent; and that those commodities alone can be imported, which are dearer in the country to which they come, than in the country from which they are sent.

According to this proposition, if gold is cheaper in any one country, as in England, for example, it will be exported from England. Again, if gold is dearer in England, than in other countries, it will be imported into England. But, by the very force of the terms, it is implied, that in any country where gold is cheap, other commodities are dear. Gold is cheap, when a greater quantity of it is required to purchase commodities; and commodities are dear, for the same reason; namely, when a greater quantity of gold is required to purchase them. When the value of gold, therefore, in England, is low, gold will be exported from England, on the principle that all commodities which are free to seek a market, go from the place where they are cheap, to the place where they are dear. But as, in the fact that gold is cheap, is implied the correlative and inseparable fact that other commodities, at the same time, are dear, it follows, that, when gold is exported, less of other commodities can be exported; that no commodities can be exported, if the value of gold is so low as to raise the price of all of them above the price in other countries; that a diminished quantity alone can be exported, if the value of gold is only reduced so far as to raise the price of some of them above the price in other countries.

It is evident, therefore, that a country will export, that is, commodities other than the precious metals, only when the value of the precious metals is high. It is equally evident that she will import, only when the value of the precious metals is low. The increase, therefore, of the quantity of the precious metals, which diminishes the value of them, gradually diminishes, and tends to destroy, the power of exporting other commodities: the diminution of the quantity of the precious metals, which increases their value, increases, by a similar process, the motive to exportation of other commodities, and, of course, in a state of freedom, the quantity exported.

SECTION XIII.

THE VALUE OF THE PRECIOUS METAL, OR MEDIUM OF EXCHANGE, WHICH DETERMINES EXPORTATION, IS NOT THE SAME IN ALL COUNTRIES.

WHEN we speak of the value of the precious metal, we mean the quantity of other things for which it will exchange.

But it is well known that money is more valuable, that is, goes farther in the purchase of commodities, not only in one country than another, but in one part than another of the same country.

In some of the more distant places of Wales, for example, money is more valuable than in London: in common language, we say, that living is more cheap; in other words, commodities may be purchased with a smaller quantity of money: and this state of things is habitual, money having no tendency to go from London where its value is low, to increase its quantity in Wales where its value is high. This phenomenon requires explanation.

The fact is, that the whole of such difference as is habitual, and has no tendency to produce a transit of the metals, resolves itself into cost of carriage. Corn, butchers'-meat, and other commodities, which are produced in Wales, are cheaper than in London, because the supply of London comes from a distance, and the original price is enhanced by cost of carriage. But, as there are certain commodities which thus are cheaper in Wales than in London, so there are others which are cheaper in London than in Wales. Such are all the commodities which are either manufactured in London, or imported into London, from abroad. Just as the corn, and other commodities, which come from Wales to London, are enhanced by the cost of carriage; so those commodities which are sent from London to Wales, are dearer in Wales than in London, by the whole of the cost which is incurred in transporting them. The fact, therefore, is, that in Wales some commodities are cheaper, and some are dearer, than in London; but those which are cheaper are the articles of principal importance; they are the necessaries of life, the articles, the consumption of which constitutes the principal part of almost every man's expenditure. What is more, they are the articles the money-value of which determines the money-value of labour; every thing which a man has done for him, therefore, is done cheaper than it is in London. And, lastly, the gross commodities, which are the produce of Wales, cost much more for carriage, in proportion to their value, than the fine commodities which are received from

London: the cost of the gross commodities in London is much more raised above the price of them in Wales, than the price of the fine commodities in Wales is raised above the price of them in London. The cost of living, therefore, is greater in London than in Wales, for this reason, solely, because people in London pay more for carriage. If the value of the metal in Wales rose ever so little above that limit, a profit equal to that rise would immediately operate as a motive for sending it to Wales.

From two places in the same country, let us transfer the consideration to two different countries. The cost of living is higher; in other words, the value of the precious metals is lower in England, than in Poland. The difference here, also, resolves itself wholly into the cost of carriage. Let us suppose that England receives a considerable portion of her supply of corn from Poland, and sends her the whole, or the greater part, of her fine manufactures: corn, it is evident, will be dearer in England; but fine manufactures will be dearer in Poland. For the same reasons that money, as we have shown, goes farther in Wales than in London, it is easy to see that it will, in this case, go farther in Poland than in England: in other words, the value of gold in Poland will be greater than in England, just so much as to compensate for the greater cost of carriage which England sustains. The moment it rises above that value, a profit may be made by sending it to England.

SECTION XIV.

MODE IN WHICH THE PRECIOUS METAL, OR MEDIUM OF EXCHANGE, DISTRIBUTES ITSELF AMONG THE NATIONS OF THE GLOBE.

In the country of the mines, whence gold distributes itself to the rest of the world, gold is in relative plenty. As an addition is constantly making to the quantity already possessed, there is a constant tendency in the gold of that country to fall in relative value; in other words, a constant tendency in the price of other things to rise. As soon as any commodities have risen sufficiently high to enable them to be imported, they will come in from that country, be it what it may, from which, prime cost and cost of carriage taken together, they come the cheapest; and gold will go out in exchange.

By this importation of gold into that second country, it becomes relatively plentiful there, and prices rise. Some commodity, or commodities, become there at last so dear, that they can be imported, with profit, from another country: commodities, as in the previous instance, come in, and gold goes out. It is unnecessary to trace the operation farther. In this manner gold proceeds from country to country, through the whole connected chain of the commercial world.

In a preceding section* we found that it is the interest of two nations to exchange with one another two sorts of commodities, as often as the relative cost of producing them is different in the two countries. If four quarters of corn, for example, and 20 yards of cloth, cost, each, the same quantity of labour in England, but not the same quantity in Poland, it would be the interest of the two countries, the one to produce corn, the other to produce cloth, and to exchange them with one another.

Suppose, while four quarters of corn and 20 yards of cloth required the same quantity of labour in England; that in Poland 20 yards of cloth required twice as much labour as four quarters of corn. In these circumstances, cloth, as compared with corn, would be twice as dear in Poland as in England; in other words, four quarters of corn, which in England would be of equal value with 20 yards of cloth, would in Poland be equal to no more than 10 yards. If Poland, therefore, should send corn to England; the quantity of labour which produced four quarters, or 10 yards of cloth, in Poland, would purchase 20 yards in England. In like manner, if England should send cloth to Poland; the same quantity of labour which produced 20 yards of cloth, would obtain, not four quarters, only, of corn, all it could

* P. 84—88.

produce at home, but double that quantity, namely, eight quarters.

Such would be the interest which would operate to produce an exchange of commodities between two countries, in the way of barter, and without the intervention of money. In Poland we have supposed the circumstances to be such, that if she produced corn and cloth for herself, four quarters of corn would have the same value as 10 yards of cloth. Of course, if she had the use of money, the price of four quarters of corn and 10 yards of cloth would be the same. In England, according to the supposition, the price of four quarters of corn and that of 20 yards of cloth would be the same. There are two supposeable cases. The price of one of the two commodities, corn, for example, is either equal in the two countries, or not equal. The illustration of any one of these cases will suffice for both. Let us, then, suppose that, in the two countries, the price of corn is equal. If it is, the price of a yard of cloth must in Poland be twice as great as it is in England. In these circumstances, what will happen is obvious: the cloth, which is cheap in England, will go to Poland, where it is dear; and there it will be sold for gold, because there can be no counter importation of corn, which, by supposition, is already as cheap in England as in Poland.

By the importation, in this manner, of English cloth into Poland, gold goes out of Poland, and comes into England. The consequence is, that gold becomes more plentiful in England, less plentiful in Poland. From this first consequence, a second ensues; that prices gradually rise in England, fall in Poland: the price of corn, for example, and, along with it, the price of cloth, rise in England, fall in Poland. If, when we suppose the traffic to begin, the price of corn in each country is 1*l.* per quarter, the price of cloth being, by consequence, in Poland 2*s.* in England 1*s.* per yard; the supposed exchange of cloth for gold will gradually, in England, raise the price of corn above, in Poland sink it below, 1*l.* per quarter: raise the price of cloth in England above 1*s.* per yard, sink it below 2*s.* per yard in Poland. In this manner, the price of corn in the two counties gradually recedes from equality, the price of cloth gradually approaches it. At a certain point in this progress, corn becomes so dear in England, and cheap in Poland, that the difference of price will pay for the cost of carriage. At that moment a motive arises for the importation of corn into England; and prices regulate themselves in such a manner, that in England corn is dearer than in Poland, by the expense of carrying corn; cloth is dearer in Poland than in England, by the expense of carrying cloth, from the one country to the other. At this point, the value of the cloth imported into the one country, and that of the corn imported into the other, balance one another.

The exchange is then at par, and gold ceases to pass.

From the consideration of the same circumstances, it will farther be seen, that no alteration can take place in the interchange of commodities between the two countries, without a new distribution of the precious metal; that is, a change in the relative quantities which they previously possessed.

Let us suppose that, in England, some new commodity is produced, which Poland desires to obtain. A quantity of this commodity is imported into Poland; and it can be paid for only in gold, because we have supposed that at this time, the corn and cloth, respectively imported, pay for one another. In this case, as in that which I have previously explained, the price of commodities soon begins to rise in England, fall in Poland. In proportion as prices rise in England, and fall in Poland, a motive is produced to import a greater quantity of Polish goods into England, a less quantity of English goods into Poland. And at last the balance is again restored.

SECTION XV.

MONEY TRANSACTIONS BETWEEN NATIONS—BILLS OF EXCHANGE.

THE moneys of different countries are different; that is to say, they consist of different portions of the precious metals, and go by different names. The pound sterling, for example, is the money of England, the dollar is the money of certain other countries; and the pound sterling contains one quantity of the precious metal, the dollar contains a less quantity; and so of other varieties.

The purchases which are made by one country in another country are, like other purchases, made by money. If the Dutch merchant, for example, purchase goods in England, he buys them at so many pounds sterling. If the English merchant buys goods in Holland, he buys them at so many guilders. To pay the pound sterling, the Dutch merchant must either send the English money, or an equivalent. The direct equivalent is a quantity of the precious metal equal to what is contained in the pounds sterling due. If the Dutch merchant has no other medium but guilders, he must send as many guilders as contain an equal quantity of the precious metals.

When the language now used by the merchants of Europe was established, a computation was made of the quantity of one currency which contained the same quantity of the precious metal, as a certain given quantity of another. This was called the par of exchange. The guilder contained not quite so much of the metal as two shillings English; but to simplify our language, let us suppose that it contained just as much. The par of exchange was then, 10 guilders to 1*l.*; or, in the abridged language of the merchants, 10.

The business of exchange, however, between country and country, is carried on, not by transmitting currency or the metals, but, in a much greater degree, by the instrumentality of bills. The language which the merchants have adopted for carrying on the traffic of bills, is very elliptical and abridged; and being, in several respects, not well chosen, is a source of obscurity and misapprehension.

The simple transaction is this. The merchant in London, to whom a merchant in Amsterdam owes a sum of money, writes a line to the merchant in Amsterdam, directing him to pay the money. The writing of this line is called drawing; the line itself is called a bill; and the person whom the line is written *to*, is said to be drawn *upon*. If the merchant in London, at the same time that he has money to receive from Amsterdam, has money to pay in Amsterdam, he draws his bill upon his debtor in Amsterdam, to the order of his creditor; or, in other words, his line written to the person who owes him money in Amsterdam, is a line directing him to pay the amount to that other person to whom he is indebted. If the sum to be received is equal to the sum to be paid, the bill discharges the debt; if it is less, it pays as far as it goes, and the difference constitutes a balance.

