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POLITICAL ECONOMY:

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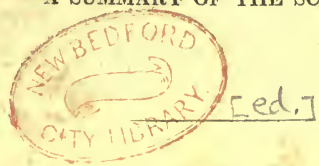
A REPUBLICATION OF THE ARTICLE UPON THAT SUBJECT CONTAINED
IN THE EDINBURGH SUPPLEMENT TO THE ENCYCLOPEDIA
BRITANNICA.

TOGETHER WITH

Notes Explanatory and Critical,

AND

A SUMMARY OF THE SCIENCE.



BY REV. JOHN M'VICKAR, A. M.

PROFESSOR OF MORAL PHILOSOPHY AND POLITICAL ECONOMY
IN COLUMBIA COLLEGE, NEW-YORK.

New-York:

WILDER & CAMPBELL, BROADWAY.

1825.

448128
27-5-46

Southern District of New-York, ss.

BE IT REMEMBERED, That on the 21st day of July, A. D. 1825, in the 50th year of the Independence of the United States of America, Wilder and Campbell, of the said District, have deposited in this office the title of a book, the right whereof they claim as proprietors, in the words following, to wit :

"Outlines of Political Economy: being a republication of the article upon that subject contained in the Edinburgh Supplement to the Encyclopedia Britannica. Together with Notes Explanatory and Critical, and a Summary of the Science. By Rev. John M'Vickar, A. M. Professor of Moral Philosophy and Political Economy in Columbia College, New-York."

In conformity to the Act of Congress of the United States, entitled "An Act for the encouragement of Learning, by securing the copies of Maps, Charts, and Books, to the authors and proprietors of such copies, during the time therein mentioned." And also to an Act, entitled "An Act, supplementary to an Act, entitled an Act for the encouragement of Learning, by securing the copies of Maps, Charts, and Books, to the authors and proprietors of such copies, during the times therein mentioned, and extending the benefits thereof to the arts of designing, engraving, and etching historical and other prints."

JAMES DILL,

Clerk of the Southern District of New-York.

TO

JAMES WADSWORTH, ESQ.

OF GENESEO, N. Y.

Col. Coll. July 19, 1825.

DEAR SIR,

I know not to whom the following republication can with greater propriety be addressed, than to the friend at whose solicitation it was undertaken: nor by whom it will be more favourably received, whether regarded as an attempt to facilitate in our country the study of Political Economy, or in consideration of the sentiments by which the present is dictated.

I am,

Respectfully and sincerely yours,

J. M. VICKAR.



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PREFATORY OBSERVATIONS.

THE following article is from the pen of J. R. M'Culloch, Esq. formerly of Edinburgh, now of London, in which latter city he has had the honour of being selected as the first Ricardo Lecturer upon Political Economy.

The object proposed by its republication is the diffusion, in a more popular form, of a valuable Essay on a most important subject; and it has been undertaken at the solicitation of men zealous in every good work. It is republished entire and without alteration, the original extracts from ancient and foreign authors being retained, and a translation added, an addition obviously required by the nature of the undertaking.

For the fidelity of these translations, for the original notes, being those marked by the signature *E*, and for the syllabus at the close, the Editor is responsible. Where he has the misfortune to differ from his Author, which he is occasionally compelled to do, the reasons by which he has been led to it, as well as the authorities which support him in it, shall be stated, in order that the reader may be enabled to form an independent decision; the object of the Editor being rather to excite inquiry, and create a popular taste for these studies, than to dogmatize upon them.

For readers not unpractised in the science, it may be well, in entering on the ensuing essay, to have before them some general view of the distinctive principles which have gradually separated from the Economical School of Adam Smith, the more modern one to which our Author is attached, and which generally passes under the name of that distinguished writer, to whose memory the London Institution has been raised. Among the fundamental positions of Adam Smith, which have since been controverted or set aside, the following are the principal.

1. That wealth is confined to material products—consequently all those classes of society who are not engaged in such production, are to be regarded as mere consumers of the public wealth.
2. That the price of every commodity is made up of three distinguishable portions, viz. rent of land, wages of labour, and profits of capital.
3. That exchangeable value is regulated by the opposing principles of demand and supply—being directly as the former, and inversely as the latter.
4. That the decrease of profits which usually accompanies the progress of society, arises from the accumulation of capital being more rapid than the means of its profitable investment.

To each of these positions the superior acuteness of modern analysis, has been able to raise objections ; these, however, are not all of equal strength, and while the admirers of Adam Smith are willing to acknowledge the inexpediency of the limitation contained in the first position, and the error of the second, they still contend for the practical truth of the third and fourth.

The principles of the modern school, as contradistinguished from those of Smith, may be thus stated.

1. That productive labour is not restricted to that engaged in material products, but that all paid labour is productive labour.
2. That rent forms no component part of price—that of the raw material being governed by the labour of production on land that pays no rent.
3. That exchangeable value is regulated solely by the quantity of labour worked up in the commodity.
4. That the decrease of profits in the progress of society arises, not from accumulation of capital, but from the increased difficulty of production on the land, or in other words, from the necessity of resorting to inferior soils, as population presses on the means of support.

In his additional notes, the general aim of the Editor has been, to supply what he considered requisite to render this essay a popular compendium of the science to which it relates. This he has endeavoured to do,—1. By explaining and illustrating whatever to the unpractised reader might appear obscure. 2. By a fuller statement of opposing opinions, and an ampler reference to authorities, thus enlarging to the student the materials for a candid and liberal judgment :—and 3. By the addition of some important questions which have been either altogether omitted by our Author, or but slightly touched upon.

The syllabus with which it closes, is intended to give a synoptical view of the science, to show the relation and harmonious connexion which subsists between its various parts, to render its principles familiar to the understanding, and thus give to the mind that acuteness and promptitude in their practical applications, which is necessary to the correction of error and the detection of sophistry.

Col. Coll. N. Y. 20th April, 1825.

POLITICAL ECONOMY.

PART I.

DEFINITION AND HISTORY.

Definition of the Science—Causes of its being neglected in Greece and Rome, and in the Middle Ages—Species of Evidence on which its Conclusions are founded—Rise of the Science in Modern Europe—Mercantile System—Progress of Commercial Philosophy in England in the Seventeenth and Eighteenth Centuries—System of M. Quesnay and the French Economists—Publication of the “Wealth of Nations”—Distinction between Politics and Statistics and Political Economy.

POLITICAL ECONOMY* is the science of the laws which regulate the production, distribution, and consumption of those material products which have exchangeable value, and which are either necessary, useful, or agreeable to man.†

Definition
of the
Science.

This definition has been framed so as to exclude all reference to such articles as exist independently of man, and of which unlimited quantities can be obtained without any degree of laborious exertion. Had such been the case with all the articles required to satisfy our wants, and to gratify our desires, this science would either have had no existence at all, or would have been cultivated only as a source of amusement, without any view to utility. Political Economy is exclusively conversant with objects which come within the observation of every man, and which are continually modified by human interference. It is, in fact, the science of values; and nothing which is not possessed of exchangeable value, or which will not be accepted as an equivalent for something else, can come within the scope of its inquiries. It is obvious, however, that an article may be possessed of the highest degree of utility, or, as it is sometimes termed, of intrinsic worth, and yet be wholly destitute of exchangeable value. Without utility of some species or another,

* *Economy*, from οἶκος, a house, or family, and νόμος, a law—the government of a family. Hence Political Economy may be said to be to the state what domestic economy is to a single family.

† The definition of a science, as it limits its inquiries, is consequently all important. Thus the definition of our author confines it to material productions; thereby excluding all consideration of the influence exercised upon national prosperity, by science and professional labours. The importance of these considerations will be afterward shown; at present it is sufficient to point it out, as a defect in the definition. The latter clause is also superfluous, since the exchangeable value possessed by a product, is both the test and the measure of its necessity, utility, or agreeableness. A better definition is that given in the title of A. Smith's work—The science which relates to the “nature and causes of the wealth of nations.”—E.

Definition. no article will ever be an object of demand ; but how necessary soever any particular article may be to our comfort, or even existence, and however great the demand for it, still, if it be a spontaneous production of nature—if it exists independently of human agency, and if every individual has an indefinite command over it, it can never become the subject of an exchange, or afford a basis for the reasonings of the economist. It cannot justly be said, that the food with which we appease the cravings of hunger, or the clothes by which we defend ourselves from the inclemency of the weather, are more useful than atmospheric air ; and yet they are possessed of that exchangeable value of which it is totally destitute. The reason is, that food and clothes are not, like air, gratuitous products : they cannot be had at all times, and without any exertion ; they are *obtainable only by labour* ; and as no one will voluntarily sacrifice the fruits of his industry, without receiving an equivalent in return, they are truly said to possess exchangeable value.

Distinction between Value in Exchange and Utility.

The word *value* has, we are aware, been very generally employed to express, not only the exchangeable worth of a commodity, or its capacity of exchanging for other commodities, but also to express its *utility*, or its capacity of satisfying our wants, and of contributing to our comforts and enjoyments. But it is obvious, that the utility of commodities—that the capacity of bread, for example, to appease hunger, or of water to quench thirst—is a totally different and distinct quality from their capacity of exchanging for other commodities. Dr. Smith perceived this difference, and showed the importance of carefully distinguishing between the utility, or, as he expressed it, the “value in use,” of commodities, and their value in exchange. But he did not always keep this distinction in view, and it has been very generally lost sight of by M. Say, Mr. Malthus,* and other late writers. We have no doubt, indeed, that the confounding together of these opposite qualities has been one of the principal causes of the confusion and obscurity in which many branches of the science, not in themselves difficult, are still involved. When, for example, we say that water is highly valuable, we unquestionably attach a very different meaning to the phrase from what we attach to it when we say that gold is valuable. Water is indispensable to existence, and has, therefore, a high degree of utility, or of “value in use ;” but as it can be generally obtained in large quantities, without much labour or exertion, it has, in most places, but a very low value in exchange. Gold, on the other hand, is of comparatively little utility ; but as it exists only in limited quantities, and as a great deal of labour is necessary to procure a small supply of it, it has a high exchangeable value, and may be exchanged or bartered for a large quantity of most other commodities. To confound these

* This charge against Malthus appears to be unfounded : on the contrary, he carefully maintains the distinction, “The term value” says he, “is so rarely understood as meaning the mere utility of an object, that if this interpretation of it be retained it should never be applied without the addition, *in use.*”—*Malthus’ Principles, &c.* chap. 2. *Summary.* M. Say, it is true, so uses it, but it is not in its ordinary sense, but as a technical term, the meaning of which he had already fixed by definition.—*Say, Book I. chap. i.* These arbitrary definitions, however, are a source of error, and therefore to be avoided.—*E.*

different sorts of value would evidently lead to the most erroneous conclusions. And hence, to avoid all chance of error from mistaking the sense of so important a word as *value*, we shall never use it except to signify exchangeable worth, or value in exchange; and shall always use the word *utility* to express the power or capacity of an article to satisfy our wants, or gratify our desires. Definition.

A few words will suffice to show the necessity and importance of always distinguishing between the utility of a commodity and its value. If utility and value in exchange were identical, or if they were regulated by the same laws, it would necessarily follow, that the same circumstances which were calculated to increase the utility of any article would also increase its value, and *vice versa*. But the fact is distinctly and completely the reverse. The utility of a commodity is never increased by simply raising, but it is, in the great majority of instances, increased by lowering its value. A deficient harvest increases the exchangeable value of corn, but most certainly it does not increase its utility. If such an improvement were to take place in the manufacture of hats as would enable them to be produced for a half of the expense it now takes to bring them to market, their value, and consequently their price, would very soon be reduced a half also. Each individual would thus be able to buy two hats for the same sum it had formerly required to buy one; and while the *utility* of no single hat would be impaired by this fall of value, it is plain that the sphere of their utility would be greatly extended, and that they would be brought within the reach of a large proportion of those whose poverty might previously have rendered them unable to obtain them. In fact, the grand object of the science of Political Economy is to discover the means by which the value of commodities may be reduced to the lowest possible limits. For, the more their value is reduced, the more obtainable they become, and the greater, consequently, is the amount of the necessaries, conveniences, and luxuries at the disposal of every individual.

Political Economy has been frequently defined to be “the science which treats of the production, distribution, and consumption of *wealth* ;” and if by *wealth* be meant those material products which possess exchangeable value, and which are necessary, useful, or agreeable to man, the definition is quite unexceptionable. But the economists who have adopted this definition have attached a different, and a much too extensive meaning to the term *wealth*. They have sometimes, for example, considered *wealth* as synonymous with “*all that man desires as useful and agreeable to him.*” * Definition of the term *Wealth*.