It so happens, in the course of business, that the individuals who import goods from Holland, for example, are not the same individuals who export goods to Holland. The merchants who import corn, or butter, or tallow, from Holland, are one set of merchants; the merchants who export cottons and hardware to Holland, are merchants of another description. The individuals, therefore, who have money to receive from Holland, have nothing to do with any payments in Holland; they make a demand for their money, and expect it shall be paid. There are other individuals, however, who have money to pay in Holland, and who, to save themselves the expense of sending money, are desirous of obtaining from the individuals, who have money to receive from Holland, orders upon their debtors, that is, bills drawn upon them, for the sum. The English exporters, who have money to receive from Holland, therefore, draw bills upon their correspondents in Holland, and, without needing to wait for the return from Holland, receive the money in England from the English importers.

There are thus two sets of persons in England: one, who have money to receive from Holland; another, who have money to send to Holland. They who have money to send, are desirous of meeting with the persons who have money to receive, and bills to draw; the persons, again, who have bills to draw, and money to receive, are desirous of meeting with the persons who have money to pay, and who would give it them immediately, and save them from the delay of waiting the return from Holland. But these two sets of men do not always know how to find one another. This gives rise to a set of middle men, who, under the name of bill-brokers, and exchange-brokers, perform the function of bringing them together, or rather act as the medium between them.

When it so happens that the amount for which bills are drawn is the same with that for which bills are wanted; in other words, when those who have money to receive abroad, are equal to those who have money to pay, the amount of bills to be bought, and the amount to be sold, will be exactly the same: for each man, desirous to purchase a bill on Holland, there will be another man equally desirous to sell one: there will be neither premium, therefore, on the one side, nor discount on the other; the bills, or, in the language of the merchants, the exchange, will be at par.

When it happens, however, that the debts and credits are not equal; that England, for example, has more money to pay than she has to receive; in other words, has imported to a greater amount than she has exported, there are more persons who want to purchase bills on Holland, than there are persons to sell them. Those who cannot obtain bills to discharge their debts in Holland must send the metals. That, however, is an operation attended with a considerable cost. There is, therefore, a competition for bills; and the merchants give for them rather more than they are worth. A bill, for example, drawn on Holland for 10,000 guilders, (the 10,000 guilders being, by supposition, equal to 1,000*l.*) will be willingly purchased for something more than 1,000*l.* In this case, the exchange is said to be in favour of Holland, and against England. It is against England, because in Holland, when bills are drawn upon England, there are more people who have bills to sell, than people who have any occasion to buy. There is a competition, therefore, among the people who wish to sell, and the price falls. A bill on England for 1,000*l.*, instead of selling for 10,000 guilders, will sell for something less. This, it is evident, is a discouragement to the Dutch merchant who exports goods to England.

It is also a discouragement to the English merchant who imports goods from Holland, and who, in addition to the 10,000 guilders which his goods have cost, must pay something more than 1,000*l.*, or 10,000 guilders, for a bill to pay them. On the other hand, there is an encouragement to the English merchant who exports goods to Holland, inasmuch as he receives for his bill of 10,000 guilders on Holland, rather more than 1,000*l.*, which is the value of his goods; he is, therefore, stimulated, by this increase of profit, to increase the quantity of his trade.

It is very easy to see what is the limit to this variation in the price of bills, called, in the language of merchants, the exchange. The motive to the purchase of a bill is the obligation of paying a debt. The merchant, however, on whom it is incumbent to pay a debt in Holland, can pay it without a bill, by sending the metal. To send the metal is attended with a certain cost. If he can obtain the bill without paying beyond this cost, he will purchase the bill. This cost, therefore, is the utmost amount of the premium which he will pay for a bill, and the limit to the rise of its price. As the cost of sending the metal, which is a great value in a small bulk, is never considerable, the exchange can never vary from par to a considerable amount.

It is well known in commerce, how a balance is transferred from one country to another, by means of bills of exchange.

If a balance is due by England to Holland, and by Hamburgh to England, the holder of a bill at Amsterdam for 1,000*l*., upon England, will probably not send his bill to England, where it will fetch him only 1,000*l*.; but to Hamburgh, where it will fetch something more. A debt, which England owed to Holland, is thus paid by a credit which she had at Hamburgh. In England, the merchants, who have imported from Holland, pay for the goods which they have imported, by paying the merchants, who have exported to Hamburgh, for the goods which they have exported.

Such are the transactions between country and country, by means of bills of exchange; and such is the language in which they are expressed. There are two states of things in which these operations take place: The First, when the currency of both countries remains the same as at the time when the par of exchange was originally computed; when 10 guilders of Holland, for example, contained as much of the precious metal as 1*l*. sterling; and the par of exchange, of course, was said to be 10: The Second, when the relative value of the two currencies does not remain the same; as, for example, when 1*l*., instead of being equal to 10 guilders, becomes equal to 12, or to no more than 8.

If we suppose the quantity of the precious metal in the pound sterling to be diminished in such a degree that it contains no greater quantity than that which is contained in 8 guilders, the par of exchange, in this case, would really be 8 instead of 10. The merchants, however, from the time at which the par of exchange appears to have been originally computed, never altered their language. If the par of exchange between the guilder and the pound sterling was 10, it continued to be called 10, however the relative value of the currencies might be changed; though the pound sterling, for example, became equal to 8 guilders only, instead of 10. Notwithstanding this, the value of the bills was regulated according to the real value of the currencies; a bill for so many pounds sterling was not equal to a bill for as many times 10 guilders, but for as many times 8. As the par of exchange, however, still was called 10, though really 8, the exchange was said to be against England, in the proportion of 10 to 8, or 20 per cent. This 20 per cent of unfavourable exchange was altogether nominal; for when there was this 20 per cent. of discount on the English bill, the exchange was really at par. The language, therefore, was improper and deceptious; but if, in such a case, it is borne in mind, that 20 per cent. against England means the same as par, it will then be easy to see that every thing which we demonstrated, in the preceding pages, as true with respect to the par, will, in this case, be true with respect to the 20 per cent. Every thing which raises the exchange above par, according to the proper language, makes it as much less than 20, according to the improper; every thing which reduces it below par, according to the proper, makes it as much more than 20, according to the improper. All the effects which follow from what is called the rise above, or fall below par, in the one case, follow from the same things, but called by different names, in the other. On this, therefore, I have no occasion to enlarge.

When the currencies of two countries are metallic, a change in their relative value can only happen by a change in the relative quantity of the metal they contain; there being checks, as we have already seen, which prevent any considerable difference between the value of a metallic currency and that of the metal which it contains. There is, however, another case, namely, that of a paper money, not convertible into the metallic. This requires to be considered by itself.

Let us resume the former supposition, that the pound sterling contains as much of the precious metal as 10 guilders; and let us suppose that a paper money, not payable in the metals, is issued in England in such quantity, that a pound in that money is reduced 20 per cent. below the value of the metal contained in a pound sterling: it is easy to see that a bill for 100*l.* sterling, in this case, is of the same value, exactly, as a bill for 100*l.* sterling when the currency was degraded by losing 20 per cent of its metal. A bill for 100*l.*, in both cases, is equal not to 100 times 10 guilders, but 100 times 8 guilders. The reason is, that the bill will in England buy only as much of the metal as is contained in 100 times 8 guilders. It will exchange, therefore, of course, only for a bill of 800 guilders.

The facts may be expressed in the form of a general rule. A bill drawn upon any country is equal in value, when it arrives in that country, to all the precious metal which the money for which it is drawn can purchase in the market: a bill for 100*l.*, for example, is equal to all the metal which it can purchase, whether it is the same quantity which would be purchased by 100*l.* sterling, or less. To whatever amount the portion which it can purchase is less than what could be purchased by 100*l.* of the coins, to that amount the paper money is degraded below what would be the value of the coins, if they circulated in its stead. The exchange, therefore, against any country, can never exceed the amount of two sums; the difference between the value of the degraded and the undegraded currency, or the difference between the nominal amount of the currency and the quantity of the precious metal which it can purchase, for the first item; and the expense of sending the metal, when purchased, as the second. It thus appears how perfectly unfounded is the opinion of those (and some political economists of great eminence are included in the number) who conceive that the real, not merely the nominal, exchange, may exceed the expense of transmitting the precious metals. They say, that when by some particular cause a great absorption of the precious metals has taken place, creating a scarcity, in consequence of which goods must be sent from the country where it is scarce to bring it back from the countries where it abounds, bills drawn upon that country may be at a discount, to the amount, not singly of the cost of sending the precious metal, but of the cost of sending the goods to purchase the precious metal, that of bringing home the precious metal, and that of sending the metal in payment of the bill, united. Two things are to be remarked upon this argument. In the first place, it overlooks this circumstance, that a certain number of pounds in the paper money can always purchase the precious metal at the market price. To whatever degree the quantity which it purchases is less than the quantity which would have been contained in the same number of pounds, in full undegraded coins, to that degree the currency is degraded. The exchange is thence affected *nominally*, according to the use of an ill-contrived language; but, *really*, not in the smallest degree. The quantity of the precious metal which the bill will purchase is its value as compared with a bill expressed in guilders containing a certain quantity of the metal. The whole of the additional cost is the expense of sending the metal. The expense, therefore, of sending the metal, is the measure of the real exchange. All the rest is nominal, and affects nothing but the language.

An objection, however, is urged against this conclusion. Some persons affirm that the amount of an unfavourable exchange may extend far beyond the cost of sending bullion and the depreciation of the currency, the two circumstances by which we have said that it must always be limited.

The argument in favour of this affirmation is, that in a case of great foreign payments, either on account of government, or unusual importations, as of corn in a time of scarcity, there may be a great difficulty in procuring metal to pay the balance. It may be necessary to bring it from a foreign country, and of course, to send goods in order to pay for it. In that case, the importer of the bullion has to incur the whole expense of sending abroad the goods, in addition to the expense of transporting the metal. For a bill of exchange, therefore, he will give a premium, equal not only to the cost of remitting the gold, but to the additional and much greater cost of sending the goods which are to purchase the gold.

The mistake which is involved in this argument may be easily shown.

If there is a paper money not convertible into metallic; and if much gold has been taken out of the country; it follows, there being a demand for it, that gold will rise in price.

When it rises in price, the meaning is, that it costs a comparatively large amount of paper. Paper, however, will still buy it; and the difference between what the paper will buy, and the quantity which would be contained in an equal amount of metallic money, is the depreciation of the paper.

It may be said, it is the gold which has risen, not the paper which has fallen.

That is another question. It is still true, that the paper is of less value than the coins would have been. It is depreciated, therefore, as relates to the coins. That is what is here meant by depreciation.

How then stand the facts? An English importer owes a certain sum of money, that is, a certain weight of gold, to Holland. He can send gold, or he can send a bill. If he sends gold, he must buy it with his paper; and incur the cost of sending. He will, however, buy a bill, if he can get it for less paper than the cost of the gold and the expense of sending united; and not otherwise. But the gold costs him as much paper as the paper would be worth if it were not depreciated, and as much more as the depreciation amounts to. The cost of the bill, therefore, never can exceed the quantity of paper which includes the two, together with the cost of sending the gold; in other words, the premium upon it never can exceed the amount of the depreciation, and the cost of remitting the bullion together.

That bullion, when wanted on any particular emergency and imported by the exportation of some British commodity, must have its cost enhanced by the cost of sending the goods which paid for it, is a notion which, after what has been established, hardly requires refutation.

The cause why things are more dear in one place, less dear in another, has already been explained. When carried from one place to another, they are dearer by the expense of carriage in the place to which they are brought, than in that from which they come. The goods which go to the country of the mines are dearer by the cost of carriage than in the countries from which they are sent: and the bullion which goes to these countries is dearer by the cost of carrying the bullion; just as we saw, that the goods which went from London to Wales were dearer in Wales than in London; but the goods which came from Wales to London were dearer in London than in Wales.

The mode in which the absorption of bullion would produce importation of bullion is abundantly clear. Bullion growing scarce, in any country, the value of it becomes high; or, in other words, the value of goods as compared with bullion becomes low. The bullion price of goods becoming low in England, they fall sufficiently below their bullion price in other countries, to render it profitable to send them to the foreign market: the cost of carriage is not charged upon the bullion, but upon the goods. It would be the same thing to say that in the country which provides the bullion, the price of sending the bullion must be added to the prime cost and carriage of the corn, or other commodity received.

You say, that bullion when obtained from abroad is loaded with all the carriage cost of the goods which are sent to pay for it. Generalize this proposition. Is it true, that, whenever any country imports any commodity, the cost of carriage falls upon it, both of the goods which it sends, and the goods which it receives? This is impossible; because, in every case of traffic between two nations, both import. Both cannot bear the whole of the expense.

If England in a season of scarcity sends to Poland for corn, the corn in England will not be loaded with the expense both of carrying home the corn and carrying out the cloth, while Poland will bear no part of the cost of carriage but will have her cloth free of the cost of carriage, therefore as cheap as in England. The facts, it is evident, will be these: The corn will be dearer in England than in Poland, by the cost of bringing it from Poland; And the cloth will be dearer in Poland than in England, by the cost of carrying the cloth.

If we suppose that the money of Poland, call it a rix-dollar, is such, that it is equal to one-fourth of a pound sterling, it will be easy to trace all the possible cases of the exchange. If the quantity of corn bought in Poland for England cost one million of rix dollars; and if the cloth which in like manner is bought in England for Poland costs 250,000*l.*; bills drawn upon Poland, for the said 250,000*l.*, will exactly pay for the one million of dollars, and the exchange will be at par, being in no degree affected by the cost of carriage either of the corn or the cloth. If the value of the cloth imported by Poland were less than 250,000*l.* England would no doubt have a balance to pay, and bills on Poland would bear a premium. They could not, however, bear a premium beyond the charge of sending bullion; because at this additional cost the English importer would discharge his debt without the medium of a bill. It thus appears that, in constituting an unfavourable exchange, the cost of carrying the bullion from the country which owes the balance, is the only circumstance to which any effect is to be allowed.

This balance may have accrued at a time when there has been a great drain of gold from England; when it is not easy to be procured; in other words, when England has a great demand for gold from abroad, and is obliged to send an unusual quantity of her goods to procure it. This will have no effect upon the exchange. Whatever may be the expense in goods which England must incur in order to procure the bullion she demands, so long as her currency is not depreciated, so long as her pound sterling is equal to 4 rix dollars, so long will she pay a balance of 4 rix dollars by one pound sterling, adding the cost of sending that pound.

If, indeed, her pound becomes depreciated, and is no longer equal to 4 rix dollars; that is to say, will not buy as much bullion as 4 rix dollars, the exchange may be unfavourable to the amount of both the depreciation and the cost of sending the bullion. In this, however, all that is produced by depreciation is nominal merely. That alone which is produced by the cost of sending is real. And this, it is evident, is all that ever can be included in an unfavourable exchange. The cost of sending the goods from the country which owes the balance, to pay for the gold which must be sent to the other country to discharge the balance, has no connexion with the bill transactions between the country which pays the balance and that which receives it.

SECTION XVI.

BOUNTIES AND PROHIBITIONS.

UNDER this title I include all encouragements and discouragements, of whatsoever sort, the object of which is, to make more or less of production or exchange to flow in certain channels, than would go into them of its own accord.

The argument, on this subject, I trust, will be clear and conclusive, without a multiplicity of words.

If it should appear, that production and exchange fall into the most profitable channels, when they are left free to themselves; it will necessarily follow that as often as they are diverted from those channels, by external interpositions of any sort, so often the industry of the country is made to employ itself less advantageously.

That production and exchange do, when left to themselves, fall into the most profitable channels, is clear by a very short demonstration.

The cases of production and of exchange require to be considered separately; for, in the case of production, there is hardly any difference of opinion. If a country had no commercial intercourse with other countries, and employed the whole of its productive powers exclusively for the supply of its own consumption, nothing could be more obviously absurd, than to give premiums for the production of one set of commodities, and oppose obstructions of any sort to the production of another; I mean in the view of Political Economy, or, on account of production: for if any country opposes obstructions to certain commodities, as spirituous liquors, because the use of them is hurtful, this regards morality, and has for its end to regulate, not production, but consumption. Wherever it is not intended to limit consumption, it seems admitted, even in practice, that the demand will always regulate the supply, in the manner in which the benefit of the community is best consulted. The most stupid governments have not thought of giving a premium for the making of shoes, or imposing a preventive tax upon the production of stockings, in order to enrich the country by making a greater quantity of shoes, and a less quantity of stockings. With a view to the internal supply, it seems to be understood that just as many shoes, and just as many stockings, should be made, as there is a demand for: If a different policy were pursued; if a premium were bestowed upon the production of shoes, a tax or other burthen imposed upon the production of stockings, the effect would only be, that shoes would be afforded to the people cheaper, and stockings dearer, than they otherwise would be; that the people would be better supplied with shoes, worse supplied with stockings, than they would have been, if things had been left to their natural course, that is, if the people had been left to consult freely their own convenience; in other words, if the greatest quantity of benefit from their labour had been allowed to be obtained.

All that regulation of industry, therefore, which, with a view to increase the quantity of one sort of commodities, lessens the quantity of another, has been adopted as the wisdom of governments, has been directed to the purpose of regulating the exchange of commodities with foreign countries; of increasing or diminishing, most commonly diminishing, the quantity of certain commodities which would be received from them.

Now it is certain, as has been already abundantly proved, that no commodity which can be made at home will ever be imported from a foreign country, unless it can be obtained by importation with a smaller quantity of labour, that is, cost, than it could be produced with at home. That it is desirable to have commodities produced with as small a cost of labour as possible, seems to be not only certain, but admitted. This is the object of all the improvements that are aimed at in production, by the division and distribution of labour, by refined methods of culture applied to the land, by the invention of more potent and skilful machines. It seems, indeed, to be a self-evident proposition, that whatever the quantity which a nation possesses of the means of production, the more productive they can possibly be rendered, so much the better; for this is neither more nor less than saying, that to have all the objects we desire, and to have them with little trouble, is good for mankind.

Not only is it certain, that in a state of freedom no commodity which can be made at home will ever be imported, unless it can be imported with a less quantity or cost of labour than it could be produced with at home; but whatever is the country from which it can be obtained with the smallest cost of labour, to that country recourse will be had for obtaining it, and whatever the commodity by the exportation of which it can be obtained with the smallest quantity of home labour, that is the commodity which will be exported in exchange. This results so obviously from the laws of trade, as not to require explanation. It is no more than saying, that the merchants, if left to themselves, will always buy in the cheapest market, and sell in the dearest.

It seems, therefore, to be fully established, that the business of production and exchange, if left to choose its own channels, is sure to choose those which are most advantageous to the community. It is sure to choose those channels, in which the commodities which the community desires to obtain, are obtained with the smallest cost. To obtain the commodities which it desires, and to obtain them with the smallest cost, is the whole of the good which the business of production and exchange, considered simply as such, is calculated to yield. In whatever degree, therefore, the business of production and exchange is forced out of the channels into which it would go of its own accord, in that degree the advantages arising from production and exchange are sacrificed; or, at any rate, postponed to something else. If there is any case in which they ought to be postponed to something else, that is a question of politics, and not of political economy.

There is no subject, upon which the policy of the restrictive and prohibitive system has been maintained with greater obstinacy, and with a greater quantity of sophistry, than that of the trade in corn. There can, however, be no doubt, that corn never will be imported, unless when it can be obtained from abroad with a smaller quantity of labour than it can be produced with at home.* All the good, therefore, which is obtained from the importation of any commodity, capable of being produced at home, is obtained from the importation of corn. Why should that advantage—an advantage which, in the case of corn, owing to the diversities of soil and extent of population, is liable to be much greater than in the case of any other commodity—be denied to the community?

* See pp. 85—88.

The reasons upon which the advocates for a restriction of the corn trade chiefly support themselves, are two; neither is of any value.

The first is, That unless the nation derive its corn from its own soil, it may, by the enmity of its neighbours, be deprived of its foreign supply, and may hence be reduced to the greatest distress. This argument implies an ignorance both of history, and of principle: Of history, because, in point of fact, those countries which have depended the most upon foreign countries for their supply of corn, have enjoyed, beyond all other countries, the advantage of a steady and invariable market for grain: Of principle, because it follows unavoidably, if what, in one country, is a favourable, is in other countries an unfavourable season, that nothing but obtaining a great part of its supply from various countries can save a nation from all the extensive and distressing fluctuations which the variety of seasons is calculated to produce. Nor is the policy involved in this argument better than the political economy. It sacrifices a real good, to escape the chance of a chimerical evil: an evil so much the less to be apprehended, that the country from which another derives its supply of corn is scarcely less dependent upon that other country for a vent to its produce, than the purchasing country is for its supply. It will not be pretended that a glut of corn in any country from the loss of a great market, with that declension of price, that ruin of the farmers, and that depression of rents, which are its unavoidable consequences, are immaterial evils.

The second reason upon which the advocates of the corn monopoly support themselves is, That if the merchants and manufacturers enjoy in certain cases the monopoly of the home supply, the farmers and landlords are subject to injustice, if a similar monopoly is not bestowed upon them. In the first place, it may be observed, that if this argument is good for the growers of corn, it is good for every other species of producers whatsoever; if, because a tax is imposed upon the importation of woollens, a tax ought to be imposed upon the importation of corn, a tax ought also to be imposed upon the importation of every thing which the country can produce; the country ought, in short, to have no foreign commerce, except in those articles alone which it has not the means of producing. This is a reduction to absurdity, which appears conclusive. The argument moreover supposes that an extraordinary gain is obtained by the manufacturer, in consequence of his supposed protection; and that a correspondent evil is sustained by the corn grower, unless he is favoured by a similar tax. The ignorance of principle is peculiarly visible in those suppositions, in neither of which is there a shadow of truth.

The man who embarks his capital in the woollen, or any other manufacture, with the produce of which that of the foreign manufacturers is not allowed to come into competition, does not, on that account, derive a greater profit from his capital. His profit is no greater than that of the man whose capital is embarked in trades open to the competition of all the world. All that happens is, that a greater number of capitalists find employment in that branch of manufacture; that a portion, in short, of the capitalists of the country employ themselves in producing that particular species of manufacture, who would otherwise be employed in producing some other species, probably in producing something for the foreign market, with which that commodity, if imported from the foreign manufacturer, might be bought.

As the man who has embarked his capital in the trade which is called protected, derives no additional profit from the protection; so the grower of corn sustains not any the smallest loss or inconvenience. Nothing, therefore, can be conceived more groundless than his demand of a compensation on that account. The market for corn is not diminished because a tax is laid upon the importation of woollens; nor would that market be enlarged if the tax were taken off. His business, therefore, is not in the least degree affected by it.

It would be inconsistent with the plan of a work confined to the exposition of general principles, to lay open all the fallacies which lurk in the arguments for restraining the trade in corn. One or two, however, of the sources of deception cannot be left altogether unnoticed.