* This definition is that given by the Earl of Lauderdale. Though indefensible as the subject of the science, it is yet true as a definition of *wealth*, in the sense in which Lauderdale employs it. He distinguishes between the opulence of the state and that of individuals; to the former he applies the term “*wealth*,” to the latter “*riches*”—“All is *wealth* that man desires as useful or delightful to him.” To convert it into *riches* it must exist in such a degree of scarcity as to become capable of appropriation. Thus we may say of a country abounding in all the products of a fertile soil and healthful climate, that it has *wealth*; but whether its inhabitants be rich depends on their comparative numbers and power of exchange. Italy is a wealthy country, Scotland a poor one; but the inhabitants of the former

Definition. were to embrace a discussion of the production and distribution of all that is useful and agreeable, it would include within itself every other science; and the best Encyclopædia would really be the best treatise on Political Economy. Good health is useful and delightful, and, therefore, on this hypothesis, the science of wealth ought to comprehend the science of medicine; civil and religious liberty are highly useful, and, therefore, the science of wealth must comprehend the science of politics; good acting is agreeable, and, therefore, to be complete, the science of wealth must embrace a discussion of the principles of the histrionic art, and so on. Such definitions are obviously worse than useless. They can have no effect but to generate confused and perplexed notions respecting the objects and limits of the science, and to prevent the student ever acquiring a clear and distinct idea of the nature of the inquiries in which he is engaged.

Mr. Malthus has defined wealth to consist of "those material objects which are necessary, useful, and agreeable to man." (*Principles of Political Economy*, p. 28.) But this definition, though infinitely less objectionable than the preceding, is much too comprehensive to be used in Political Economy. Atmospheric air, and the heat of the sun, are both material products, and are highly useful and agreeable.* But their independent existence, and their incapacity of appropriation, excludes them, as we have already shown, from the investigations of this science.

Dr. Smith has not explicitly stated what was the precise meaning attached by him to the term wealth; but he most commonly describes it to be "the annual produce of land and labour." Mr. Malthus, however, has justly objected to this definition, that it refers to the sources of wealth, before we know what wealth is, and that it includes all the useless products of the earth, as well as those which are appropriated and enjoyed by man.

The definition we have given is not liable to any of these objections. By confining the science to a discussion of the laws regulating "the production, distribution, and consumption of those material products which have exchangeable value, and which are either necessary, useful, or agreeable," we give to it a distinct and definite object. When thus properly restricted, the researches of the economist occupy a field which is exclusively his own. He runs no risk of wasting his time in inquiries which belong to other sciences, or in unprofitable investigations respecting the production and consumption of articles which cannot be appropriated, and which exist independently of human industry.

Capacity of appropriation is indispensably necessary to constitute wealth. And we shall invariably employ this term to distinguish those products only which are obtained by the inter-

are poor, of the latter comparatively rich.—*Inquiry into the Nature and Origin of Public Wealth*, ch. ii.—For an able criticism upon it, see *Edinburgh Review*, Vol. iv.—*E.*

* The author here carelessly uses the term *product* as synonymous with *object*, whereas *product* in the language of this science, is properly confined to the results of human labour, something produced by voluntary not by natural agency. Had Malthus used the term *product* instead of *object*, the criticism passed upon him by our author would have been inapplicable.—*E.*

vention of human labour, and which, consequently, can be appropriated by one individual, and consumed exclusively by him. Definition. A man is not said to be wealthy, because he has an indefinite command over atmospheric air, for this is a privilege which he enjoys in common with every other man, and which can form no ground of distinction; but he is said to be wealthy, according to the degree in which he can afford to command those necessities, conveniences, and luxuries which are not the gifts of nature, but the products of human industry. It must, however, be carefully observed, that, although the possession of value be thus necessary to the existence of wealth, they cannot be confounded together without leading to the most erroneous conclusions. Wealth and value are as widely different as utility and value. It is plain that every man will be able to command a much greater quantity of these necessities and gratifications, of which wealth consists when their value declines, or when they become more easily obtainable, than when their value increases. *Wealth and value vary in an inverse ratio.* The one increases as the other diminishes, and diminishes as the other increases. —Wealth is greatest where the facility of production is greatest, and value is greatest where the difficulty of production is greatest.*

The science of Political Economy is exclusively conversant with that class of phenomena, which the exertion of human industry exhibits. Its object is to ascertain the means by which this industry may be rendered most productive of necessities, comforts, luxuries, and enjoyments, or of wealth in the proper sense of the word; by which this wealth may be most advantageously distributed among the different classes of the society; and by which it may be most profitably consumed. To enter into a lengthened argument to prove the importance of a science having such objects in view, would be worse than useless. The consumption of wealth is indispensable to existence; but the eternal law of Providence has decreed that wealth can only be procured by the intervention of industry—that man must earn his bread by the sweat of his brow. This twofold necessity renders the production of wealth a constant and principal object of the exertions of the vast majority of the human race. It has subdued the natural aversion of man to labour, given acti- Importance of the Science.

* In this passage there may appear to be some obscurity; its principles, however, are just:—Wealth and value are both relative terms—wealth relates to persons, value to things; wealth refers to the power individuals possess of commanding the comforts and luxuries of life; value to the rate of exchange existing among the products of industry:—wealth is based upon plenty of commodities; value upon their scarceness. We may suppose a state of society, in which nature producing gratuitously all that can be desired, wealth would abound, but value would have no place: as labour was required for their production, wealth would decrease and value increase, until we arrived at the opposite extreme, where constant labour would suffice for the support of the labourer only; in which case, wealth would cease, but value would be at its height.

The actual state of society, may be taken as a variable medium between these two extremes, and partaking of the character of both. Commodities having value in proportion to their scarceness, and adding to wealth in proportion to their plenty and cheapness.—See *Malthus' Principles of Political Economy*, ch. 6.—*E.*

Objects and
Importance
of the
Science.

vity to indolence, and armed the patient hand of industry with zeal to undertake, and perseverance to overcome, the most difficult and disagreeable tasks. But when wealth is thus necessary, when the desire to acquire it is sufficient to induce us to submit to the greatest privations, it is plainly impossible to doubt the utility and paramount importance of the science which teaches the modes by which its acquisition may be facilitated, and by which we may be enabled to obtain the greatest amount of wealth with the least possible difficulty. There is no class of people to whom a knowledge of this science can be considered as either extrinsic or superfluous. There are some, doubtless, to whom it may be of more advantage than to others; but it is of the utmost consequence to all.* The prosperity of individuals, and consequently of nations, does not depend nearly so much on salubrity of climate, or on the fertility and convenient situation of the soils they inhabit, as on the power possessed by them, of applying their labour with perseverance, skill, and judgment. Industry can balance almost every other deficiency. It can render regions naturally inhospitable, barren, and unproductive, the comfortable abodes of an intelligent and refined, a crowded and wealthy population; but where it is wanting, the most precious gifts of nature are of no value, and countries possessed of the greatest capabilities of improvement, with difficulty furnish a miserable subsistence to the scanty population of hordes distinguished only by their ignorance, barbarism, and wretchedness.

Causes of
the Neglect
of this Science
in the
Ancient and
Middle Ages.

But when the possession of wealth is thus necessary to individual existence and comfort, and to the advancement of nations in the career of civilization, it may justly excite our astonishment that so few efforts should have been made to discover its sources, and facilitate its acquisition, and that the study of Political Economy, should not have been early considered as forming a principal part in a comprehensive system of education. Two circumstances, to which we shall now briefly advert, seem to us to have been the principal causes of the neglect of this science. The first is the institution of *domestic slavery* in the ancient world; and the second the darkness of the period when the plan of education in the universities of modern Europe was first organized.

The citizens of Greece and Rome considered it degrading to employ themselves in those occupations which form the princi-

* The applicability of the principles of this science to the advancement of individual wealth, is but hinted at by our author; it deserves to have been more strongly enforced. It is the great merit of Say's system, that it not only identifies individual wealth with that of the nation, but also the means by which they are respectively to be advanced. Wealth cannot be produced from nothing, but then every man derives from nature, in some proportion or other, its primitive elements,—mental ability and physical strength; to direct them to its production, is the only object of this science. So that to use the illustration of Say, "As men may be taught to make a clock, they may be taught to make what is called riches." Nor is it without a capital that any healthy young man sets out in life. The expenses of his education and support from his infancy, are to him an accumulated capital—his mental acquirements and bodily strength are their result; and by means of them he is enabled to derive an interest from the money that has been thus appropriated in his favour, and laid out in what, while health continues, is its most permanent and profitable investment.—E.

pal business of the inhabitants of modern Europe. In some of the Grecian states the citizens were prohibited from engaging in any species of manufacturing or commercial industry; and in Athens and Rome, where such a prohibition did not exist, these employments were universally regarded as mean, mercenary, and unworthy of freemen, and were in consequence carried on exclusively by slaves, or the very dregs of the people.* Agriculture was treated with more respect. Some of the most distinguished characters in the earlier ages of Roman history, had been actively engaged in rural affairs; but, notwithstanding their example, in the flourishing period of the Republic, and under the Imperial *Regime*, the cultivation of the soil was almost entirely carried on by slaves, belonging to the landlord, and employed on his account. The mass of Roman citizens were either engaged in the military service,† or derived a precarious and dependant subsistence from the supplies of corn furnished by the conquered provinces. In such a state of society the relations subsisting in modern Europe between landlords and tenants, and masters and servants, were unknown; and the ancients were in consequence entire strangers to all those interesting and important questions arising out of the rise and fall of rents and wages, which form so important a branch of economical science. The spirit of the philosophy of the ancient world was also extremely unfavourable to the cultivation of Political Economy. The luxurious or more refined mode of living of the rich, was regarded

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* The force of the prejudices on this head may be learned from the following quotations: "Illiberales autem et sordidi," Cicero says, "questus mercenariorum, omniumque quorum operæ, non quorum artes emuntur. Est enim illis ipsa merces auctoramentum servitutis. Sordidi etiam putandi, qui mercantur a mercatoribus quod statim vendant, nihil enim proficiunt, nisi admodum mentiantur! Opificesque omnes in sordida arte versantur, nec enim quidquam ingenuum potest habere officina * * * Mercatura autem, si tenuis est, sordida putanda est; sin autem magna et copiosa, multa undique apportans, multisque sine vanitate impertiens, non est admodum vituperanda." (*De Officiis*, Lib. I. sect. 42.) "The gains of merchants, as well as of all who live by labour, and not skill, are mean and illiberal. Their very merchandize is the badge of their slavery. Those persons also are to be esteemed sordid who buy from merchants that they may immediately sell again, for their profits can be made only by falsehood. All workmen are servilely engaged, nor can the workshop have any thing worthy of a freeman. The business of a merchant, if contracted, is base, yet if great and extensive, bringing many things from far, and without vanity distributing them to many, is not to be altogether despised."—(*Cicero on Morals*.)

"Vulgaris opificum, quæ manu constant, et ad instruendam vitam occupatæ sunt; in quibus nulla decoris, nulla honesti simulatio est." (*Seneca Epistole*, Ep. 89.) "The business of workmen, which is manual; and relates merely to the conveniences of life, without any connexion with taste or sentiment, is to be reputed base."—(*Seneca's Letters*.)

A hundred similar quotations might be produced; but the one we have given from Cicero is sufficient to establish the accuracy of what we have advanced. The strength of the prejudice against commerce and the arts is proved by its exerting so powerful an influence over so cultivated a mind. For a further discussion of the opinions of the Romans on this subject, we refer our readers to the *Dissertazione del Commercio de Romani* of Mengotti, which received a prize from the Academy of Paris in 1787, and to the *Memoria Apologetica del Commercio de Romani* of Torres, published at Venice in 1788.

† "Rei militaris virtus præstat cæteris omnibus; hæc populo Romano, hæc huic urbi æternam gloriam peperit."—(*Cicero pro Murena*.) "Military science excels all other—it is this which has gained eternal glory for this city, and for the Roman people."—(*Cicero for Murena*.)

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by the ancient moralists as an evil of the first magnitude. They considered it as subversive of those warlike virtues, which were the principal objects of their admiration, and, in consequence, they denounced the passion for accumulating wealth as fraught with the most injurious and destructive consequences. It was impossible that Political Economy could become an object of attention, to men imbued with such prejudices; or that it could be studied by those who held the objects about which it is conversant in contempt, and who spurned that labour by which wealth is produced.*

At the establishment of our universities, the clergy were almost the exclusive possessors of the little knowledge then in existence. It was natural, therefore, that their peculiar feelings and pursuits should have a marked influence on the plans of education they were employed to frame. Grammar, rhetoric, logic, school divinity, and civil law, comprised the whole course of study. To have appointed professors to explain the principles of commerce, and the means by which labour might be rendered most effective, would have been considered as equally superfluous and degrading to the dignity of science. The prejudices against commerce, manufactures, and luxury, generated in antiquity, had a powerful influence in the middle ages. None were possessed of any clear ideas concerning the true sources of wealth, happiness, and prosperity. The intercourse between the different countries was extremely limited, and was rather confined to marauding excursions, and a piratical scramble for the precious metals, than to a commerce founded on the gratification of real or reciprocal wants.