The landlord endeavours to represent his own case, and that of the manufacturer, as perfectly similar; though, in the circumstances which concern this argument, they are not only different, but opposite. The landlord also endeavours to mix up his own case with that of the farmer; and upon the success of that endeavour almost all the plausibility of his pretensions depends. That no pretensions are more unfounded, may be seen by a very short process of reasoning. To the farmer, as a producer, belongs the same thing which belongs to every other producer—that all his outgoings be returned to him, with the due profit upon the capital which he employs. The surplus which the land yields, over and above this return and profit, is what he pays to his landlord; and his interest is not affected by the quantity of that surplus, whether it be great or small. His interest, however, is very much affected by wages; because, in proportion as wages are low, his profits, like all other profits, are high. Wages cannot be low, if corn is dear. The interest, therefore, the permanent interest, of the class of farmers, consists, in having corn cheap. This or that individual in the class may, that is, during the currency of a lease, have an interest in high prices; and the reason of the exception shows the truth of the general rule. The individual, who, during the currency of a lease, has an interest in high prices, is, by his lease, converted, to a certain extent, into a receiver of rent. During the continuance of his lease, if prices rise, he gets, not only his due return of profits as a farmer, but some thing more, namely a portion of the rent, which, but for his lease, would go to the landlord.

This, then, is the grand distinction. The receivers of rent are benefited by a high price of corn; the producers of corn, as such, are not benefited by it, but the reverse. The case of the farmer corresponds with that of the manufacturer, not with that of the landlord. The farmer is a producer and capitalist; the manufacturer is a producer and capitalist; and they have both received all that belongs to them, when their capital is replaced with its profits. The landlord is not a producer, nor a capitalist. He is the owner of certain productive powers in the soil; and all which the soil produces belongs to him, after paying the capital which is necessary to put those productive powers in operation. It thus appears that the case of the landlord is peculiar; that a high price of corn is profitable to him, because, the higher the price, the smaller a portion of the produce will suffice to replace, with its profits, the capital of the farmer; and all the rest belongs to himself. To the farmer, however, and to all the rest of the community, it is an evil, both as it tends to diminish profits, and as it enhances the charge to consumers.

SECTION XVII.

COLONIES.

AMONG the expedients which have been made use of, to force into particular channels a greater quantity of the means of production, than would have flowed into them of their own accord; colonies are a subject of sufficient importance to require a particular consideration.

The only point of colonial policy, which it is here necessary to consider, is that of trade with the colonies. And the question is, whether any peculiar advantage may be derived from it.

With respect to colonies, as with respect to foreign countries, the proposition will, doubtless, be admitted as true, that whatever advantage is derived from trading with them, consists in what is received from them, not in what is sent, because that, if not followed by a return, would be altogether loss.

The return from them, is either money or commodities. The reader is, by this time, fully aware that a country derives no advantage from receiving money, more than from receiving any other species of commodity. It is also plain, that where the colony has not mines of the precious metal, it cannot, under the monopoly of the mother country, have money, or any thing else, beside its own productions to send.

It is needless to consider the case of free trade with a colony, because that falls under the case of trade with any foreign country.

The monopoly which a mother country may reserve to herself, of the trade with her colonies, is of two sorts.

First of all, she may trade with her colonies by means of an exclusive company. In this case, the colony has no purchaser to whom she is allowed to sell any thing, but the exclusive company, and no other seller from whom she is allowed to buy any thing. The company, therefore, can make her buy, as dear as it pleases, the goods which the mother country sends to her, and sell, as cheap as it pleases, the goods which she sends to the mother country. In other words, the colony may, in these circumstances, be obliged to give for the produce of a certain quantity of the labour of the mother country, a much greater quantity of goods than the mother country could obtain, with the same quantity, from any other country, or from the colony in a state of freedom.

The cases of a trade in these circumstances are two: the first, where the colony receives from the mother country, luxuries, comforts: the other, where she receives necessaries; either the necessaries of life, or the necessaries of industry, as iron, &c.

In that case in which the colony receives luxuries and comforts only from the mother country, there is a limit to the degree in which the mother country is enabled to profit by the labour of the colony. The colony may decline receiving such luxuries or comforts, if obliged to sacrifice for them too great a quantity of the produce of her labour, and may think it better to employ that great proportion of her labour, in providing such luxuries and comforts as she herself is capable of producing.

If, however, the colony is dependant for necessaries upon the mother country, the exclusive company exercises over the colony a power altogether despotic. It may compel her to give the whole produce of her labour, for no more of the necessaries in question, than what is just sufficient to enable the population of the colony to live. If it is the necessaries of life which the colony receives, the conclusion is obvious. If it is commodities, such as iron, and instruments of iron, without which her labour cannot be productively employed, the result is precisely the same. She may be made to pay for these articles so much of the whole produce of her labour, that nothing but what is necessary to keep the population alive may remain. It would be the interest of the mother country, not to lessen the population; because, with the population, the produce would be lessened; and hence the quantity of commodities which the mother country could receive.

Instead, however, of trading with her colonies by means of an exclusive company, the mother country may leave the trade open to all her own merchants, only prohibiting the colony from trading with the merchants of any other country. In this case, the competition of the merchants in the mother country reduces the price of all the articles received by the colony, as low as they can be afforded—in other words, as low as in the mother country itself, allowance being made for the expense of carrying them. If it be said that the colonies afford a market; I reply that the capital, which supplies commodities for that market, would still prepare commodities, if the colonies were annihilated; and those commodities would still find consumers. The labour and capital of a country cannot prepare more than the country will be willing to consume. Every individual has a desire to consume, either productively or unproductively, whatever he receives. Every country, therefore, contains within itself a market for all that it can produce. This will be made still more evident when the subject of consumption, the cause and measure of markets, comes under consideration. There is, therefore, no advantage whatsoever derived, under freedom of competition, from that part of the trade with a colony which consists in supplying it with goods, since no more is gained by it, than such ordinary profits of stock as would have been gained if no such trade had existed.

If there be any peculiar advantage, therefore, it must be derived from the cheapness of the goods which the colony supplies to the mother country. It is evident, that if the quantity of goods, sugar, for example, which the colony sends to the mother country, is so great as to glut the mother country; that is, to supply its demand beyond the measure of other countries, and make the price of them in the mother country lower than it is in other countries, the mother country profits by compelling the colony to bring its goods exclusively to her market, since she would have to pay for them as high as other countries, if the people of the colony were at liberty to sell wherever they could obtain the greatest price.

This advantage, if drawn by the mother country, would be drawn at the expense of the colony. In free trade both parties gain. In the advantage produced by forcing, whatever is gained by the one party is lost by the other. The mother country, in compelling the colony to sell goods cheaper to her than she might sell them to other countries, merely imposes upon her a tribute; not direct, indeed, but not the less real because it is disguised.

If any advantage is derived from restraining, any otherwise than by an exclusive company, the trade with the colonies, it must consist in forcing the colonies to sell to none but the mother country, not in forcing them to buy from none but the mother country. A great improvement, therefore, in colonial policy would be, to throw open the supply of the colonies, permitting them to purchase the goods which they want, wherever they could find the most favourable market, only restraining them in the sale of their goods; allowing them to buy wherever they pleased, permitting them to sell to none but the mother country.

It is at the same time to be observed, that if the merchants of the mother country have freedom to export the goods which are derived from the colonies, the price of these goods will be raised in their own country to the level of the price in other countries. The competition of the merchants will, also, raise the price of the goods to a correspondent height in the colonies; and thus the benefit to the mother country is lost.

Treaties of commerce are sometimes concluded; the object of which is to limit the freedom of trade. One country can be limited to another in but two ways; either in its purchases or its sales. Suppose that Great Britain binds some other country to purchase certain commodities exclusively from her;

Great Britain can derive no advantage from such a treaty. The competition of her merchants will make them sell those commodities as cheap to the merchants of that country, as to their own countrymen. Their stock is not more profitably employed than it would be if no such trade existed. There are cases in which a country may gain by binding another country to *sell* to none but itself. If one country is bound to sell no commodities whatsoever, except to another particular country; this is the same case, exactly, with that of a colony bound to sell to none but the mother country. As no free country, however, is likely to bind itself to sell none of its commodities except to one other, this is not a case which we need to regard as practicable or real.

One country may bind itself to sell exclusively to another particular country, not all the articles it has for foreign sale, but only some of them.

There may be articles which yield nothing, even in a state of freedom, but the ordinary profits of stock; as cloth, hardware, hats, &c.: or they may be articles which yield something over and above the ordinary profits of stock; as corn, wine, minerals, &c. which are the source of rent.

One country can derive no advantage from compelling another to sell to it, exclusively, articles of the first sort. If the price which the favoured country pays for the goods is not sufficient to afford the ordinary profits of stock, they will not be produced. If the price which it pays is sufficient to afford the ordinary profits of stock, it would, at that price, obtain the goods, without any treaty of restriction.

The case is different, where the goods yield something, as rent, or the profits of a monopoly, over and above the profits of stock. In that case, it is desirable for him who receives the rent to encourage the sale to the favoured country, so long as he receives any additional rent on account of that sale. The quantity sent in this manner to the favoured country, tends to sink there the price of the restricted commodity lower than it is in the neighbouring countries; and lower than the restricted country would, if not under restriction, be enabled to sell it in those countries. To this extent, and to this only, can one country benefit, by restricting the trade of another to itself.

There is one mode of presenting this subject, which is apt to puzzle a mind not practised in the intricacies of this science.

Suppose two countries, A and B, of which A is bound by treaty, or otherwise, to receive all its shoes from B, and to sell to B all its sugars: Suppose, also, that A could, if left at liberty, obtain its shoes 50 per cent. cheaper from some other country; in that case, it may for a moment appear, that B obtains the sugars which it buys of A, with 50 per cent. less of its own labour, than it would if A were allowed to purchase shoes where it pleased.

If B paid for the supposed sugars in shoes, it would, no doubt, pay 50 per cent. more in the case of a free trade.

But if there were any other article with which it could purchase those sugars, and which it could afford as cheap as any other country, it would lose nothing in the case of a free trade; it would purchase the same quantity of sugar with the produce of the same quantity of labour as before; only, that produce would be, not shoes, but some other article.

That there would be articles which B could afford as cheap as any other country, is certain, because otherwise it could have no foreign trade.

It may be said, however, that though B might have articles which it could sell as cheap as other countries, they might not be in demand in the country which produced the sugars. But if shoes only were in demand in the colonies, those other articles could purchase shoes where they were cheapest; and thus obtain the same quantity of sugar, in the free, as in the restricted state of the trade.

CHAPTER IV.

CONSUMPTION.

Of the four sets of operations, Production, Distribution, Exchange, and Consumption, which constitute the subject of Political Economy, the first three are means. No man produces for the sake of producing, and nothing farther. Distribution, in the same manner, is not performed for the sake of distribution. Things are distributed, as also exchanged, to some end.

That end is Consumption. Things are produced, that they may be consumed; and distribution and exchange are only the intermediate operations for bringing the things which have been produced into the hands of those who are to consume them.

SECTION I.

OF PRODUCTIVE AND UNPRODUCTIVE CONSUMPTION.

Of Consumption, there are two species; the distinctive properties of which it is of great importance to comprehend.

These are, 1st, Productive Consumption; 2d, Unproductive Consumption.

1. That production may take place, a certain expenditure is required. It is necessary that the labourer should be maintained; that he should be provided with the proper instruments of his labour, and with the material of the commodity which it is his business to produce.

What is thus expended for the sake of something to be produced, is said to be consumed productively.

In productive consumption, three classes of things are included. The first is, the necessaries of the labourer, under which term are included all that his wages enable him to consume, whether these confine him to what is required for the preservation of existence, or afford him something for enjoyment. The second class of things consumed for production is machinery; including tools of all sorts, the buildings necessary for the productive operations, and even the cattle. The third is, the material of which the commodity to be produced must be formed, or from which it must be derived. Such is the seed from which the corn must be produced, the flax or wool of which the linen or woollen cloth must be formed, the drugs with which it must be dyed, or the coals which must be consumed in any of the necessary operations.

Of these three classes of things, it is only the second, the consumption of which is not completed in the course of the productive operations. The machinery and buildings, employed in production, may last for several years; the necessaries, however, of the labourer, and the materials, either primary or secondary, of the commodity to be produced, are all completely consumed. Even of the durable machinery, the wear and tear amount to a partial consumption.

2. Thus it is that men consume for the sake of production. They also, however, consume without producing, and without any view to production. The wages which a man affords to a ploughman, are given for the sake of production; the wages which he gives to his footman and his groom, are not given for the sake of production. The flax which the manufac-

turer purchases, and converts into linen, he consumes productively; the wine which he purchases, and uses at his table, is a commodity which he consumes unproductively. These instances are sufficient to illustrate what is meant, when we speak of unproductive consumption. All consumption, which does not take place to the end that something, which may be an equivalent for it, may be produced by means of it, is unproductive consumption.

From this explanation it follows, that productive consumption is itself a means; it is a means to production. Unproductive consumption, on the other hand, is not a means. This species of consumption is the end. This, or the enjoyment which is involved in it, is the good which constituted the motive to all the operations by which it was preceded.

From this explanation it also follows, that, by productive consumption, nothing is lost; no diminution is made of the property, either of the individual, or of the community; for if one thing is destroyed, another is by that means produced. The case is totally different with unproductive consumption. Whatever is unproductively consumed, is lost. Whatever is consumed in this manner, is a diminution of the property, both of the individual and of the community; because, in consequence of this consumption, nothing whatever is produced. The commodity perishes in the using, and all that is derived is the good, the pleasure, the satisfaction, which the using of it yields.

That which is productively consumed is always capital. This is a property of productive consumption which deserves to be particularly remarked. The truth of the proposition is manifest. A man commences the manufacture of cloth, with a certain capital. Part of this capital he allots for the payment of wages; another part he lays out in machinery; and with what remains he purchases the raw material of his cloth, and the other articles, the use of which is required in preparing it for the market. It thus appears that the whole of every capital undergoes the productive consumption. It is equally obvious that whatever is consumed productively becomes capital; for if the manufacturer of cloth, whose capital we have seen to be productively consumed, should save a portion of his profits, and employ it in the different kinds of productive consumption required in his business, it would perform exactly the functions performed by his capital, and would, in truth, be an addition to that capital.

The whole of what the productive powers of the country have brought into existence in the course of a year, is called the gross annual produce. Of this the greater part is required to replace the capital which has been consumed; to restore to the capitalist what he has laid out in the wages of his labourers and the purchase of his materials, and to remunerate him for the wear and tear of his machinery. What remains of the gross produce, after replacing the capital which has been consumed, is called the net produce; and is always distributed either as profits of stock, or as rent.

This net produce is the fund from which all addition to the national capital is commonly made. If the net produce is all consumed unproductively, the national capital remains unaltered. It is neither diminished nor increased. If more than the net produce is consumed unproductively, it is taken from the capital; and so far the capital of the nation is reduced. If less than the net produce is unproductively consumed, the surplus is devoted to productive consumption; and the national capital is increased.

Though a very accurate conception may thus be formed of the two species of consumption, and the two species of labour, productive and unproductive, it is not easy to draw the line precisely between them. Almost all our classifications are liable to this inconvenience. Between things which differ the most widely, there is almost always an order of things which approach them by insensible gradations. We divide animals into two classes, the rational and irrational; and no two ideas can be more clearly distinguished. Yet beings may be found, of which it would be difficult to say to which of the two classes they belonged. In like manner, there are consumers, and labourers, who may seem, with some propriety, to be capable of being ranked either in the productive or the unproductive class. Notwithstanding this difficulty, it is absolutely necessary, for the purposes of human discourse, that classification should be performed, and the line drawn somewhere. This may be done, with sufficient accuracy both for science and for practice. It is chiefly necessary that the more important properties of the objects classified should be distinctly marked in the definition of the class. It is not difficult, after this, to make allowance in practice for those things which lie, as it were, upon the confines of two classes; and partake, in some degree, of the properties of both.

SECTION II.

THAT WHICH IS ANNUALLY PRODUCED IS ANNUALLY CONSUMED.

FROM what we have now ascertained of the nature of production and consumption, it will easily be seen, that the whole of what is annually produced, is annually consumed; or that what is produced in one year, is consumed in the next.

Every thing which is produced belongs to somebody, and is destined by the owners to some use. There are, however, but two sorts of use; that for immediate enjoyment, and that for ultimate profit. To use for ultimate profit, is to consume productively. To use for immediate enjoyment, is to consume unproductively.

We have just observed, that what is used for ultimate profit, is laid out, as expeditiously as possible, in wages of labour, machinery, and raw material. As it would be attended with a loss, to lay in a greater stock, than that which is required for immediate use, of articles destined for unproductive consumption, all articles of this sort, except a few, of which the quality is improved by their age, are always expeditiously consumed or put in a course of consumption.

A year is assumed in political economy as the period which includes a revolving circle of production and consumption. No period does so exactly. Some articles are produced and consumed in a period much less than a year. In others the circle is greater than a year. It is necessary, for the ends of discourse, that some period should be assumed as including this circle. The period of a year is the most convenient. It corresponds with one great class of productions, those derived from the cultivation of the ground. And it is easy, when we have obtained forms of expression which correspond accurately to this assumption, to modify them in practice to the case of those commodities, the circle of whose production and consumption is either greater or less than the standard to which our general propositions are conformed.

SECTION III.

THAT CONSUMPTION IS CO-EXTENSIVE WITH PRODUCTION.

It requires only a few explanations to show, that this is a direct corollary from the proposition established in the preceding section.

A man produces, only because he wishes to have. If the commodity which he produces is the commodity which he wishes to have, he stops when he has produced as much as he wishes to have; and his supply is exactly proportioned to his demand. The savage who makes his own bow and arrows, does not make bows and arrows beyond what he wishes to possess.

When a man produces a greater quantity of any commodity than he desires for himself, it can only be on one account; namely, that he desires some other commodity, which he can obtain in exchange for the surplus of what he himself has produced. It seems hardly necessary to offer any thing in support of so necessary a proposition. It would be inconsistent with the known laws of human nature to suppose, that a man would take the trouble to produce any thing, without desiring to have any thing. If a man desires one thing, and produces another, it can only be because the thing which he desires can be obtained by means of the thing which he produces, and better obtained than if he had endeavoured to produce it himself.

After labour has been divided and distributed to any considerable extent, and each producer confines himself to some one commodity or part of a commodity, a small portion only of what he produces is used for his own consumption. The remainder he destines for the purpose of supplying him with all the other commodities which he desires; and when each man confines himself to one commodity, and exchanges what he produces for what is produced by other people, it is found that each obtains more of the several things which he desires, than he would have obtained had he endeavoured to produce them all for himself.

So far as a man consumes that which he produces, there is, properly speaking, neither supply nor demand. Demand and supply, it is evident, are terms which have reference to exchange; to a buyer and a seller. But in the case of the man who produces for himself, there is no exchange. He neither offers to buy any thing, nor to sell any thing. He has the property; he has produced it; and does not mean to part with it. If we apply, by a sort of metaphor, the terms demand and supply to this case, it is implied, in the very terms of the supposition, that the demand and supply are exactly proportioned to one another. As far then as regards the demand and supply of the market, we may leave that portion of the annual produce, which each of the owners consumes in the shape in which he produces or receives it, altogether out of the question.

In speaking here of demand and supply, it is evident that we speak of aggregates. When we say of any particular nation, at any particular time, that its supply is equal to its demand, we do not mean in any one commodity, or any two commodities. We mean, that the amount of its demand in all commodities taken together, is equal to the amount of its supply in all commodities taken together. It may very well happen, notwithstanding this equality in the general sum of demands and supplies, that some one commodity or commodities may have been produced in a quantity either above or below the demand for those particular commodities.

Two things are necessary to constitute a demand. These are—A Wish for the commodity, and An Equivalent to give for it. A demand means, the will to purchase, and the means of purchasing. If either is wanting, the purchase does not take place. An equivalent is the necessary foundation of all demand. It is in vain that a man wishes for commodities, if he has nothing to give for them. The equivalent which a man brings is the instrument of demand. The extent of his demand is measured by the extent of his equivalent. The demand and the equivalent are convertible terms, and the one may be substituted for the other. The equivalent may be called the demand, and the demand the equivalent.

We have already seen, that every man, who produces, has a wish for other commodities, than those which he has produced, to the extent of all that he has produced beyond what he wishes to keep for his own consumption. And it is evident, that whatever a man has produced and does not wish to keep for his own consumption, is a stock which he may give in exchange for other commodities. His will, therefore, to purchase, and his means of purchasing—in other words, his demand, is exactly equal to the amount of what he has produced and does not mean to consume.

But it is evident, that each man contributes to the general supply the whole of what he has produced and does not mean to consume. In whatever shape any part of the annual produce has come into the hands of any man, if he proposes to consume no part of it himself, he wishes to dispose of the whole; and the whole, therefore, becomes matter of supply: if he consumes a part, he wishes to dispose of all the rest, and all the rest becomes matter of supply.

As every man's demand, therefore, is equal to that part of the annual produce, or of the property generally, which he has to dispose of, and each man's supply is exactly the same thing, the supply and demand of every individual are of necessity equal.

Demand and supply are terms related in a peculiar manner. A commodity which is supplied, is always, at the same time, a commodity which is the instrument of demand. A commodity which is the instrument of demand, is always, at the same time, a commodity added to the stock of supply. Every commodity is always at one and the same time matter of demand and matter of supply. Of two men who perform an exchange, the one does not come with only a supply, the other with only a demand; each of them comes with both a demand and a supply. The supply which he brings is the instrument of his demand; and his demand and supply are of course exactly equal to one another.

But if the demand and supply of every individual are always equal to one another, the demand and supply of all the individuals in the nation, taken aggregately, must be equal. Whatever, therefore, be the amount of the annual produce, it never can exceed the amount of the annual demand. The whole of the annual produce is divided into a number of shares equal to that of the people to whom it is distributed. The whole of the demand is equal to as much of the whole of the shares as the owners do not keep for their own consumption. But the whole of the shares is equal to the whole of the produce. The demonstration, therefore, is complete.

How complete soever the demonstration may appear to be, that the demand of a nation must always be equal to its supply, and that it never can be without a market, sufficiently enlarged for the whole of its produce, this proposition is seldom well understood, and is sometimes expressly contradicted.

The objection is raised upon the foundation, that commodities are often found to be too abundant for demand.

The matter of fact is not disputed. It will easily, however, be seen, that it affects not the certainty of the proposition which it is brought to oppugn.

Though it be undeniable, that the demand which every man brings is equal to the supply which he brings, he may not find in the market the sort of purchaser which he wants. No man may have come desiring that sort of commodity of which he has to dispose. It is not the less necessarily true, that he came with a demand equal to his supply; for he wanted something in return for the goods which he brought. It makes no difference to say, that perhaps he only wanted money; for money is itself goods; and, besides, no man wants money but in order to lay it out, either in articles of productive, or articles of unproductive consumption.

Every man having a demand and a supply, both equal; if any commodity be in greater quantity than the demand, some other commodity must be in less.