These circumstances sufficiently account for the slow progress of, and the little attention paid to, this science up to a very recent period. And since it became an object of more general attention and liberal inquiry, the opposition between the theories and opinions, that have been espoused by the most eminent of its professors,—a necessary and inevitable result, as we shall immediately show, of its recent cultivation—has proved exceedingly unfavourable to its progress, and has generated a disposition to distrust its best established conclusions. This prejudice is, however, extremely ill-founded; and notwithstanding the diversity of the theories that have been formed to explain its va-

* From the ancients although we have but little written on this science, yet of that little much is wrong. Their philosophers taught them contempt of wealth, not the means of attaining it. Gold and virtue, according to Plato, were weights in opposite scales; of which, as one rose the other necessarily declined. In commerce, he taught that fundamental and prevalent error, which lies at the basis of the restrictive policy of nations, viz. That in an exchange both parties cannot be gainers: consequently, that the gain of the one but counterbalances the loss of the other:—hence, in his fiction of a perfect commonwealth, the capital was to be seated inland, and commerce prohibited. Xenophon, Aristotle, &c. hold a similar language; degrading, if not utterly rejecting, commerce: and by imposing forced limitations upon population, showing an utter ignorance of the productive powers of industry to increase, or rather to create, that wealth by which it is supported.

Rome, which had grown great by plunder, naturally despised the slow earnings of industry; and the sentiments of her writers, as well as the policy of her government, show the erroneous views then entertained of national wealth. They regarded it as existing in a certain definite quantity in the world at large, fluctuating, but not progressive, and of it every nation possessed itself of a share in proportion to its strength in war.—*E.*

rious phenomena, Political Economy admits of as much certainty in its conclusions, as any science not exclusively dependent on mere relation. A brief exposition of the nature of the principles on which it is founded, and of the mode in which its investigations ought to be conducted, will evince the correctness of this statement.

Causes of the neglect of Political Economy.

Principles of the Science. Nature of the Evidence on which its Conclusions are Founded.

Political Economy is not a science of speculation, but of fact and experiment. The principles on which the production and accumulation of wealth and the progress of civilization depend, are not the offspring of legislative enactments. Man must exert himself to produce wealth, because he cannot exist without it; and the desire implanted in the breast of every individual of rising in the world and improving his condition, impels him to save and accumulate. The principles which form the basis of this science make, therefore, a part of the original constitution of man and of the physical world, and their operations, like those of the mechanical principles, are to be traced by the aid of observation and analysis. There is, however, a material distinction between the physical and the moral and political sciences. The conclusions of the former apply in every case, while those of the latter only apply in the majority of cases. The principles on which the production and accumulation of wealth depend are inherent in our nature, but they do not exercise precisely the same influence over the conduct of every individual; and the theorist must satisfy himself with framing his general rules so as to explain their operation in the majority of instances, leaving it to the sagacity of the observer to modify them so as to suit individual cases. Thus it is an admitted principle in the science of Morals, as well as of Political Economy, that by far the largest proportion of the human race have a much clearer view of what is conducive to their own interests, than it is possible for any other man, or select number of men, to have; and consequently that it is sound policy to allow every individual to follow the bent of his inclination, and to engage in any branch of industry he thinks proper. This is the general theorem; and it is one which is established on the most comprehensive experience. It is not, however, like the laws which regulate the motions of the planetary system,—it will hold good in nineteen out of twenty instances, but the twentieth may be an exception. But it is not required of the economist, that his theories should quadrate with the peculiar bias of the mind of a particular person. His conclusions are drawn from contemplating the principles which are found to determine the condition of mankind, as presented on the large scale of nations and empires. His business is with man in the aggregate—with states, and not with families—with the passions and propensities which actuate the great bulk of the human race, and not with those which are occasionally found to influence the conduct of a solitary individual.

This distinction should be kept constantly in view. Nothing is more common than to hear it objected to some of the best established truths in political and economical science, that they are at variance with certain facts, and that, therefore, they must be rejected. But these objections very often originate in an entire misapprehension of the nature of the science. It

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would be easy to produce a thousand instances of individuals who have been enriched by monopolies and restrictions, and even by robbery and plunder; though it would certainly be a little too much to conclude from thence that society could be enriched by such means! This, however, is the single consideration to which the political economist has to attend;—and, until it can be shown that monopolies and restrictions are not destructive of *national wealth*, and that what is gained by the monopolist is not lost by the public, he is justified in considering them injurious. To arrive at a well-founded conclusion in economical science, it is not enough to observe results in particular cases, or as they affect particular individuals; we must further inquire whether these results are *constant* and *universally applicable*—whether the same circumstances which have given rise to them in one instance, would in every instance, and in every state of society, be productive of the same or similar results—A theory which is inconsistent with an *uniform* and *constant* fact, must be erroneous; but the observance of a particular result at variance with our customary experience, and when we may not have had the means of discriminating the circumstances attending it, ought not to induce us hastily to modify or reject a principle which accounts satisfactorily for the greater number of appearances.

The example of the few arbitrary princes who have been equitable, humane, and generous, is not enough to overthrow the principle which teaches that it is the nature of irresponsible power to debauch and vitiate its possessors—to render them haughty, cruel, and suspicious; nor is the example of those who, attentive only to present enjoyment, and careless of the future, lavish their fortunes in boisterous dissipation or vain expense, sufficient to invalidate the general conclusion, that the passion for accumulation is stronger and more powerful than the passion for expense. Had this not been the case, mankind could never have emerged from the condition of savages. The multiplied and stupendous improvements which have been made in different ages and nations—the forests that have been cut down—the marshes and lakes that have been drained and cultivated—the harbours, roads, and bridges, that have been constructed—the cities and edifices that have been raised—are *all* the fruit of a saving of income, and establish, in despite of a thousand individual instances of prodigality, the ascendancy and superior force of the accumulating principle.

It is from the want of attention to these considerations that much of the error and misapprehension with which the science of Political Economy has been, and still is, infected has arisen. Almost all the absurd theories and opinions which have successively appeared have been supported by an appeal to facts. But a knowledge of facts, without a knowledge of their mutual relation—without being able to show why the one is a cause and the other an effect—is, to use the illustration of M. Say, really no better than the indigested erudition of an almanack maker, and can afford no means of judging of the truth or falsehood of a general principle.

But, although we are not to reject a received principle because of the apparent opposition of a few results, with the par-

ticular circumstances of which we are unacquainted, we can have no confidence in its solidity if it be not deduced from a very comprehensive and careful induction. To arrive at a true knowledge of the laws regulating the production, distribution, and consumption of wealth, the economist must draw his materials from a very wide surface; he should study man in every different situation—he should have recourse to the history of society, of arts, of commerce, and of civilization—to the works of philosophers and travellers—to every thing, in short, that can throw light on the causes which accelerate or retard the progress of civilization. He should observe the changes which have taken place in the fortunes and condition of the human race in different regions and ages of the world. He should trace the rise, progress, and decline of industry, and he should carefully discriminate the effect of different political measures, and the various circumstances wherein an advancing and declining society differ from each other. Such investigations, by disclosing the real causes of national opulence and refinement, and of poverty and degradation, furnish the economist with the means of giving a satisfactory solution of almost all the important problems in the science of wealth, and of devising a scheme of public administration calculated to ensure the continued advancement of the society in the career of improvement.

Evidence on which the Conclusions of Political Economy are Founded.

It must always be kept in mind that it is no part of the business of the economist to inquire into the means by which individual fortunes may have been increased or diminished, except to ascertain their general operation and effect.* The *public interests* ought always to form the exclusive objects of his attention. He is not to frame systems, and devise schemes, for increasing the wealth and enjoyments of *particular classes*; but to apply himself to discover the sources of *national wealth*, and *universal prosperity*, and the means by which they may be rendered most productive.

* Though public and not private wealth, as our author justly observes, be the object of inquiry, yet from the analogy that subsists between them, an elucidation of the principles of the one must throw light upon the other, and men thereby become not only sounder legislators, but also better merchants and men of business, of whatever nature their employments may be. A few words may serve to explain this connexion. Individual wealth is acquired, either by the ordinary profits of regular business, or by the accidental profits of speculation,—in so far as it arises from the former, it rests upon the natural price of commodities; so that national and individual wealth become the same, governed by the same laws, and advancing with equal steps—here then the knowledge of this science must be practically important. In the profits of speculation the case is different: national and individual wealth here, are not the same: but neither are they, as many suppose, at variance,—wealth on such occasions, where the exchange is internal, simply changes hands—individuals gain or lose, but the mass of national wealth continues without alteration. Still, here also, this science may serve as a guide to the enterprise of the capitalist. Though his profits depend upon the fluctuations of a market price, yet these fluctuations have a law by which they are limited and governed: that law arises out of the necessary costs of production, which in the case of each commodity forms the central point of variation. A knowledge of this governing principle, together with those which regulate its demand and supply, must obviously afford something like a guide, in determining the nature and extent of a safe speculation.—E.

Rise of the
Science in
Modern
Europe.

When we reflect on the variety and extent of the previous knowledge requisite for the construction of a sound theory of Political Economy, we cease to feel any surprise at the errors into which economists have been betrayed, or at the discrepancy of the opinions which are still entertained on some important points. Political Economy is of very recent origin. Though various treatises of considerable merit had previously appeared on some of its separate parts, it was not treated as a whole, or in a scientific manner, until about the middle of last century. This circumstance is of itself enough to account for the number of erroneous systems that have since appeared. Instead of deducing their general conclusions from a comparison of particular facts, and a careful examination of the phenomena attending the operation of different principles, and of the same principles in different circumstances, the first cultivators of almost every branch of science have begun by framing their theories on a very narrow and insecure basis. Nor is it really in their power to go to work differently. Observations are scarcely ever made or particulars noted for their own sakes. It is not until they begin to be in request as furnishing the only test by which to ascertain the truth or falsehood of some popular theory, that they are made in sufficient numbers, and with sufficient accuracy. It is, in the peculiar phraseology of this science, the *effectual demand* of the theorist that regulates the production of the facts or raw materials, which he is afterward to work into a system. The history of Political Economy strikingly exemplifies the truth of this remark. Being, as we have already observed, entirely unknown to the ancients, and but little attended to by our ancestors up to a comparatively late period, those circumstances which would have enabled us to judge with the greatest precision of the wealth and civilization of the inhabitants of the most celebrated states of antiquity, and of Europe during the middle ages, have either been thought unworthy of the notice of the historian, or have been only very imperfectly and carelessly detailed. Those, therefore, who first began to trace the general principles of the science had but a comparatively limited and scanty experience on which to build their conclusions. Nor did they even avail themselves of the few historical facts with which they might have easily become acquainted, but almost exclusively confined their attention to those which happened to fall within the sphere of their own observation.

Mercantile
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Agreeably to what we have now stated, we find that the theories advanced by the early economical writers were formed on the most contracted basis, and were only fitted to explain a few of the most obvious and striking phenomena. The *Mercantile Theory*, for example, was entirely bottomed on the popular and prevalent opinions respecting money. The precious metals having been long used, both as a standard whereby to ascertain the comparative value of different commodities, and as the equivalents for which they were most frequently exchanged, acquired a fictitious importance, not merely in the estimation of the vulgar, but in that of persons of the greatest discernment. The simple consideration that all buying and selling is really nothing more than the bartering of one commodity for

another—of a certain quantity of corn or wool, for example, for a certain quantity of gold or silver, and *vice versa*, was entirely overlooked. The attention was gradually transferred from the *money's worth* to the money itself; and the wealth of individuals and of states came to be measured, not by the abundance of their disposable products—by the quantity or value of the commodities with which they could afford to purchase the precious metals—but by the *quantity of these metals* actually in their possession. It is on this flimsy and fallacious hypothesis that the theories of almost every writer on economical subjects antecedent to the appearance of the works of Child, North, and Locke, in England, and of Gournay and Quesnay, in France, are founded; and, what is of infinitely greater moment, it is on this same hypothesis that the different civilized countries have proceeded to regulate their intercourse with each other. Their grand object has not been to facilitate the production of the necessaries, comforts, and luxuries of life, but to monopolise the largest possible supply of gold and silver. And, as in countries destitute of mines, these could not be obtained except in exchange for exported commodities, various schemes were resorted to for encouraging exportation, and for preventing the importation of almost all products other than the precious metals. In consequence of this opinion, the excess of the value of the exports over the value of the imports was long considered as the most infallible test of the progress of a country in the career of wealth. This excess, it was believed, could not be balanced otherwise than by an equivalent importation of gold or silver, or of the only real wealth which it was then supposed a country could possess.

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These principles and conclusions, though absolutely false and erroneous, afford a tolerable explanation of a few very obvious phenomena; and, what did more to recommend them, they are in perfect unison with the popular prejudices on the subject. It was natural, therefore, that they should be espoused by the merchants or practical men, who were the earliest writers on this science. They did not consider it necessary to subject the principles they assumed to any refined analysis or examination. But, reckoning them as sufficiently established by the common consent and agreement of mankind, they directed themselves exclusively to the discussion of the practical measures calculated to give them the greatest efficacy.

“Although a kingdom,” says one of the earliest and ablest writers in defence of the mercantile system, “may be enriched by gifts received, or by purchase taken, from some other nations, yet these are things uncertain, and of small consideration, when they happen. The ordinary means, therefore, to increase our wealth and treasure, is by foreign trade, wherein we must ever observe this rule—to sell more to strangers yearly than we consume of theirs in value. For, suppose, that when this kingdom is plentifully served with cloth, lead, tin, iron, fish, and other native commodities, we do yearly export the overplus to foreign countries to the value of L. 2,200,000, by which means we are enabled, beyond the seas, to buy and bring in foreign wares for our use and consumption to the value of L. 2,000,000; by this order duly kept in our trading, we may rest assured that the kingdom shall be enriched yearly L. 200,000, which must

Balance of Trade.