If every man has a demand and supply both equal, the demand and supply in the aggregate are always equal. Suppose, that of these two equal quantities, demand and supply, the one is divided into a certain number of parts, and the other into as many parts, all equal; and that these parts correspond exactly with one another; that as many parts of the demand as are for corn, just so many parts of the supply are of corn; as many of the one as are for cloth, so many of the other are of cloth, and so on: it is evident, in this case, that there will be no glut of any thing, whether the amount of the annual produce is great or small. Let us next suppose, that this exact adaptation to one another of the parts of demand and supply is disturbed; let us suppose, the demand for all things remaining the same, that the supply of cloth is considerably increased: there will of course be a glut of cloth, because there has been no increase of demand. But to the very same amount there must of necessity be a deficiency of other things; for the additional quantity of cloth, which has been made, could be made by one means only, by withdrawing capital from the production of other commodities, and thereby lessening the quantity produced. But if the quantity of any commodity is diminished, a demand equal to the greater quantity remaining, the quantity of that commodity is defective. It is, therefore, impossible, that there should ever be in any country a commodity or commodities in quantity greater than the demand, without there being, to an equal amount, some other commodity or commodities in quantity less than the demand.

The effects, which are produced in practice, by the want of adaptation in the parts of demand and supply, are familiar. The commodity which happens to be in superabundance declines in price; the commodity which is defective in quantity rises. This is the fluctuation of the market, which every body sufficiently understands. The lowness of the price in the article which is superabundant soon removes, by the diminution of profits, a portion of capital from that line of production: The highness of price, in the article which is scarce, invites a quantity of capital to that branch of production; till profits are equalized, that is, till the demand and supply are adapted to one another.

The strongest case which could be put, in favour of the supposition that produce may increase faster than consumption, would undoubtedly be that in which, every man consuming nothing but necessaries, all the rest of the annual produce should be saved. This is, indeed, an impossible case, because it is inconsistent with the laws of human nature. The consequences of it, however, are capable of being traced; and they serve to throw light upon the argument by which the constant equality has been demonstrated, of produce and demand.

In such a case, what came to every man's share of the annual produce, bating his own consumption of necessaries, would be devoted to production. All production would of course be directed to raw produce and a few of the coarser manufactures; because these are the articles for which alone there would be any demand. As every man's share of the annual produce, bating his own consumption, would be laid out for the sake of production, it would be laid out in the articles subservient to the production of raw produce and the coarser manufactures. But these articles are precisely raw produce and a few of the coarser manufactures themselves. Every man's demand, therefore, would consist wholly in these articles; but the whole of the supply would consist also in the same articles. And it has been proved, that the aggregate demand and aggregate supply are equal of necessity; for the whole of the annual produce, bating the portion consumed by the shareholders, is brought as the instrument of demand; and the whole of the annual produce, with the same abatement, is brought as supply.

It appears, therefore, by accumulated proof, that production can never be too rapid for demand. Production is the cause, and the sole cause, of demand. It never furnishes supply, without furnishing demand, both at the same time, and both to an equal extent.

SECTION IV.

IN WHAT MANNER GOVERNMENT CONSUMES.

ALL consumption is either by individuals, or by the government. Having treated of the consumption of individuals, it only remains that we treat of that which has government for its cause.

Although the consumption by government, as far as really necessary, is of the highest importance, it is not, unless very indirectly, subservient to production. That which is consumed by government, instead of being consumed as capital, and replaced by a produce, is consumed, and produces nothing. This consumption is, indeed, the cause of that protection, under which all production has taken place; but if other things were not consumed in a way, different from that in which things are consumed by government, there would be no produce. These are reasons for placing the expenditure of government under the head of unproductive consumption.

The revenue of government must be derived from rent, from profits of stock, or from wages of labour.

It is, indeed, possible for government to consume part of the capital of the country. This, however, it can only do for one year, or for a few years. Each year in which it consumes any portion of the capital, it so far reduces the annual produce; and, if it continues, it must desolate the country. This, therefore, cannot be regarded as a permanent source of revenue.

If the revenue of government must always be derived from one or more of three sources,—rent, profits, wages, the only questions which require to be answered, are, in what manner, and in what proportion, should it be taken from each?

The direct method is that which most obviously suggests itself. I shall, therefore, first, consider what seems to be most important in the direct mode of deriving a revenue to government from rent, profits, and wages; and, secondly, I shall consider the more remarkable of the expedients which have been employed for deriving it from them indirectly.

SECTION V.

TAXES ON RENT.

It is sufficiently obvious, that the share of the rent of land, which may be taken to defray the expenses of the government, does not affect the industry of the country. The cultivation of the land depends upon the capitalist; who devotes himself to that occupation, when it affords him the ordinary profits of stock. To him it is a matter of perfect indifference whether he pays the surplus, in the shape of rent, to an individual proprietor, or, in that of revenue, to a government collector.

In Europe, at one period, the greater part of at least the ordinary expenses of the sovereign were defrayed by land which he held as a proprietor; while the expense of his military operations was chiefly defrayed by his barons, to whom a property in certain portions of the land had been granted on that express condition. In those times, the whole expense of the government, with some trifling exception, was, therefore, defrayed from the rent of land.

In the principal monarchies of Asia, almost the whole expenses of the state have in all ages been defrayed from the rent of land; but in a manner somewhat different. The land was held by the immediate cultivators, generally in small portions, with a perpetual and transferable title; but under an obligation of paying, annually, the government demand; which might be increased at the pleasure of the sovereign; and seldom amounted to less than a full rent.

If a body of people were to migrate into a new country, and land had not yet become private property, there would be this reason for considering the rent of land as a source peculiarly adapted to supply the exigencies of the government; that industry would not by that means sustain the smallest depression; and that the expense of the government would be defrayed without imposing any burden upon any individual. The owners of capital would enjoy its profits; the class of labourers would enjoy their wages; without any deduction whatsoever; and every man would employ his capital, in the way which was really most advantageous, without receiving any inducement, by the mischievous operation of a tax, to remove it from a channel in which it was more, to one in which it would be less productive to the nation. There is, therefore, a peculiar advantage in reserving the rent of land as a fund for supplying the exigencies of the state.

There would be this inconvenience, indeed, even in a state of things in which land had not been made private property; that the rent of the land in a country of a certain extent, and peopled up to a certain degree, would exceed the amount of what government would need to expend. The surplus ought undoubtedly to be distributed among the people, in the way likely to contribute the most to their happiness; and there is no way, perhaps, in which this end can be so well accomplished, as by rendering the land private property. As there is no difficulty, however, in rendering the land private property, with the rent liable for a part of the public burdens; so there seems no difficulty in rendering it private property, with the rent answerable for the whole of the public burdens. It would only in this case require a greater quantity of land to be a property of equal value. Practice would teach its value as accurately, under these, as under present circumstances; and the business of society would, it is evident, proceed without alteration in every other respect.

Where land has, however, been converted into private property, without making rent in a peculiar manner answerable for the public expenses; where it has been bought and sold upon such terms, and the expectations of individuals have been adjusted to that order of things, rent of land could not be taken to supply exclusively the wants of the government, without injustice. It would be partial and unequal taxation; laying the burden of the state upon one set of individuals, and exempting the rest. It is a measure, therefore, never to be thought of by any government which would regulate its proceedings by the principles of justice.

That rent which is bought and sold, however; that rent upon which the expectations of individuals are founded, and which, therefore, ought to be exempt from any peculiar tax, is the present rent; or at least the present, with some very moderate prospect of improvement. Beyond this, no man's speculations, either in making a purchase, or in making provision for a family, are entitled to extend. Suppose, now, that in these circumstances, it were in the power of the legislature, by an act of its own, all other things remaining the same, to double the net produce of the land: there would be no reason, in point of justice, why the legislature should not, and great reason, in point of expediency, why it should, avail itself of this, its own power, in behalf of the state; should devote as much as might be requisite of this new fund to defray the expenses of the government, and exempt the subjects from any burden on that account. No injury would be done to the original land-owner. His rent, such as he had enjoyed it, and to a great degree such even as he had expected to enjoy it, would remain the same. A great advantage would at the same time accrue to every individual in the community, by exemption from those contributions for the expense of the government to which he would otherwise have had to submit.

It is true that the legislature *does* possess that power, which I have now spoken of only as a fiction. By all those measures which increase the amount of population and the demand for food, the legislature does as certainly increase the net produce of the land, as if it had the power of doing so by a miraculous act. That it does so by a gradual progress in the real, would do so by an immediate operation in the imaginary case, makes no difference with regard to the result. The original rent, which belonged to the owner, upon which he regulated his purchase if he did purchase, and on which alone, if he had a family to provide for, his arrangements in their favour were to be framed, is easily distinguishable from any addition capable of being made to the net produce of the land, whether it be made by a slow or a sudden process. If an addition made by the sudden process might, without injustice to the owner, be appropriated to the purposes of the state, no reason can be assigned why an addition by the slow process might not be so appropriated.

It is certain, that as population increases, and as capital is applied with less and less productive power to the land, a greater and a greater share of the whole of the net produce of the country accrues as rent, while the profits of stock proportionally decrease. This continual increase, arising from the circumstances of the community, and from nothing in which the landholders themselves have any peculiar share, does seem a fund no less peculiarly fitted for appropriation to the purposes of the state, than the whole of the rent in a country where land had never been appropriated. While the original rent of the landholder, that upon which alone all his arrangements, with respect both to himself and his family, must be framed, is secured from any peculiar burden; he can have no reason to complain, should a new source of income, which cost him nothing, be appropriated to the service of the state; and if so, it evidently makes no difference to the merits of the case, whether this new source is found upon the land, or found any where else.

SECTION VI.

A TAX ON PROFITS.

A DIRECT tax on profits of stock offers no question of any difficulty. It would fall entirely upon the owners of capital, and could not be shifted upon any other portion of the community.

As all capitalists would be affected equally, there would be no motive to the man engaged in any one species of production, to remove his capital to any other. If he paid a certain portion of his profits, derived from the business in which he was already engaged, he would pay an equal portion derived from any other business to which he would resort. There would not, therefore, in consequence of such a tax, be any shifting of capital from one species of employment to another. The same quantity of every species of goods would be produced, if there was the same demand for them. That there would, on the whole, be the same aggregate of demand, is also immediately apparent. The same capital is supposed to be employed in the business of production; and if part of what accrued to the capitalist was taken from him, lessening to that extent his means of purchasing, it would be transferred to the government, whose power of purchasing would be thence to the same degree increased.

There would, therefore, be the same demand, and the same supply: there would also be the same quantity of money; and therefore the money value of every thing would remain the same as before.

SECTION VII.

A TAX ON WAGES.

The effect of a direct tax upon wages is a question of greater complexity.

If wages should rise, the tax would not fall upon the labourer. If wages did not rise, or not to the amount of the tax, it would fall, either wholly or in part, upon the labourer.

If we suppose, that wages would not rise in consequence of a tax, every capitalist would have the means of employing the same number of men as before. The wages being the same, and the funds of the capitalist the same, the amount of employment would be the same.

If, in these circumstances, we suppose that a new fund were suddenly obtained for the employment of labour, and without any increase in the number of labourers, it is obvious that wages would rise. There would be a new class of competitors for workmen; the whole mass of competitors would bid against one another; and would raise the price of labour, which the demand had thus increased more rapidly than the supply.

It is evident, however, that, in the circumstances supposed, a new fund for the employment of labour would be created. The whole amount of what might be derived from the tax upon labour would go into the hands of government. The taxes which pass into the hands of government give employment to labour, in the same way as the revenue of any individual, or class of individuals. They are expended, either as wages of labour, or in the purchase of commodities which have been the produce of labour.

But, if the funds of the capitalist, for the employment of labour, should remain the same, and a new fund for the employment of labour should be placed at the disposal of government, it follows of necessity that wages would rise.

It is then to be inquired, to what extent they would rise. The answer is not difficult. Whenever a new fund is devoted to the employment of labour, without an increase in the number of labourers, wages must rise to the extent of the fund. The whole of the old funds are, upon this supposition, still devoted to the employment of labour, and the new fund is superadded. The number of labourers is the same; they get among them all the old funds, and the new in addition. Their wages, therefore, taken as a whole, are increased exactly to the extent of the fund which has been added to the former funds. But in the case of a tax raised upon the wages of labour, the new fund is of the same amount exactly as the tax. Wages of labour, therefore, are raised in consequence of a tax to an amount the same as that of the tax. Such a tax, therefore, does not fall upon the labourer.

If this tax does not fall upon the labourer, the next question is, upon whom it does fall. We have already seen, that a rise in the wages of labour is always attended with a fall in the profits of stock that since the labourer and the capitalist divide between them the produce of their labour and capital, exactly as the share of the one is increased, that of the other is diminished. A tax upon wages, therefore, falls upon the capitalist, and is the same as a tax, to an equal amount, upon the profits of stock.

There is one set of cases, however, in which the result would be different. If the tax which is levied upon wages, instead of being expended by the government at home, were paid regularly in the way of tribute, or otherwise, to a foreign country, wages would not rise; because, in that case, the fund, placed at the disposal of government, would not be destined to the employment of the labour of the country.

There are certain direct taxes which are destined to fall equally upon all sources of income: such as assessed taxes, poll taxes, and income taxes. After what has been said, it is not difficult to see upon whom, in each instance, the burden of them falls. In as far as they are paid by the man whose income is derived from rent, or the man whose income is derived from profits of stock, the burden of them is borne by these classes. The one cannot raise their rents in consequence, nor the other the price of their commodities. No additional demand arises from the tax. If any part of such tax, however, is paid by the labourer, the result is different. If his wages do not rise, the demand for his labour will be increased. The funds of the owners of stock will all be devoted to the employment of labour as formerly; and what the labourers have paid as a tax, will be a new fund in the hands of government.

The effect of these taxes upon prices may be easily ascertained. A tax upon rent would produce no alteration in the price of any thing. Rent is the effect of price; and the effect cannot operate upon the cause. That a tax upon profits would not alter price, has already been shown. Of the tax upon wages, there are two cases; that in which it raises wages, and that in which it does not raise them. In the case in which it does not raise them, it will hardly be supposed that any rise of prices should ensue.

The capital of the country is not supposed to undergo any alteration, nor, of course, the quantity of produce. With respect to the demand, a portion of the power of purchasing, which belonged to the labourers, is taken from them; but the whole of what is taken from them is transferred to the government. In this case, indeed, it is supposed, that government sends abroad the amount of the tax. If we suppose, however, that it sends abroad the tax in goods, it is then evident, that no diminution of prices would ensue. But if it sends it abroad in bullion, the case, in the long run, is the same; for as the vacuity which is thus made in the bullion market, is to be supplied, goods must go abroad to purchase it. The exportation of the bullion, if it diminishes the quantity of money, will produce a temporary depression of price. But this would produce the same effect on any other occasion.

In the case in which wages do rise, it may also be seen, that the capital and produce of the country remain the same, the amount of demand and supply the same, and the value of money the same. The aggregate of prices, therefore, one thing being compensated by another, is the same. That change, indeed, which takes place in the relative value of certain kinds of commodities, as often as wages rise and profits fall, is necessarily produced on this occasion. Those commodities, the produce of which is chiefly owing to fixed capital, and where little payment of wages is required, fall in price, as compared with those in the produce of which immediate labour is the principal instrument, and where little or nothing of fixed capital is required. The compensation, however, is complete; for as much as the one of these two sets of commodities falls in price, the other rises; and the price of both, taken aggregately, or the medium of the two, remains the same as before.

SECTION VIII.

TAXES ON COMMODITIES; EITHER SOME PARTICULAR COMMODITIES; OR ALL COMMODITIES EQUALLY.

Taxes on commodities may either affect some particular kinds, or all commodities equally.

When a tax is laid on any particular commodity, not on others, the commodity rises in price, or exchangeable value; and the dealer or producer is re-imbursed for what he has advanced on account of the tax. If he were not re-imbursed, he would not remain upon a level with others, and would discontinue his trade. As the tax is, in this case, added to the price of the goods, it falls wholly upon the consumers.

When a tax, in proportion to their value, is laid upon all commodities, there is this difference, that no one commodity rises in exchangeable value, as compared with another. If one yard of broad cloth was equal in value to four yards of linen, and if a duty of ten per cent. on the value were laid upon each, a yard of cloth would still be equal to four yards of linen.

An *ad valorem* duty upon all commodities would have the effect of raising prices.

The members of the community would come to market, each with the same quantity of money as before. One-tenth of it, however, as it came into the hands of the producers, would be transferred to the government. But it would again be immediately laid out in purchases, either by the government itself, or by those to whom the government might dispose of it. This portion, therefore, would come into the hands of the producers oftener by once, after the tax was imposed, than before. Before the tax was imposed, it came once into the hands of the producers, from those of the purchasers, of goods, and there it remained. After the tax was imposed, it would come into the hands of the producers in the same manner: but it would not remain; it would go from them to the government, and from the government come back into the hands of the producers a second time.

The producers, in this manner, would receive for their goods, not only the whole ten-tenths of the money of the country, as before; but they would receive one-tenth twice, where they received it only once before. This is the same thing exactly as if they had received eleven-tenths, or as if the money of the country had been increased one-tenth. The purchasing power of the money, therefore, is diminished one-tenth ; in other words, the price of commodities has risen one-tenth.

Upon whom the tax would, in that case, fall, is abundantly obvious. The purchasers would come with the same quantity of money as before. The purchasing power of that money, however, would be reduced one-tenth, and they would be able to command one-tenth less of commodities than before. The tax would, of course, fall upon purchasers.

SECTION IX.

A TAX UPON THE PRODUCE OF THE LAND.

A TAX upon the produce of land—a tax upon corn, for example, would raise the price of corn, as of any other commodity. It would fall, by consequence, neither upon the farmer, nor upon the landlord, but upon the consumer. The farmer is situated as any other capitalist, or producer; and we have seen sufficiently in what manner the tax upon commodities is transferred from him that produces to him that consumes.

The landlord is equally exempted. We have already seen that there is a portion of the capital employed upon the land, the return to which is sufficient to yield the ordinary profits of stock, and no more. The price of produce must be sufficient to yield this profit, otherwise the capital would be withdrawn. If a tax is imposed upon produce, and levied upon the cultivator, it follows that the price of produce must rise sufficiently to refund the tax. If the tax is 10 per cent. or any other rate, upon the selling price, corn must rise in value one-tenth, or any other proportion.

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In that case it is easy to see, that no part of the tax falls upon the landlord. It is the same as if one-tenth of the produce were paid in kind. In that case, it is evident, that one-tenth less of the produce would come to the landlord; but, as it would rise one-tenth in value, his compensation would be complete. His rent, though not the same in point of produce, would be the same in point of value.

If, instead of a money-tax, varying according to price, it were a fixed money-tax upon the bushel, or the quarter, the money-rent of the landlord would still be the same. Suppose the land or capital, which, as explained above, yields no rent, to produce in all two quarters, that which does yield rent to produce six quarters; four quarters, in that case, are the share of the landlord. Suppose the tax per quarter to be 1*l.*; corn must rise 1*l.* per quarter. The farmer, before the imposition of the tax, paid the landlord the price of four quarters; after it, he pays him the price of four quarters, deducting 1*l.* per quarter for what he had paid as tax. But corn has risen 1*l.* per quarter. He, therefore, pays him the same sum as before.

SECTION X.

TITHES AND POOR RATES.

TITHES are a tax upon the produce of the land; a tenth of the produce, perfectly or imperfectly collected.

The operation, therefore, of this tax, has been already ascertained. It raises the price of produce, and falls wholly upon the consumer.

If the poor rate were levied in proportion to profits, upon farmers, manufacturers, and merchants, it would be a tax upon profits. If it were levied in proportion to the rent of land, it would be a tax upon the rent of land. If it were levied upon the rent of houses, it would fall upon the inmates, and be a tax upon income. From the mode in which it is levied, it is drawn in part from all these sources. If it falls disproportionally upon the profits of any one class of capitalists, that class receives compensation. If the farmers, as is usually supposed, pay a higher rate for the maintenance of the poor than other producers, this, as far as the excess extends, is the same thing as a separate and additional tax upon them. But if a separate tax is laid upon the farmers, we have already seen that it operates immediately to raise the price of corn sufficiently high to afford them compensation for the tax.

A tax upon the instruments of production is the same thing as a tax upon produce. A tax, for example, upon agricultural horses, increases the expense of production to the farmer, just as a tax upon the raw material would increase the cost of production to the manufacturer. Both taxes must operate to raise the price of the produce; and by consequence fall upon the consumer.

Of all such taxes as raise the price of corn, one effect is remarkable. As a certain quantity of corn is necessary to the subsistence of the labourer, his wages must be competent to the purchase of that quantity. They must, therefore, rise as the price of that quantity rises. But we have already seen, that, in proportion as wages rise, profits fall. A tax upon corn, therefore, operates upon all men as consumers. Upon capitalists it operates in two ways; it is, first, a tax upon them as consumers; and, secondly, it has the same effect upon them as a tax upon their profits.

SECTION XI.

A TAX PER ACRE ON THE LAND.

We have already considered in what manner a tax laid upon the land, and proportional to the rent, would operate; and in what manner a tax laid upon the land, and proportional to the produce, would operate. The first would be a tax upon the landlord; the second would be a tax upon the consumer, and would not affect the landlord. A tax may also be laid upon the land at so much per acre.

The operation of this tax would be different, if it were levied upon cultivated land only, and if it were levied on both cultivated and uncultivated.

If it were levied on both cultivated and uncultivated, it would not raise the price of produce, and would fall wholly upon the landlord; if it were levied on cultivated land only, it would raise the price of produce, fall wholly on the consumers, and increase the rent of landlords.

We have seen that there is a portion of capital employed upon the land, the return to which is sufficient to afford the ordinary profits of stock, but no more. If any addition is made to the cost of producing, a rise of price must afford compensation. If no addition is made to such cost, price will not be affected.

If a tax is laid at so much per acre on land, both cultivated and uncultivated, no addition will be made to the cost of producing. There are two cases in which portions of capital are employed on the land without yielding more than the ordinary profits of stock; of course yielding nothing for rent: the one is, where, after two or more doses of capital have been bestowed upon land, each yielding less than the former, a third or a fourth comes to be employed; the other is, where, after land of the second or third degree of fertility has been exhausted, cultivation is forced upon land of a still inferior quality.

In the first of these cases, it is evident, immediately, that a tax on the acre does not affect the cost of production upon any subsequent dose of capital. When the first dose only is applied, the tax is paid; and it is, therefore, the interest of the farmer to apply a second, as soon as the price of produce has risen sufficiently high to afford him a full profit, and nothing more. No allowance remains to be made for the tax which was already paid.

The same conclusion holds, when capital is applied to new land of inferior quality. In this case, also, if the tax was previously paid, the owner of the land has an interest in cultivating it, the moment when produce rises sufficiently high to afford the profits of the stock which the cultivation may require.