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be brought to us as so much treasure ; because that part of our stock which is not returned to us in wares, must necessarily be brought home in treasure.”—(*Mun's Treasure by Foreign Trade*, orig. edit. p. 11.)

The gain on our foreign commerce is here supposed to consist exclusively of the gold and silver which, it is taken for granted, must necessarily be brought home in payment of the excess of exported commodities. Mr. Mun lays no stress whatever on the circumstance of foreign commerce enabling us to obtain an infinite variety of useful and agreeable products, which it would either have been impossible for us to produce at all, or to produce so cheaply, at home. We are desired to consider all this accession of wealth—all the vast addition made by commerce to the motives which stimulate, and to the comforts and enjoyments which reward the labour of the industrious, as *nothing*, and to fix our attention exclusively on the balance of L. 200,000 of gold and silver ! This is much the same as if we were desired to estimate the comfort and advantage derived from a suit of clothes, by the number and glare of the metal buttons by which they are fastened ! And yet the rule for estimating the advantageousness of foreign commerce, which Mr. Mun has here given, was long regarded by the generality of merchants and practical statesmen as infallible ; and such is the inveteracy of ancient prejudices, that even now we are annually congratulated on the excess of our exports over our imports !*

* The reverse of this fact, viz. an apparent surplus of imports over exports, which marked the commerce of these United States while in the condition of colonies, afforded a problem of very difficult solution to the maintainers of this theory. According to their reasoning, the colonies must annually be growing poorer, the custom-house books showing a regular balance against them, but as in truth they were rapidly increasing in wealth, this striking inconsistency of principles with facts, brought such discredit on their system, that from the time of Adam Smith, no scientific writer has ventured to press the Balance of Trade as a conclusive test of prosperity or decline, although popular prejudice still continues so to regard it. On this subject the following principles may be considered settled.

1. The exports and imports of a nation must, on a general account, balance each other. The reasoning by which this principle is arrived at, is both simple and conclusive. A nation pays for its imports by means of its exports, and as it imports nothing without being paid for, its exports must consequently balance its imports :—from this it follows,

2. That an unfavourable balance of trade with one nation, is made up by a favourable balance with others ;—the liquidation being effected by bills of exchange, transferring these funds to the creditor country.

3. That the custom-house books do not show this equal balance, because the estimates of both exports and imports, are taken in the same country, whereas they should be taken in the countries to which they respectively belong—the value of the produce of this country on its arrival in England balancing, in the long run, the value of her manufactures, purchased with the proceeds, on their arrival here, supposing the profits of capital in both countries to be equal.

4. From this it further follows, that between two countries carrying on an equal exchange with each other, the custom-house books will always show a surplus in each, of imports over exports, and that the respective profits of each will be represented by the amount of such surplus.

The case of the colonies is thus then to be explained :—In their direct intercourse with England, a large balance annually appears against them in the custom-house books ; this apparent balance is first to be reduced by their circuitous trade, and the final balance placed to their credit, and not to their charge ; it being both the proof and the measure of a profitable commerce.—*E.*

But there were other circumstances, besides the erroneous notions respecting the precious metals, which led to the formation of the mercantile system, and to the enacting of regulations restrictive of the freedom of industry. The feudal government established in the countries that had formed the western division of the Roman Empire, degenerated into a system of anarchy and lawless oppression. The princes, who were of themselves totally unable to restrain the usurpations of the greater barons, or to control their violence, endeavoured to strengthen their influence and consolidate their power, by attaching the inhabitants of cities and towns to their interests. For this purpose, they granted them charters, enfranchising the inhabitants, abolishing every existing mark of servitude, and forming them into corporations, or bodies politic; to be governed by a council and magistrates of their own selection. The order and good government that was thus established in the cities, and the security of property enjoyed by their inhabitants, when the rest of the country was a prey to rapine and disorder, stimulated their industry, and gave them a vast ascendancy over the cultivators of the soil. It was from the cities that the princes derived the greater part of their supplies of money; and it was by their assistance and co-operation that they were enabled to control and subdue the pride and independence of the barons. But the citizens did not render this assistance to their sovereigns merely by way of compensation for the original gift of their charters. They were continually soliciting and obtaining new privileges. And it was not to be expected that princes, so very deeply indebted to them, and by whom they must have been regarded as forming by far the most industrious and-deserving portion of their subjects, should be at all disinclined to gratify their wishes. To enable them to obtain their provisions cheap, and to carry on their industry to the best advantage, the exportation of corn, and of the raw materials of their manufactures, was strictly prohibited; at the same time that heavy duties and absolute prohibitions were interposed to prevent the importation of manufactured articles from abroad, and to secure the complete monopoly of the home market to the home manufacturers. These, together with the privilege granted to the citizens of corporate towns of preventing any individual from exercising any branch of business until he had obtained leave from them; and the variety of subordinate regulations intended to force the importation of the raw materials required in manufactures, and the exportation of the manufactured goods, form the principal features of the system of public economy adopted, with the view of encouraging manufacturing industry, in every country in Europe, in the fourteenth, fifteenth, sixteenth, and seventeenth centuries. The freedom of industry recognised by their ancient laws was almost totally destroyed. It would be easy to mention a thousand instances of the excess to which this artificial system was carried in England and other countries; but as many of these instances must be familiar to our readers, we shall only observe, as illustrative of its spirit, that by an act passed in 1678, for the encouragement of the English woollen manufacture, it was ordered that all *dead bodies* should be wrapped in a woollen shroud!

But the exclusion of foreign competition, and the monopoly

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of the home market, did not satisfy the manufacturers and merchants. Having obtained all the advantage they could from the public, they attempted to prey on each other. Such of them as possessed most influence, procured the privilege of carrying on particular branches of industry to the exclusion of every other individual. This abuse was carried to a most oppressive height in the reign of Elizabeth, who granted an infinite number of new patents. At length, the grievance became so intolerable, as to induce all classes to join in petitioning for its abolition, which, after much opposition on the part of the Crown, by whom the power of erecting monopolies was considered a very valuable branch of the prerogative, was effected by an act passed in the 21st of James I. But this act did not touch any of the fundamental principles of the mercantile or manufacturing system; and the exclusive privileges of all bodies corporate were exempted from its operation.

In France the interests of the manufacturers were warmly espoused by the justly celebrated M. Colbert, minister of finances during the most splendid period of the reign of Louis XIV; and the year 1664, when the famous tariff, compiled under Colbert's direction, was first promulgated, has been sometimes considered, though improperly, as the real era of the manufacturing system.

These restrictions were zealously supported by the writers in defence of the mercantile system, and the balance of trade. The facilities given to the exportation of home manufactured goods, and the obstacles thrown in the way of their importation from abroad, seemed to them to be particularly well fitted for making the exports exceed the imports, and procuring a favourable balance. Instead, therefore, of regarding these regulations as the offspring of a selfish monopolizing spirit, they looked on them as having been dictated by the soundest policy. The manufacturing and mercantile systems were thus naturally blended together. The acquisition of a favourable balance of payments was the grand *object* to be accomplished; and heavy duties and restrictions on importations from abroad, and bounties and premiums on exportation from home, were the *means* by which this object was to be attained! It cannot excite our surprise that a system having so many popular prejudices in its favour, and which afforded a plausible and convenient apology for the exclusive privileges enjoyed by the manufacturing and commercial classes, should have early attained, or that it should still preserve, notwithstanding the overthrow of its principles, a powerful practical influence. Melon and Forbonnais in France,—Genovesi in Italy,—Mun, Sir Josiah Child, Dr. Davenant, the authors of the *British Merchant*, and Sir James Stuart, in England,—are the ablest writers who have espoused, some with more and some with fewer exceptions, the leading principles of the mercantile system.

“It is no exaggeration to affirm, that there are very few political errors which have produced more mischief than the mercantile system. Armed with power, it has commanded and forbid where it should only have *protected*. The regulating mania which it has inspired has tormented industry in a thousand ways, to force it from its natural channels. It has made each particu-

lar nation regard the welfare of its neighbours as incompatible with its own; hence the reciprocal desire of injuring and impoverishing each other; and hence that spirit of commercial rivalry which has been the immediate or remote cause of the greater number of modern wars. It is this system which has stimulated nations to employ force or cunning to extort commercial treaties, productive of no real advantage to themselves, from the weakness or ignorance of others. It has formed colonies that the mother country might enjoy the monopoly of their trade, and force them to resort exclusively to her markets. In short, where this system has been productive of the least injury, it has retarded the progress of national prosperity; every where else it has deluged the earth with blood, and has depopulated and ruined some of those countries whose power and opulence it was supposed it would carry to the highest pitch."—(Storch, *Traité d' Economie Politique*, Tom. I. p. 122.)

Mercantile System.

The greater attention which began to be paid, in the seventeenth, and in the earlier part of the last century, to subjects connected with finance, commerce, and agriculture, gradually prepared the way for the downfall of the mercantile system. The English writers preceded those of every other country, in pointing out its defects, and in discovering the real nature and functions of money, and the true principles of commerce. The establishment of a direct intercourse with India did much to accelerate the progress of sound opinions. The precious metals have always been one of the most advantageous articles of export to the East.* And when the East India Company was established in 1600, power was given them annually to export *foreign* gold coins or bullion, of the value of L. 30,000. The Company were, however, bound to import, within six months after the return of every voyage, except the first, as much gold and silver as should together be equal to the value of the silver exported by them. But the enemies of the Company contended, that these regulations were not complied with, and that it was contrary to *all principle*, and highly injurious to the public interests, to *permit the exportation of any quantity of bullion*. The merchants and others interested in the India trade, among whom we have to reckon Sir Dudley Digges, whose defence of the Company was published in 1615, Mr. Mun, who published a very able pamphlet in defence of the Company in 1621,† Mr.

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* Pliny, when enumerating the spices, silks, and other Eastern products imported into Italy, says, "Minimaque computatione millies centena millia sestertium annis omnibus, India et Seres, peninsulaque illa (Arabia) imperio nostro demunt."—(*Hist. Nat. Lib. XII. cap. 18.*) "At the lowest computation, India, China, and the Arabian Peninsula, annually take out of the Empire, an hundred million of sesterces."—(*Natural Hist.*) A sum, according to the received calculations, of 307,291. 13s. 4d. sterling.—*E.*

† The Emperor Charles V. used to say that the Portuguese, who then engrossed almost the whole commerce of the East, were the common enemies of Christendom, inasmuch as they drained it of its treasure to export it to infidels!—(*Misselden On Free Trade*, p. 24.)

† This pamphlet, which is now become extremely rare, is printed in Purchas's *Pilgrims*, Vol. I. p. 732. It is entitled, "A Discourse of Trade from England to the East Indies, answering to divers objections which are usually made against the same; particularly as to the exporting of gold and silver for unnecessary wares." Mr. Misselden's tract, which is entitled, "The Circle of Commerce, or the Balance of Trade," was answered the same year, by Gerard Malyne, a London merchant. The tract of Sir

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Misselden, and more recently, Sir Josiah Child, could not controvert the reasoning of their opponents, without openly impugning some of the commonly received opinions regarding money. In such circumstances, it is easy to see, that prejudice would be forced to give way to interest. At first, however, the advocates of the Company did not contend, nor is there, indeed, any good reason for thinking that they were of opinion that the exportation of gold or silver to the East Indies was beneficial, on the single ground that the commodities brought back were of greater value. They contended, that the Company did not export a greater quantity of bullion than their charter authorized them to do; and they further contended, that this exportation was advantageous, because the commodities imported from India were chiefly *re-exported* to other countries, from whence a greater quantity of bullion was obtained in exchange for them.* But even this was an immense advance in the progress to a sounder theory. *C'est toujours le premier pas qui coute.*† The advocates of the Company began gradually to assume a higher tone; and at length boldly contended that bullion was *nothing but a commodity*, and that its exportation ought to be rendered as free as the exportation of any other commodity. Nor were these opinions confined to the partners of the East India Company. They were gradually communicated to others; and many eminent merchants were taught to look with suspicion on several of the received maxims, and were in consequence led to acquire more correct and comprehensive views regarding commercial intercourse. The new ideas ultimately made their way into the House of Commons; and in 1663, the statutes prohibiting the exportation of *foreign coin and bullion* were repealed, and full liberty given to the East India Company, and to private traders, to export the same in unlimited quantities.‡

In addition to the controversies respecting the East India trade, the discussions to which the foundation of the colonies in America and the West Indies, the establishment of a compulsory provision for the support of the poor, and the acts prohibiting the exportation of wool, and the non-importation of Irish cattle, &c. gave rise, attracted an extraordinary portion of the public attention to questions connected with the domestic policy of the country. In the course of the seventeenth century, a more than usual number of tracts were published on commercial and economical subjects. And although the doctrines of

Dudley Digges is entitled, "The Defence of Trade," being a letter to Sir T. Smith, President of the East India Company.—*E.*

* Those who have not the original pamphlets may consult Macpherson's *History of Commerce*, Vol. II. pp. 297, 315, 511,—Macpherson's *Account of the European Commerce with India*, pp. 94, 104,—and Mr. Robert Grant's *Sketch of the History of the Company*, p. 44, where they will find an ample confirmation of what we have stated.