The case, however, is different, when the tax is levied only on cultivated land. When capital passes downwards from the more fertile land which has been cultivated before, to the less fertile, which has not been cultivated, a tax then begins immediately to be paid. The produce to be raised must yield, not only the ordinary profits of stock, but the tax also; such land will not be cultivated till the price of produce has risen sufficiently high to yield that accumulated return. The tax, therefore, is included in the price.

The consequence, with regard to the landlord, is beneficial. Suppose that land of the third degree of fertility is the last to which cultivation has descended; that such land yields at the rate of two quarters per acre, land of the next degree above it at the rate of four quarters, and land of the first degree of fertility six quarters; in this case, it is evident, that two quarters upon each acre affords both the tax, and the remuneration to the farmer. The landlord, therefore, may derive two quarters from the acre of second quality, four quarters from the acre of first. He draws this quantity of produce equally in both cases, as well when such a tax is levied, as when it is not levied. But in the case of the tax, the price is raised, and each of his quarters of corn is of greater value. Such a tax would, therefore, raise upon the consumers, not only so much per acre to the government, but a great deal more for the benefit of the landlords.

SECTION XII.

TAXES UPON THE TRANSFER OF PROPERTY.

Taxes upon the transfer of property are of several kinds; as stamp duties upon purchase and sale, legacy duties, duties upon the writings required in the conveying of property, and others of the same nature.

In the case of all property which is the produce of labour and capital, the tax upon purchase and sale falls upon the purchaser, because the cost of production, including the profits of stock, must be afforded along with the tax.

Taxes upon the transfer of land, which is a source of production, and not the effect of labour and capital, fall upon the seller; because the purchaser considers what benefit he could derive from his capital employed in another way; and if the land will not afford him an equivalent, he will refuse to exchange it for the land.

Legacy duties, and duties upon free gifts, fall, it is evident, upon the receivers.

SECTION XIII.

LAW TAXES.

Taxes upon proceedings at law are levied chiefly in the form of stamps on the different writings employed in the business of judicature; and in that of fees, on the several steps and incidents of the judicial procedure.

It is evident enough that they fall upon the suitors. It is equally evident that they are a tax upon the demand for justice.

Justice is demanded in two cases: either that in which it is a matter of doubt to which of two persons a certain right belongs; or that in which the right of some person has been violated, and a remedy is required.

There is no peculiar propriety in taxing a man because he has a right which is unfortunately disputed. But there is the greatest of all improprieties in taxing a man because he has sustained an act of injustice.

It is very evident that all such taxes are a bar in the way of obtaining redress of injury; and just in so far as any thing obstructs the redress of injury, injustice is promoted. A tax upon justice, therefore, is a premium upon injustice.

SECTION XIV.

TAXES ON MONEY, AND THE PRECIOUS METALS.

A TAX upon money cannot be conveniently levied, excepting either upon the occasion of its coinage, or that of the first acquisition of the bullion. It might be levied upon the bullion, either upon its importation from abroad; or, if the mine were within the country, upon its issuing from the mine.

A tax upon coinage is the same thing, in effect, with what has been called a seignorage. It is the paying of something more for the coins, than the quantity of bullion of which they are composed.

The effect of this is evident, when a currency consists entirely of the metals. No man will carry bullion to be coined, unless the metal in the coin is of more value than the metal as bullion, to at least the amount of the tax. The currency, therefore, is raised in value; that is to say, the metal in the state of currency is raised in value, by the amount of the tax.

This is a tax which possesses the peculiar property of falling upon nobody. It falls not upon the man who carries bullion to be coined, because he carries it only when the coins are equal in value to the tax and bullion together. It falls not upon the persons to whom the coins are paid as the medium of exchange; because they are of the same value to them, as if they contained the whole of the bullion for which they would exchange.

This is a tax, therefore, which ought always to be carried as far as the peculiar limit to which it is subject will admit. The limit to which it is subject, is the inducement to illicit coining. If the tax is raised so high, as to pay the coiner for his expenses and the risk of detection, illicit coinage is ensured.

In a country in which paper circulates along with gold, the paper has a tendency to prevent the effect of a seignorage.

It is the interest of those who issue paper, to maintain in circulation as great a quantity of it as they can. They may go on increasing the quantity, till it becomes the interest of those who hold their notes, to bring the notes to them for coins.

It is the interest of those who are the possessors of notes, to carry them to the bank for coins, only when there is a profit by melting. The coins, as coins, are not more valuable than the paper, so long as they circulate, without a premium, along with the paper.

But if the paper has been issued in great quantity, the value of the currency may be so reduced, that the metal in the coins may be of more value as bullion than as coin. Melting for the sake of this profit, is the only check upon the quantity of a paper money convertible into coins at the option of the holder.

It is very obvious, that if coins are issued under a seignorage, with the metal in the coins of greater value than the metal in the state of bullion, the coins can be retained of that value only if the currency is limited in amount. When paper is issued without restriction, that limit is removed. The paper issued increases the quantity of currency, till the metal in the coins is reduced, first to the same value as that in bullion, next to a less value. At that point, it becomes the interest of individuals to demand coins at the bank, for the purpose of melting; and then it is the interest of the bank to contract its issues.

A very simple, however, and a very effectual expedient, is capable of being adopted, for preventing this effect of a paper currency. That is, an obligation on the bank to pay for its notes, either in coins, or in bullion, at the option of the holder. Suppose that an ounce of gold is coined into *3l.*, deducting five per cent. for seignorage, and suppose that a bank which issues notes is bound to pay, on demand, not only *3l.* of coins, but an ounce of bullion, if preferred; it is evident that the bank, in that case, has an interest in preventing the currency from sinking in value. If the currency is so high in value, that 3*l.* of currency is really equal in value to an ounce of bullion, the bank loses nothing by being obliged to give for it an ounce of bullion; if it is so depressed in value, that 3*l.* of it is not worth an ounce of bullion, it does lose. The check upon the issue of paper is thus made to operate earlier.

A tax upon the precious metals, when imported, or extracted from the mines, would, as far as the metals were destined to the ordinary purposes of use or ornament, fall upon the consumers; it would, as far as the metals were used for currency, fall upon nobody.

It would raise the exchangeable value of the metal. But a smaller quantity of a valuable metal is not less convenient as the medium of exchange, than a greater quantity of a less valuable. It would be expedient, therefore, to derive as much as possible from this source. The facility, however, of carrying and concealing a commodity, which involves a great value in small dimensions, renders it a source from which much cannot be derived. Under a very moderate duty, illicit importation would be unavoidable.

Though a tax upon the precious metals, as imported, or issued from the mines, would, like all other taxes upon particular commodities, fall ultimately upon the consumer, it would not do so immediately. That which enables the producers, when a tax is laid upon any commodity, to throw the burden upon the consumers, is the power they have of raising the price, by lessening the supply. Of most commodities, the quantity in use is speedily consumed. The annual supply required bears, therefore, a great proportion to the quantity in use; and if it is withheld, or only a part of it withheld, the supply becomes so far diminished as greatly to raise the price. The case is different with the precious metals. If the annual supply is wholly withheld, it will, for some time, make no great defalcation from the quantity in use. It will, therefore, have little effect upon prices. During that interval, the sellers of the metals are not indemnified. During that time, more or less of the tax falls upon them.

The same observation applies to houses, and all other commodities of which the quantity in use is great, in proportion to the annual supply.

SECTION XV.

EFFECTS OF THE TAXATION OF COMMODITIES UPON THE VALUE OF MONEY, AND THE EMPLOYMENT OF CAPITAL.

Capital is most advantageously employed, when no inducement whatsoever is made use of to turn it out of one employment into another. It is most advantageously employed, when it follows that direction which the interest of the owners would, of its own accord, impress upon it.

Suppose that broad cloth is in England twenty shillings per yard; that linen, if made at home, would be three shillings per yard: that in Germany, on the contrary, linen is at two shillings per yard; broad cloth, if made there, would be twenty-four shillings per yard.

It is very evident that in these circumstances, it would be the interest of England to employ her labour in making broad cloth for Germany, instead of linen for herself; and that of Germany, in making linen for England, instead of broad cloth for herself

In England the same quantity of labour that produced one yard of broad cloth, would produce only seven yards of linen. But in Germany, one yard of this cloth would purchase twelve yards of linen. England, therefore, by exporting broad cloth in exchange for linen, would gain the whole of the difference between seven yards of linen and twelve.

If, in these circumstances, a tax in England were laid upon broad cloth, which raised the price to twenty-four shillings, what would be the consequences?

In the first place, it is evident, that no broad cloth could be exported to Germany. The price, however, of linen, would still be so low in Germany, that it would be imported into England. Money, instead of cloth, would go abroad to pay for it. Money, therefore, would become comparatively scarce in England; and prices would fall. It would become comparatively abundant in Germany, and prices would rise. Linen would, therefore, become too dear to be imported into England; unless in the mean time some other commodity, in consequence of the increasing value of money, became cheap enough in England to allow exportation. In the first case, England would, by a tax upon her own broad cloth, be deprived of the advantage of obtaining cheap linen from Germany, and would be obliged to produce it for herself. In the other case, she would be compelled to export, in exchange for the linen, another commodity, which, by the supposition, she produced on less favourable terms than the first.

In this manner it is evident, that by a tax imposed upon broad cloth, the people of England would suffer, not only by paying the tax upon broad cloth, but by being obliged to pay also more for their linen.

The effect of this tax upon prices would be, to raise the money value of broad cloth a certain degree, though not to the amount of the tax; and to lower the money value of all other commodities: not to raise, at least permanently, the price of cloth to the whole amount of the tax; because it would send a part of the money out of the country: to lower the price of all other commodities, because, by this departure of the money, its value would be raised.

If, when the tax was imposed upon broad cloth, a drawback of the whole of the duty was allowed upon exportation, there would be no alteration in the trade with Germany; English broad cloth would be sent there, and linen would be imported, on the same terms as before. The people of England would sustain the burden of the tax, and would suffer no other injury. There would be no transit of the precious metals. The price of broad cloth would be raised in England; and the price of all other things would remain as before.

Even if no drawback were allowed, taxes have not a necessary tendency to lessen the quantity of foreign trade. Though England, as in the case already supposed, were hindered, by the tax on broad cloth, from exporting broad cloth; she might soon, by the transit of money, have it in her power to export some other commodity. The reason of this case, it will easily be seen, applies to all other cases. A highly taxed country may possibly export to as great an extent as if she had not been taxed at all. If care, however, has not been taken, and it seldom is taken, to compensate exactly for established duties by countervailing duties and drawbacks, it does not export with the same advantage.

There are two cases, in which the money cost of commodities may be raised by taxation: that in which any number of commodities are taxed one by one, as in the instance, just adduced, of broad cloth; and that in which all commodities are taxed by an *ad valorem* duty.

In neither of these cases has the high price of commodities—in other words, the low purchasing power of money, any tendency to send money out of the country.

In the case adduced above, the broad cloth alone was enhanced in price by the tax. The purchasing power of money was lessened, therefore, only in respect to broad cloth. But money could not go out of the country with any greater advantage to purchase broad cloth; because that commodity, on importation, would have to pay the tax.

Neither would an *ad valorem* duty, though it would raise, in the manner already explained, the price of all commodities, and reduce the purchasing power of money, have a tendency to send money out of the country. Suppose the duty ten per cent.; and the purchasing power of money reduced as much below the level of the surrounding countries. It would be of no avail to the merchant that his money would purchase ten per cent. more of goods abroad, if he were obliged to pay ten per cent. duty upon their importation. It thus appears, that the price of commodities may be raised by taxation to any amount, in one country, above the price in other countries, if drawbacks and countervailing duties are accurately ordained upon exportation and importation.

THE END.