† In the first step lies all the difficulty.—*E.*

‡ The prejudice against the exportation of specie, is one of the most popular and deep rooted errors in relation to money. It is one which retains its hold upon the minds of the people after governments have abandoned it. Yet all experience proves it to be unfounded, and that money, like water, when left free will find its natural level. All restrictions to withhold it are injurious or nugatory. Spain has retained it to its own impoverishment; and France has within a few years withdrawn its former prohibitions without suffering any inconvenience. For money, as for every other commodity, there is a certain effective demand, which demand will always be supplied where commerce is unshackled.—*E.*

the greater number of the writers are strongly tinctured with the prevailing spirit of the age, it cannot be denied, that several of them have risen above the prejudices of their contemporaries, and have an unquestionable right to be regarded as the founders of the modern theory of commerce; as the earliest teachers of those sound and liberal doctrines, by which it has been shown, that the prosperity of states can never be promoted by restrictive regulations, or by the depression of their neighbours—that the genuine spirit of commerce is inconsistent with the dark and shallow policy of monopoly—and that the *self-interest* of mankind, not less than their duty, requires them to live in peace, and to cultivate friendship with each other.

We have already referred to Mr. Mun's treatise, entitled *England's Treasure by Foreign Trade*. This treatise was first published in 1664; but there is good reason to suppose that it had been written many years previously. Mr. Mun's son, in the dedication to Lord Southampton, prefixed by him to the work, says, that his father "was, in his time, famous among merchants," a mode of expression which he would hardly have used, had not a considerable period elapsed since his father's death: and Mr. Edward Misselden, in his *Circle of Commerce*, published in 1623, (p. 36,) refers to Mr. Mun's tract on the East India trade, and speaks of its author as being an accomplished and *experienced* merchant. Perhaps, therefore, we shall not be far wrong if we assume, that this treatise was written so early as 1635 or 1640. At all events, it is certain, that the doctrines which it contains do not differ much from those which he had previously maintained in his pamphlet in defence of the East India Company, and some of the expressions are literally the same with those in the petition presented by that body to Parliament in 1628, which is known to have been written by Mr. Mun.* The extract we have previously given, shows that Mr. Mun's opinions, in so far as regards the question respecting the *balance of trade*, were exactly the same with those of his contemporaries. But, we believe, he was the first who endeavoured to show, and who has, in point of fact, successfully shown, that a *favourable balance could never be produced by restrictive regulations*:—that the exportation and importation of bullion, coin, and every other commodity, should be freely permitted;—and that violent measures will never bring gold or silver into a kingdom, or retain them in it, (pp. 27, 92, &c. original edit.) Mr. Mun also distinctly lays it down, "that those who have wares cannot want money," and that "it is not the keeping of our money in the kingdom, but *the necessity and use of our wares in foreign countries, and our want of other commodities, that causeth the vent and consumption on all sides which causeth a quick and ample trade*," (p. 43.)† Nor are these detached and incidental passages thrown out at random. They breathe the same spirit which pervades the rest of Mr. Mun's book, and constitute and form a part of his system. His observations in answer to Malyne's, on some rather difficult questions connected with exchange, are both accurate and ingenious.

* This petition, and the reasons on which it is founded, were so well esteemed, as to occasion its being reprinted in 1641.

† These expressions are in the petition of the Company, presented to Parliament in 1628.

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Sir Josiah
Child.

The first edition of Sir Josiah Child's celebrated work on trade, (*A New Discourse of Trade, &c.*) was published in 1668; but it was very greatly enlarged in the next edition, published in 1690. There are many sound and liberal doctrines advanced in this book. The argument to show that colonies do not and cannot depopulate the mother country is as conclusive as if it had proceeded from the pen of Mr. Malthus; and the just and forcible reasoning in defence of the naturalization of the Jews is highly creditable to the liberality and good sense of the writer, and discovers a mind greatly superior to the prejudices of the age. Sir Josiah has also many good and judicious observations on the bad effects of the laws against *forestalling* and *regrating*; on those limiting the number of apprentices; and on corporation privileges.

When treating of the laws relating to the exportation of wool, Sir Josiah lays it down as an axiom, "That they that can give the best price for a commodity shall never fail to have it by one means or other, notwithstanding the opposition of any laws, or interposition of any power by sea or land; *of such force, subtilty, and violence, is the general course of trade.*"

The radical defect of Sir Josiah Child's *Treatise* consists in the circumstance of its being chiefly written to illustrate the advantages, which he labours to show, would result from forcibly reducing the rate of interest to *four per cent.*; an error into which he had been led by mistaking the low interest of Holland for the principal cause of her wealth, when this low interest was in truth the effect of her comparatively heavy taxation.

It is, however, worthy of remark, that this error was very soon detected. In the same year (1668) that Sir Josiah's *Treatise* first appeared, a tract was published, entitled, *Interest of Money mistaken, or a Treatise, proving that the Abatement of Interest is the Effect and not the Cause of the Riches of a Nation.* The author of this tract maintains the same opinions that were afterward held by Locke and Montesquieu, that the interest of money does not depend on statutory regulations, but that it varies according to the comparative opulence of a country; or rather according to the comparative scarcity and abundance of money—increasing when the supply of money diminishes, and diminishing when it increases.* Having endeavoured to establish this principle, the author of the tract successfully contends that Sir Josiah Child had totally mistaken the cause of the wealth of the Dutch, of which he shows the lowness of their interest was merely a consequence.

Sir William
Petty's Po-
litical Ana-
tomy.

In 1672, Sir William Petty published his celebrated tract, entitled, the *Political Anatomy of Ireland.* In this work, the absurdity of the act passed in 1664, prohibiting the importation of cattle, beef, &c. from Ireland into Britain, is ably exposed, and the advantage of an unconstrained internal commerce clearly

* It has been generally supposed that Mr. Hume was the first who showed (in his *Essay on Interest*) the fallacy of this opinion, and who proved that the rate of interest did not depend on the abundance or scarcity of money, but on the abundance or scarcity of disposable capital compared with the demands of the borrowers, and the rate of profit. This, however, is a mistake, the doctrine in question having been fully demonstrated in a pamphlet written by Mr. Massie, entitled, *Essay on the Governing Causes of the Natural Rate of Interest*, published two years before Mr. Hume's *Essay* appeared.

set forth. "If it be good for England," says Sir William, "to keep Ireland a distinct kingdom, why do not the predominant party in Parliament, suppose the western members, make England beyond Trent another kingdom, and take tolls and customs upon the borders? Or why was there ever any union between England and Wales? And why may not the entire kingdom of England be further cantonised for the advantage of all parties?" (p. 34. edit. 1719.)

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The great defect in the writings of Mun, Misselden, Child, and others, did not really consist so much in their notions about the superior importance of the precious metals, or even the balance of trade, as in their notions respecting the superior advantages derived from the importation of durable, rather than of rapidly perishable commodities, and luxuries. This, however, was an extremely natural opinion; and we cannot be surprised that the earlier writers on commerce should not have avoided falling into an error, from which neither the profound sagacity of Locke, nor the strong sense of Mr. Harris, have been able to preserve them. But even so early as 1677, the fallacy of this opinion had been perceived. In that year, there appeared a small tract, entitled, *England's Great Happiness; or, a Dialogue between Content and Complaint*; in which the author contends, that the importation of wine, and other consumable commodities, for which there is a demand, in exchange for money, is advantageous; and, on this ground, defends the French trade, which was as loudly declaimed against by the practical men of that day as it is by those of the present. We shall make a short extract from this remarkable tract:—

"*Complaint.*—You speak plain; but what think you of the French trade? which draws away our money by wholesale. Mr. Fortrey,† whom I have heard you speak well of, gives an account that they get L. 1,600,000 a-year from us.

"*Content.*—'Tis a great sum; but, perhaps, were it put to a vote in a *wise Council*, whether for that reason the trade should be left off, 'twould go *in the negative*. For paper, wine, linen, Castile soap, brandy, olives, capers, prunes, kidskins, taffaties, and such like, we cannot be without; and for the rest, which you are pleased to style *Apes* and *Peacocks* (although wise Solomon ranked them with gold and ivory) they set us all agog, and have increased among us many considerable trades. * * I must confess, I had rather they'd use our goods than money; but if not, I WOULD NOT LOSE THE GETTING OF TEN POUND BECAUSE I CAN'T GET AN HUNDRED; and I don't question but when the French get more foreign trade, they'll give more liberty to the bringing in foreign goods. I'll suppose John-a-Nokes to be a butcher, Dick-a-Styles to be an exchange man, yourself a lawyer, *will you buy no meat or ribbands, or your wife a fine Indian gown or fan, because they will not truck with you for indentures which they have need of?* I suppose no; but if you get money enough of others, you care not though you give it away *in specie* for these things; I think 'tis the same case."

* Mr. Fortrey's pamphlet has been much referred to. It was published in 1663, and reprinted in 1673. It contains a very good argument in favour of inclosures. The reference in the text sufficiently explains the opinions of the writer in regard to commerce.

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The general spirit of this tract may perhaps be better inferred from the titles of some of the dialogues. Among others, we have, "*To export money our great advantage;*"—"The French trade a profitable trade;"—"Variety of wares for all markets, a great advantage;"—"High living a great improvement to the arts;"—"Invitation of foreign arts, a great advantage;"—"Multitudes of traders, a great advantage," &c. &c. But its influence was far too feeble to arrest the current of popular prejudice. In the year after its publication (1678) the importation of French commodities was prohibited for three years. This prohibition was made perpetual in the reign of William III. when the French trade was declared a *nuisance!*—a principle, if we may so call it, which has been acted upon to this very hour.

In 1681, a pamphlet was published in defence of the East India Company, under the signature of "Philopatris," but evidently the production of Sir Josiah Child. In the introduction to this pamphlet, the following general principles are laid down:—

"That all *close monopolies* (Sir Josiah contends that the East India Company does not come under this description,) *of what nature or kind soever, are destructive to trade,* and consequently obstructive to the increase of the value of our lands.

"That silver or gold, coined or uncoined, though they are used for a measure of all other things, *are no less a commodity than wine, oil, tobacco, cloth, or stuffs;* and may, in many cases, *be exported as much to the national advantage as any other commodity.*

"That no nation ever was, or will be, considerable in trade, that prohibits the exportation of bullion." (p. 3.)

Sir William
Petty's
*Quantulum-
cunque.*

In Sir William Petty's *Quantulumcunque*, published in 1682, the subject of money is treated with great ability, and the idea of draining England of her cash, by an unfavourable balance, successfully combated. "If some English merchants," it is said, "should be so improvident as to carry out money only, then the foreign merchants would buy up such English commodities as they wanted with money brought into England from their respective countries, or with such commodities as England likes better than money; *for the vending of English commodities doth not depend on any thing else but the use and need which foreigners have of them.*" Sir W. denies that "*a country is the poorer for having less money:*" and concludes by strongly condemning the laws regulating the rate of interest; observing, that there may as well be laws to regulate the rate of exchange and of insurance (See pp. 3, 6, 8, original edition.)*

Sir Dudley
North.

But a tract, entitled, *Discourses on Trade, principally directed to the Cases of Interest, Coinage, Clipping, and Increase of Money,*

* Thirteen years earlier had appeared, "A defence of Usury at 6 per cent." by T. Manley, against the attacks of Sir T. Culpepper, who had charged it with "many crimes and oppressions whereof it is altogether innocent." About the same time appeared an interesting Report from a joint Committee of the House of Commons and the Common Council of London, entitled "England's Interest, or the great benefit to Trade by Banks or Offices of Credit in London."—By this it appears, that Offices of this kind had been already established in that city, and may be considered as the first attempt at Banking.—*F.*

written by Sir Dudley North, and published in 1691, unquestionably contains a far more able statement of the true principles of commerce than any that had then appeared.

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We regret that our limits will not permit our giving so full an account as we could have wished of this extraordinary tract. The author is a most intelligent and *consistent* advocate of the great principles of commercial freedom. He is not, like the most eminent of his predecessors, well informed on one subject, and erroneous on another. He is throughout sound and liberal. His system is consentaneous in its parts, and complete. He shows, that in commercial matters, nations have the same interests as individuals; and exposes the absurdity of supposing, that any trade which is advantageous to the merchant can be injurious to the public. His opinions respecting the imposition of a seignorage on the coinage of money, and the expediency of sumptuary laws, then in great favour, are equally enlightened.

We subjoin from the preface to this tract an abstract of the general propositions maintained in it :

“ THAT THE WHOLE WORLD AS TO TRADE IS BUT AS ONE NATION OR PEOPLE, AND THEREIN NATIONS ARE AS PERSONS.

“ That the loss of a trade with one nation is not that only, separately considered, but so much of the trade of the world rescinded and lost, for all is combined together.

“ THAT THERE CAN BE NO TRADE UNPROFITABLE TO THE PUBLIC; FOR IF ANY PROVE SO, MEN LEAVE IT OFF; AND WHEREVER THE TRADERS THRIVE, THE PUBLIC, OF WHICH THEY ARE PART, THRIVE ALSO.

“ That to force men to deal in any prescribed manner may profit such as happen to serve them; but the public gains not, because *it is taking from one subject to give to another.*

“ That no laws can set prices in trade, the rates of which must and will make themselves. But when such laws do happen to lay any hold, it is so much impediment to trade, and therefore prejudicial.

“ *That money is a merchandise, whereof there may be a glut, as well as a scarcity, and that even to an inconvenience.*

“ THAT A PEOPLE CANNOT WANT MONEY TO SERVE THE ORDINARY DEALING, AND MORE THAN ENOUGH THEY WILL NOT HAVE.

“ That no man will be the richer for the making much money, nor have any part of it, but as he buys it for an equivalent price.

“ *That the free coynage is a perpetual motion found out, whereby to melt and coyn without ceasing, and so to feed goldsmiths and coyners at the public charge.*

“ That debasing the coyn is defrauding one another, and to the public there is no sort of advantage from it; for that admits no character, or value, but intrinsick.

“ That the sinking by alloy or weight is all one.

“ *That exchange and ready money are the same, nothing but carriage and re-carriage being saved.*

“ That money exported in trade is an increase to the wealth of the nation; *but spent in war, and payments abroad, is so much impoverishment.*

“ In short, that ALL FAVOUR TO ONE TRADE, OR INTEREST, IS AN ABUSE, AND CUTS SO MUCH OF PROFIT FROM THE PUBLIC.”

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Unluckily this admirable tract never obtained any considerable circulation. There is good reason, indeed, to suppose that it was designedly suppressed.* At all events, it speedily became excessively scarce; and we are not aware that it has ever been referred to by any subsequent writer on commerce.

Mr. Locke.

The disordered state of the coin, and the proceedings relative to the great recoinage in the reign of William III., led to a great deal of discussion both in and out of Parliament, and contributed, in no ordinary degree, to diffuse juster notions respecting money and commerce. It was then that Mr. Locke published his well known tracts on Money.† These tracts immediately obtained a very extensive circulation; and though infected with some very grave errors, they had a powerful influence in preventing Mr. Lowndes's proposal for degrading the standard of the coin from being carried into effect, and in contributing to establish the true theory of money. The restoration of the currency was not, however, effected without great opposition.

Mr. Barbon.

A large minority in Parliament supported Mr. Lowndes's views; and they were also supported by a number of writers. Of these, Mr. Nicholas Barbon seems to have been one of the ablest. In his tract, entitled, *A Discourse concerning Coining the New Money Lighter*, published in 1696, he detected several of the errors into which Mr. Locke had fallen; and he has the further merit of having ably demonstrated the fallacy of the popular opinions respecting the balance of trade; and of having shown, that no bullion could ever be sent abroad in payment of an unfavourable balance, unless it was at the time the cheapest and most profitable article of export.

The inferences deduced by Mr. Barbon from his investigations into the balance of trade and foreign exchange are:

“That a trading nation is made rich by traffic and the industry of the inhabitants—and that the native stock of a nation can never be wasted.

“That no sort of commodities ought to be totally prohibited—and that the freer trade is, the better the nation will thrive.

“That the poverty and riches of a nation does not depend on a lesser or greater consumption of foreign trade, nor on the difference of the value of those goods that are consumed.

“That the balance of trade is a notion that serves rather to puzzle all debates of trade, than to discover any particular advantages a nation may get by regulating of trade.

“That the balance of trade (if there be one) is not the cause of sending away the money out of a nation: But that proceeds from the difference of the value of bullion in several countries, and from the profit that the merchant makes by sending it away more than by bills of exchange.

“That there is no occasion to send away money or bullion to pay bills of exchange, or balance accounts.

“That all sorts of goods, of the value of the bill of exchange, or the balance of the account, will answer the bill, and balance the account as well as money.”—(p. 59.)

* See the Honourable Roger North's *Life* of his brother, the Honourable Sir Dudley North, p. 179.

† *Considerations on the Lowering of Interest and raising the Value of Money*, 1691. *Further Considerations concerning Raising the Value of Money*, 1695.

It is singular, that a writer possessed of such sound and enlarged opinions respecting the principles of commercial intercourse, and who had shown that bullion differed in no respect from other commodities, should have maintained, that the value of coined money chiefly depended on *the stamp affixed to it by government*. This gross and unaccountable error destroyed the effect of Mr. Barbon's tract; and was, most probably, the cause of the oblivion into which it very soon fell, and of its never having attracted that attention to which it was on other accounts justly entitled.

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The commercial writings of Dr. Davenant, Inspector-General of Imports and Exports in the reign of Queen Anne, were published in the interval between 1695 and 1711. Though a partizan of the mercantile system, Dr. Davenant had emancipated himself from many of the prejudices of its more indiscriminate and zealous supporters. He considers a watchful attention to the balance of trade, and its "right government," as of the highest importance; but he does not consider wealth as consisting exclusively of gold or silver; or that prohibitions and restrictions should be rashly imposed, even on the intercourse with those countries with which the balance is supposed to be unfavourable. But we are far from thinking, that the commercial writings of Dr. Davenant deserve the eulogies that have been bestowed on them; or that they had any material effect in accelerating the progress of sound commercial science. They do not, in fact, contain a single principle that is not to be found in the work of Sir Josiah Child. Some of Dr. Davenant's paragraphs are exceedingly good; but the treatises of which they form a part are remarkably inconclusive, and are for the most part founded on narrow and contracted principles. There is no evidence to show that Dr. Davenant was at all aware of the effect of commerce in facilitating the production of wealth, by enabling the inhabitants of each particular country to devote themselves, in preference, to those employments for the successful prosecution of which they have some natural advantage.*

Dr. Davenant.

In 1734, Jacob Vanderlint, who describes himself as a tradesman, published his tract, entitled, *Money answers all Things*. Mr. Stewart has referred to this tract in the *Appendix* to his valuable *Life of Dr. Smith*, and has quoted some passages illustrative of the advantages of commercial freedom, which, he truly says, "will bear a comparison, both in point of good sense and of liberality, with what was so ably urged by Mr. Hume twenty years afterward, in his *Essay on the Jealousy of Trade*." Vanderlint closes his pamphlet with an argument in favour of the substitution of a territorial tax in place of every

Jacob Vanderlint.

* The progress of enlarged and liberal opinions with regard to commerce seems to have been in no small degree counteracted by the publication of the *British Merchant*. This work was written by some of the first merchants of their time, and was chiefly intended to expose the alleged defects in the commercial treaty with France negotiated by Queen Anne's Tory administration in 1713. It consists of a series of papers published weekly, and afterward collected in three volumes. Public opinion being very much against the treaty, the *British Merchant* enjoyed a large share of popularity. Its authors appear to have been thoroughly imbued with all the prejudices of the mercantile sect; and the work is now only deserving of notice as containing the fullest exposition of their peculiar doctrines.

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Sir Matthew
Decker.

other—an idea borrowed from Locke, and subsequently adopted by the French economists:

In 1744,* Sir Matthew Decker, an extensive merchant, published his *Essay on the Causes of the Decline of Foreign Trade*. This essay has been frequently referred to by Dr. Smith, and it deserved his notice. Sir Matthew is a most intelligent and decided enemy of all *restrictions, monopolies, and prohibitions whatever*. To give full freedom to industry—he proposes that all *corporation privileges* should be abolished; and that all the existing taxes should be repealed, and replaced by a *single tax* laid on the consumers of luxuries, proportionally to their incomes. The following short extracts will give an idea of the spirit and ability which pervades Sir Matthew's work:—

“In the *Memoirs of De Witt*, it is said, ‘*that restraint is always hurtful to trade;*’ the reason whereof is plain; *for nature has given various products to various countries, and thereby knit mankind in an intercourse to supply each other's wants*. To attempt to sell our products, but to buy little or none from foreigners, is attempting an impossibility, acting contrary to the intent of nature, cynically, and absurdly; and, as ours is a populous manufacturing country, might be prejudicial to our interests; for, could we raise all necessaries and vanities within ourselves, this intercourse designed by nature would be destroyed; and then, how is our navy, our only bulwark, to be maintained?” (p. 147.)

“Trade cannot, will not, be forced; let other nations prohibit, by what severity they please, interest will prevail; they may embarrass their own trade, but *cannot hurt a nation, whose trade is free, so much as themselves*. Spain has prohibited our woollens; but had a reduction of our taxes brought them to their natural value only, they would be the cheapest in Europe of their goodness, consequently must be more demanded by the Spaniards, be smuggled into their country in spite of their government, and sold at better prices; their people would be dearer clothed, with duties and prohibitions, than without, consequently must sell their oil, wine, and other commodities, dearer; whereby other nations, raising the like growths, would gain ground upon them, and their balance of trade grow less and less. But should we, for that reason, prohibit their commodities? By no means; for the dearer they grow, no more than what are just necessary will be used; *their prohibition does their own business*: some may be necessary for us; *what are so, we should not make dearer to our own people*; some may be proper to assort cargoes for other countries, and why should we prohibit our people that advantage? **WHY HURT OURSELVES TO HURT THE SPANIARDS?** If we would retaliate effectually upon them for their ill-intent, handsome premiums given to our plantations, to raise the same growths as Spain, might enable them to supply us cheaper than the Spaniards could do, and establish a trade they could never recover. Premiums may gain trade, but *prohibitions will destroy it.*” (p. 163.)

* We quote from the edition of the *Essay* published at Edinburgh in 1759. It appears from the work itself, (p. 4.) that it had been written in 1740; the first edition was in 4to.

Sir Matthew applies the same argument to expose the absurdity and injurious effect of our restraints on the trade with France. "I allow," he says, "that Britain should be always vigilant over the designs of France, but need not be afraid of her power; her wise regulations in trade should be the objects we should keep our eyes upon, and out-do her if possible; or else, as she rises, we must sink. But it is our comfort, that our remedy is always in our own hands; nor can there be any solid reason for the nation's paying dearer to other countries for goods we could buy cheaper in France. Would any wise dealer in London buy goods of a Dutch shopkeeper for 15d. or 18d. when he could have the same from a French shopkeeper for 1s.? Would he not consider, that, by so doing, he would empty his own pockets the sooner, and that, in the end, he would greatly injure his own family by such whims? And shall this nation commit an absurdity that stares every private man in the face?—The certain way to be secure is to be more powerful, that is, to extend our trade as far as it is capable of; and as restraints have proved its ruin, to reject them, and depend on freedom for our security; bidding defiance to the French, or any nation in Europe, that took umbrage at our exerting our natural advantages." (p. 184.)

We do not know that the impolicy of restrictions on the importation of *foreign corn* has ever been more ably and triumphantly exposed than in the following passage: "Every home commodity, in a free trade, will find its natural value; for, though that fluctuates, as of necessity it must, according to the plentifulness or scarcity of seasons, yet for the home consumption, every home commodity must have great advantage over the foreign, as being upon the spot, and free from freight, insurance, commission, and charges, which on the produce of lands, being all bulky commodities, must in general be about 15 per cent., and a greater advantage cannot be given without prejudice; for 15 per cent. makes a great difference in the price of necessaries between the nation selling and the nation buying, and is a great difficulty on the latter, but, arising from the natural course of things, cannot be helped; though it is a sufficient security to the landholder, that foreigners can never import more necessaries than are absolutely required; and, I presume, in such cases, they have more charity than to starve the people merely for an imaginary profit, which yet would prove their ruin in the end; for it is a fallacy and an absurdity to think to raise the value of lands by oppressions on the people that cramp their trade; for if trade declines, the common people must either come upon the parish, or fly for business to our neighbours: in the first case, they become a heavy tax on the rich, and instead of buying the produce of their lands, must have it given them; and in the second case, when the consumers are gone, what price will the produce of land bear?" (p. 56.)

Of a work so well known as Mr. Hume's *Political Essays*, Mr. Hume's (published in 1752,) it is almost superfluous to speak. The ability with which he has combated the prejudice against the French trade, and exposed the absurdity of the dread of being deprived of a sufficient supply of bullion; the liberality and expansion of his views respecting commerce in general; and the

Progress of
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England.

Mr. Harris.

beauty of his illustrations cannot be too highly praised. It did not, however, enter into Mr. Hume's plan to give a systematic view of the effects of commerce, nor has he instituted any analysis of the sources of wealth. Mr. Harris has endeavoured to supply the latter deficiency; and his *Essay upon Money and Coins*, published in 1757, is, perhaps on the whole, the best economical treatise that had appeared previously to the publication of the *Wealth of Nations*. We have already noticed Mr. Harris's mistake of supposing that it was more profitable to import durable rather than rapidly consumable commodities; and, as a writer on commerce, he is undoubtedly very inferior to Sir Dudley North and Sir Matthew Decker. But the comprehensive and able manner in which he has treated the subject of money; the skill with which he has illustrated the effects of the division of labour in facilitating production and increasing wealth; and the near approach he has made to some of the fundamental doctrines of Dr. Smith, if they do not give him a pre-eminence, certainly place him in the first rank among his precursors.

Early Italian
Writers on
Commerce.

We have been induced to treat of the progress of commercial science in England at considerable length, partly on account of the interest and importance of the subject, and partly because we are not acquainted with any work in which it has been investigated. M. Say and some other continental writers contend, that the Italians and French were the first who discovered and established the just principles of commercial intercourse. But the details we have now given prove the indisputable priority of the English. The economical works of Davanzati, Serra, Turbolo, and Scaruffi, are almost wholly occupied with a discussion of the effects of a forced reduction of the standard of money. They deserve credit for having opposed all tampering with the currency; but the arguments they employ to show its injustice and impolicy, are stated with much greater brevity and force in Sir Robert Cotton's speech in the Privy Council in 1626. The *Discurso Economico* of Bandini, the earliest writer on commerce whose works have been thought worthy of a place in the voluminous collection of Italian works on Political Economy,* was published so late as 1737. Belloni and Algarotti's *Essays on Commerce*, both very inferior to the works of Sir Josiah Child or Sir Dudley North, were published, the former in 1750, and the latter in 1763.

Early French
Writers on
Commerce.

The French have still less claim than the Italians to be considered the discoverers of the true principles of commerce. There is much accurate observation, and many just, patriotic, and striking observations on the injury France sustained from the want of a free internal traffic, and from the oppressiveness of taxation, in the *Dixme Royale* of the famous Marshal Vauban, written in 1698. But Vincent de Gournay, whom the French state to be one of the earliest of their authors who entertained comprehensive and liberal notions regarding commerce in general, was born so late as 1712.† M. Gournay published transla-

* *Scrittori Classici Italiani di Economia Politica*. The publication of this collection of the works of her economical writers does honour to Italy. It was begun in 1803 and finished in 1805, in 50 volumes, 8vo.

† See Dupont's edition *Des Œuvres de M. Turgot*, Tom. III. p. 311.

tions of the treatise of Sir Josiah Child, and of a tract of Sir Thomas Culpepper's, at Paris, in 1752. So slow was the progress of economical science in France, that even Montesquieu has a chapter entitled, "*A quelles nations il est desavantageux de faire le commerce.*"*

Early French
Writers on
Commerce.

But neither the efforts of the English nor French writers in favour of the freedom of commerce and industry had any considerable influence on the mercantile system. Their opinions respecting the nature of wealth, and of the causes of national opulence, being confused and contradictory, their arguments in favour of a liberal system of commerce had somewhat of an empirical appearance, and failed of making that impression which is always made by arguments founded on well established principles, and shown to be consistent with experience. Mr. Locke, as we shall hereafter show, unquestionably entertained very correct opinions respecting the paramount influence of labour in the production of wealth; but he did not prosecute his investigations with the view of elucidating the principles of this science, and made no reference to them in his subsequent writings. Mr. Harris adopted Mr. Locke's views, and deduced from them some practical inferences of great importance; but his general reasonings are merely introductory to his *Treatise on Money*, and are not illustrated with that fulness of detail, or in that comprehensive and systematic manner that is necessary in scientific works. The celebrated M. Quesnay, a physician, attached to the court of Louis XV., has the unquestionable merit of being the first who attempted to investigate and analyze the sources of wealth, *with the intention of ascertaining the fundamental principles of Political Economy*, and who gave it a systematic form, and raised it to the rank of a science. Quesnay's father was a small proprietor, and having been educated in the country, he was naturally inclined to regard agriculture with more than ordinary partiality. At an early period

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M. Quesnay.

* "With what nations it is disadvantageous to carry on commerce."—E.

Maupertuis, in his *Eloge of Montesquieu*, candidly admits that France is indebted for the science of commerce, finance, and population, or of Political Economy, to England. The passage is curious: "Comme le plan de Montesquieu," he observes, "renfermoit tout ce qui peut être utile au genre humain, il n'a pas oublié cette partie essentielle qui regarde le commerce, les finances, la population: Science *si nouvelle parmi nous*, qu'elle n'y a encore point de nom.—C'est chez nos voisins qu'elle est née; et elle y demuera jusque à ce que M. Melon lui fit passer le mer." "As the plan of Montesquieu included all subjects that could be useful to man, he has not forgotten that necessary one which relates to commerce, finance, and population:—a science so new among us that it has not yet acquired a distinctive name. It is with our neighbours that it arose, and there continued until M. Melon brought it across the channel."—E.

Melon's work, *Essai Politique sur le Commerce*, was published in 1734.—It is entirely founded on the principles of the mercantile system. Mr. Bindon translated it into English, and published it, along with some rather valuable annotations and remarks, at Dublin, in 1739.

Melon had advocated the ruinous policy of raising the denomination of the coin. This gave occasion to the publication of a very acute work by Dutot, entitled, *Reflexions Politiques sur les Finances et le Commerce*, 2 Tomes, 12mo. 1738. Dutot's work was in its turn very ably criticised by Duverney, in his *Examen des Reflexions Politiques sur le Commerce*, &c. 2 Tomes, 12mo. 1740. These works contain a great deal of very curious and interesting information respecting the French finances. Duverney's account of the famous *Mississippi Scheme* is particularly good.

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of his life he had been struck with its depressed state in France, and had set himself to discover the causes which had prevented its making that progress which the industry of the inhabitants, the fertility of the soil, and the excellence of the climate, seemed to insure. In the course of this inquiry, he speedily discovered that the prohibition of exporting corn to foreign countries, and the preference given by the regulations of Colbert to the manufacturing and commercial classes over the agriculturists, had been one of the most powerful obstacles to the progress and improvement of agriculture. But Quesnay did not satisfy himself with exposing the injustice of this preference, and its pernicious consequences. His zeal for the interests of agriculture led him, not merely to place it on the same level with manufactures and commerce, but to raise it above them, by endeavouring to show that it was the only species of industry which contributed to increase the riches of a nation. Founding on the indisputable fact, that every thing which either ministers to our wants, or gratifies our desires, must be originally derived from the earth, Quesnay assumed as a self-evident truth, that the earth was the only *source* of wealth; and held that industry was altogether incapable of producing any new value, except when employed in agriculture, including therein fisheries and mines.* His observation of the striking effects of the *vegetative powers of nature*, and his inability to explain the real origin and causes of rent, confirmed him in this opinion. The circumstance, that of all who are engaged in laborious undertakings, none but the cultivators of the soil paid rent for the use of *natural agents*, appeared to him an incontrovertible proof, that agriculture was the only species of industry which yielded a net surplus (*produit net*) over and above the expenses of production. Quesnay allowed that manufacturers and merchants were highly useful; but, as they realised no net surplus in the shape of rent, he contended they did not add any greater value to the raw material of the commodities they manufactured or carried from place to place, than what was just equivalent to the value of the capital or stock consumed by them. These principles once established, it followed that landlords, farmers, and labourers employed in agriculture, were the only *productive* classes in a state; and that the labour of manufacturers and traders being *unproductive*, their means of subsistence, and their wealth, could only be derived from the agriculturists. It further followed, that the expenses of government, and the various public burdens, however imposed, must be defrayed out of the *produit net*, or rent of the landlords; and, consistently with

* "Cherchant d'où vient les richesses des nations, Quesnay trouva qu'elles ne naissent que des travaux dans lesquels la *Nature et la Puissance Divine*, concourent avec les efforts pour produire ou faire recueillir des productions nouvelles: de sorte qu'on ne peut attendre l'augmentation de ces richesses que de la cultivation, de la pêche, et de l'exploitation des mines et des carrieres." (See the *Notice sur les Economistes*, by one of the most zealous of the sect, *Dupont de Nemours*, in the *Œuvres de Turgot*, Tome III. p. 312.) "In searching for the source of national wealth, Quesnay found that it arises from those labours only, in which Nature and the power of God concur with human efforts, in the production or the collection of new products: so that we cannot look for an augmentation of general wealth, except from agriculture, fisheries, and mining."—*E.*

this principle, Quesnay proposed that all the existing taxes should be repealed, and that a single tax, (*l'Impôt unique*,) levied directly from the produce of the land, should be imposed in their stead.

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The *economical table* of M. Quesnay—"Cette formule étonnante," says Dupont, "qui peint la naissance, la distribution, et la reproduction des richesses, et qui sert à calculer avec tant de sûreté, de promptitude, et de précision, l'effet de toutes les opérations relatives aux richesses,"*—was first published at Versailles in 1758.

But however much impressed with the importance of agriculture over every other species of industry, Quesnay did not solicit for it any exclusive favour or protection. He successfully contended that the interests of the agriculturists, and of all the other classes, would be best promoted by establishing a system of perfect freedom. He showed that it could never be the interest of the proprietors and cultivators of the soil to fetter or discourage the industry of merchants, artificers, and manufacturers: for the greater the liberty which they enjoyed, the greater would be their competition, and their products would, in consequence, be sold so much the cheaper. Neither, on the other hand, could it ever be the interest of the unproductive classes to harass and oppress the industry of the agriculturists, either by preventing the free exportation of their products, or by any restrictive regulations whatsoever. When the cultivators enjoy the greatest degree of freedom, their industry, and, consequently, their *surplus produce*—the only fund from which any accession of national wealth can be derived, will be carried to the greatest possible extent. According to this "liberal and generous system," (*Wealth of Nations*, Vol. III. p. 17,) the establishment of perfect liberty, perfect security, and perfect justice, is the only, as it is the infallible, means of securing the highest degree of prosperity to all classes of the society.

"Ou a vu," says the Commentator of this system, M. Mercier de la Riviere, "qu'il est de l'essence de l'ordre que l'intérêt particulier d'un seul ne puisse jamais être séparé de l'intérêt commun de tous; nous en trouvons une preuve bien convaincante dans les effets que produit naturellement et nécessairement la plénitude de la liberté qui doit régner dans le commerce, pour ne point blesser la propriété. L'intérêt personnel encouragée par cette grande liberté, presse vivement et perpétuellement chaque homme en particulier, de perfectionner, de multiplier les choses dont il est vendeur; de grossir ainsi la masse des jouissances qu'il peut procurer aux autres hommes, afin de grossir, par ce moyen, la masse des jouissances que les autres hommes peuvent lui procurer en échange. *Le monde alors va de lui même*; le désir de jouir, et la liberté de jouir ne cessant de provoquer la multiplication des productions et l'accroissement de l'industrie, ils impriment à toute la société, un

* "That wonderful formula which depicts the origin, the distribution, and the reproduction of riches, and which serves to calculate with so much certainty, promptitude, and precision, the effect of all the operations relative to wealth."—E.

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mouvement qui devient une tendance perpetuelle vers son meilleur etat possible."—(Tome II. p. 444.)*

We shall have other opportunities of fully examining the principles of this theory. At present, it is sufficient to remark, that, in assuming agriculture to be the only source of wealth, because the matter of which all commodities are composed must be originally derived from the earth, M. Quesnay and his followers mistake altogether the nature of production, and really suppose wealth to consist of matter. But, in its natural state, matter is

* "We have seen that it is of the essence of the system, that the interest of an individual can never be separated from the common interest of all. Of this we find a convincing proof in the natural, and indeed, necessary results, which flow from that perfect freedom, which, for the benefit of property, ought to prevail in commerce. Encouraged by this freedom, personal interest is continually urging each individual to perfect and multiply the commodities he sells; to swell in this manner the mass of enjoyments he is able to procure for others, in order to augment by the same means, the mass of enjoyments which others can procure for him in exchange. Thus the world regulates itself; the desire of possessing and the freedom of enjoyment, as they never cease to stimulate to the multiplication of productions and the increase of industry, impress upon society a general movement and perpetual tendency towards its best possible estate."—E.

That M. Quesnay is entitled to the merit of originality cannot, we think, be disputed. It is certain, however, that he had been anticipated in several of his peculiar doctrines by some English writers of the previous century. The fundamental principles of the economical system are distinctly and clearly stated in a tract entitled, *Reasons for a limited Exportation of Wool*, published in 1677. "That it is of the greatest concern and interest of the nation," says the author of the tract, "to preserve the nobility, gentry, and those to whom the land of the country belongs, at least, much greater than a few artificers employed in working the superfluity of our wool, or the merchants who gain by the exportation of our manufactures, is manifest—1. Because they are the *masters and proprietaries of the foundation of all the wealth in this nation, all profit arising out of the ground which is theirs.* 2. Because they bear all taxes and public burdens; which, in truth, are only borne by those who buy, and sell not; all sellers, raising the price of their commodities, or abating their goodness, according to their taxes."—(Not being able to procure the pamphlet itself, we quote from the extract given in Mr. Smith's *Memoirs of Wool*, Vol. I. p. 254.)

In 1696, Mr. Asgill published a treatise entitled, *Several Assertions Proved, in order to Create Another Species of Money than Gold*, in support of Dr. Chamberlayne's proposition for a Land Bank. We extract from this treatise the following passage, breathing, as Mr. Stewart has justly observed, the very spirit of Quesnay's philosophy:—

"What we call commodities is nothing but land severed from the soil—*Man deals in nothing but earth.* The merchants are the factors of the world, to exchange one part of the earth for another. The king himself is fed by the labour of the ox: and the clothing of the army and victualing of the navy must all be paid for to the owner of the soil as the ultimate receiver. All things in the world are originally the produce of the ground, and there must all things be raised."—(This passage has been quoted in Lord Lauderdale's *Inquiry into the Nature and Origin of Public Wealth*, 2d ed. p. 109.)

These passages are interesting, as exhibiting the first germs of the theory of the Economists. But there is no reason whatever to suppose that Quesnay was aware of the existence of either of the tracts referred to. The subjects treated in them were of too local a description to excite the attention of foreigners; and Quesnay was too candid to conceal his obligations to them, had he really owed them any. It is probable he may have seen Mr. Locke's treatise on *Raising the Value of Money*, where the idea is thrown out that all taxes fall ultimately on the land. But there is an immeasurable difference between the suggestion of Locke and the well digested system of Quesnay.

very rarely possessed of utility, and is always destitute of value. It is only by means of the *labour* bestowed in the appropriation of matter, and in fitting and preparing it for our use, that it acquires exchangeable value, and becomes wealth. Human industry does not produce wealth by making any additions to the matter of our globe; for this is a quantity susceptible neither of augmentation nor diminution. Its real effect is simply to produce wealth *by giving utility to matter already in existence*; and we shall hereafter show that the labour employed in manufactures and commerce is just as productive of utility, and consequently of wealth, as the labour employed in agriculture. Neither is the cultivation of the soil, as M. Quesnay supposed, the only species of industry which yields a surplus produce over the expenses of production. When none but the best soils are cultivated, and when, consequently, agriculture is most productive, no rent, or *produit net*, is obtained from the land; and it is only after recourse has been had to poorer soils, and when the productive powers of the labour and capital employed in cultivation begin to diminish, that rent begins to appear. So that, instead of being a consequence of the superior productiveness of agricultural industry, rent is really a consequence of its being less productive! The opinion of M. Quesnay, that the labour of man derives no assistance from the productive powers of nature, except when employed in agriculture, is totally destitute of foundation; and, in a subsequent part of this article, we shall show that the manufacturer and merchant derive fully as much assistance from these powers as either the agriculturist, the fisher, or the miner.

Though the theory of the French economists, considered in reference to the fundamental principles of the science, was equally erroneous with that to which it was opposed, its novelty and ingenuity, its systematic and consentaneous form, the liberal system of commercial intercourse which it recommended, and the benevolent and excellent character of its founder, speedily obtained for it a very high degree of reputation. The opinions of M. Quesnay were early communicated to, and zealously espoused by, his friends the Marquis de Mirabeau, M. Mercier de la Riviere, M. Dupont de Nemours, and others; and were afterward advocated by Turgot, one of the most distinguished statesmen of whom France has to boast;* and by Letrosne, Condorcet, Raynal, and most of the succeeding French writers on commerce and finance. Their practical influence on the legislation of the country has also been considerable. In 1763 the free transportation of corn from one province to another was permitted; and in 1764 liberty was given to export it to foreign countries whenever the home price did not exceed 30 livres the septier, (48s. the quarter.) This last edict, after being suspended in 1770, was again revived in 1778 under the administration of Turgot. But the facility given to the imposition of the *contribution fonciere*,† ought certainly to be consi-

* Turgot's *Reflexions sur la Formation, et la Distribution des Richesses*; published in 1771, is certainly the best of all the works founded on the principles of the economists; and is, in some respects, the best work on Political Economy published previously to the *Wealth of Nations*.

† The manorial or land tax.—E.

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dered as the greatest practical achievement of the labours of the economists; and there is but too much reason to fear it will long continue to afford a palpable demonstration of the fallacy of their doctrines.*

But notwithstanding the defects of their theory, there can be no question that the labours of the French economists contributed powerfully to accelerate the progress of economical science. In reasoning on subjects connected with national wealth, it was now found to be necessary to subject its sources, and the laws which regulate its production and distribution, to a more accurate and searching analysis. In the course of this examination, it was speedily ascertained that both the mercantile and economical theories were erroneous and defective; and that to establish the science of Political Economy on a firm foundation, it was necessary to take a much more extensive survey, and to seek for its principles, not in a few partial and distorted facts, or in metaphysical abstractions, but in the connexion and relation subsisting among the various phenomena manifested in the progress of civilization. The Count di Verri, whose *Meditations on Political Economy* were published in 1771, demonstrated the fallacy of the opinions entertained by the French economists respecting the superior productiveness of the labour employed in agriculture; and showed that all the operations of industry really consist of *modifications of matter already in existence*.† But Verri did not trace the consequences of this im-

* Exclusive of the *Reflexions* of Turgot, the following are the principal works published by the French Economists:—

Tableau Economique, et Maximes Generales du Gouvernement Economique, par Francois Quesnay, 4to. Versailles, 1758.

Theorie de l'Impot, par M. de Mirabeau, 4to. 1760.

L'Ami des Hommes, par M. de Mirabeau, 7 Tomes, 1760, &c.

Elements de la Philosophie Rurale, par M. de Mirabeau, 3 Tomes, 12mo. 1763.

L'Ordre Naturel et Essentiel des Societes Politiques, par Mercier de la Riviere, 4to. and 2 Tomes 12mo. 1767.

Sur l'Origine et Progrès d'une Nouvelle Science, par Dupont de Nemours, 1767.

La Physiocratie, ou Constitution Naturelle du Gouvernement le plus avantageux aux genre humain, par Quesnay, 2 Tomes, 1767.

Lettres d'un Citoyen à un Magistrat, sur les vingtiemes et les autres impots, par l'Abbe Baudeau, 1768.

In addition to these works may be mentioned, *Memoire sur les Effets de l'Impot Indirect*, a Prize Essay written for the Royal Agricultural Society of Limoges, by Saint Peravy, 12mo. 1768; and the occasional articles supplied by Quesnay and his philosophical fraternity, for the *Journal d'Agriculture*, and the *Ephemerides du Citoyen*, a paper, sustained by them with varied ability, from 1767 to 1775, and containing occasionally, some original communications from Dr. Franklin, during his residence in Paris. See Franklin's Works, Vol. IV. p. 206.—E.

† Alcuni benemeriti scrittori, rattristati dai gravi disordini, che soffrono i popoli per le gabelle, sono passati all'estremo de considerare ingiusto e mal collocato il tributo se non ripartito sui fondi di terra, e colla creazione di un linguaggio ascetico, hanno eretta la setta degli economisti, presso la quale ogni uomo che non adoperi l'aratro, e un essere sterile, e i manifattori si chiamano una *classe sterile*. Rispettando il molto di vero e di utile che da essi è stato scritto, io non saprei associarmi alla loro opinione ne sul tributo, ne su di questa pretesa classe sterile. La riproduzione e attribuibile alla manifattura ugualmente, quanto al lavoro de campi. Tutti i fenomeni dell' universo, sieno essi prodotti dalla mano dell'uomo o vero dalle universali leggi della fisica, non ci danno idea di attuale *creazione*, ma unicamente di una *modificazione* della materia. *Accostare e separare* sono gli

portant principle; and, possessing no clear and definite notions of what constituted wealth, did not attempt to discover the means by which labour might be facilitated. He made several valuable additions to particular branches of the science, and had sufficient acuteness to detect the errors in the systems of others; but the task of constructing a better system in their stead required talents of a far higher order.

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At length in 1776, our illustrious countryman Adam Smith published the *Wealth of Nations*—a work which has done for Political Economy what the *Principia* of Newton did for Physics, and the *Esprit des Loix* of Montesquieu for Politics. In this work the science was, for the first time, treated in its fullest extent, and many of its fundamental principles placed beyond the reach of cavil and dispute. In opposition to the French economists, Dr. Smith showed, that *labour* is the only source of wealth, and that the desire inherent in the breast of every individual to improve his fortune and rise in the world is the cause of its accumulation. He next traced the means by which the powers of labour may be rendered most effective, and showed that it is productive of wealth when employed in manufactures and commerce, as well as when employed in the cultivation of the land. Having established these principles, Dr. Smith showed, in opposition to the commonly received opinions of the merchants, politicians, and statesmen of his time, that wealth did not consist in the abundance of gold and silver, but in the abundance of the various necessaries, conveniencies, and enjoyments of human life; he showed that individuals are always the best judges of what is for their own interest, and that, in prosecuting branches of industry advantageous to themselves, they necessa-

Wealth of
Nations.

unici elementi che l'ingegno umano ritrova analizzando l'idea della *riproduzione*; e tanto e riproduzione di valore e di ricchezza se la terra, l'aria, e l'acqua ne'campi si trasmutino in grano, come se colla mano dello uomo il glutine di un insetto si trasmuti in velluto, o vero alcuni pezzetti de metallo si organizzino a formare una ripetizione. Degli intieri citta, e degli stati intieri campano non d'altro che sul prodotto di questa fecondissima classe sterile, la di cui riproduzione comprende il valore della materia prima, la consumazione proporzionata delle mani impiegatevi, e di piu quella porzione che fa arricchire chi ha intrapresa la fabbrica e chi vi s'impiega con felice talento.—*Meditazioni sulla Economia Politica*, § 3.

“Some deserving writers, grieved by the disorders which the people suffer by means of taxes, have gone to the extreme of considering every tax unjust and ill-placed, which does not rest upon land; and adopting an ascetic language, have given birth to the sect of Economists: in whose judgment, every man who holds not the plough is a useless being, and manufacturers are an *unproductive class*. In spite of the truth and utility of much of what they have written, I cannot unite with them in opinion, either in relation to taxes or to this pretended unproductive class. Reproduction is attributable equally to manufactures as to the labour of the fields. The phenomena of the universe, whether produced by the hand of man or by the laws of nature, give us no idea of actual *creation*, but only of a *modification* of matter. *To unite and to separate*, are the only elements we find in the idea of *reproduction*; and the reproduction of wealth and value is equal, whether it be the earth, air, and water, in the fields, uniting into grain, or the hand of man converting the gluten of an insect into velvet, or bits of metal into a watch. Upon the labours of this class of men, falsely named unproductive, whole cities and states are supported; since their reproduction contains within itself the value of the raw material, the labour employed upon it, and the additional portion which goes to enrich the undertaker of industry, whose skill is devoted to it.”—*E*.

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rily prosecute such as are advantageous to the public.* From thence Dr. Smith drew his grand inference, that every regulation intended to force industry into particular channels, or to determine the species of commercial intercourse to be carried on between different parts of the same country, or between distant and independent countries, is impolitic and pernicious—injurious to the rights of individuals—and adverse to the progress of *real* opulence and lasting prosperity.

The fact that traces of most of these principles, and even that the distinct statement of many of those that are most important, may be found in the works of previous writers, does not in the least detract from the real merits of Dr. Smith. In adopting the discoveries of others, he has made them his own; he has demonstrated the truth of principles on which his predecessors had, in most cases, stumbled by chance; has disentangled and separated them from the errors by which they were incumbered; has traced their remote consequences, and pointed out their limitations; has shown their practical importance and real value—their mutual dependance and relation; and has reduced them into a consistent, harmonious, and magnificent system. We do not mean to say that Dr. Smith has produced a perfect work. Undoubtedly there are errors, and those, too, of no slight importance, in the *Wealth of Nations*. The principles to which we have just referred, and which form the basis of the work, are unimpeachable; but Dr. Smith has not always reasoned correctly from them, and he has occasionally introduced others, which a more careful observation and analysis has shown to be ill-founded. But after every allowance has been made for these defects, enough still remains to justify us in considering Dr. Smith as the real founder of the science.† If he has not left us

* It is of importance to observe, that Dr. Smith does not say, that, in prosecuting such branches of industry as are *most advantageous* to themselves, individuals necessarily prosecute such as are at the same time *most advantageous to the public*. His leaning to the system of the Economists—a leaning perceptible in every part of his work—made him so far swerve from the principles of his own system, as to admit, that individual advantage was not always a *true test* of the public advantageousness of different employments. He considered agriculture, though not the only productive employment, the *most productive* of any. He also considered the home trade as more productive than a direct foreign trade, and the latter than the carrying trade. We shall hereafter show, that there is no foundation for these distinctions.

† For the convenience of the student may be here mentioned some of the principal works since the time of A. Smith, and which partake more or less of the principles he has so conclusively settled. They are chiefly confined to the present century; the talents which adorned the close of the last having been from the political convulsions of Europe, devoted to questions of still higher bearing on the interests of society, viz. on religion, morals, and the foundation of government.

In 1783, Lord Sheffield published his “Observations on the Commerce of the United States,” a work ably reviewed by Mr. Tench Coxe’s “Brief Examination, &c.” Philadelphia, 1791. These works, however, are rather statistical than scientific.

Canard, on the prize question proposed by the National Institute “In an agricultural country do taxes fall ultimately on the proprietors of land?” Paris, 1800. This author opposes the economists—maintains the balance of trade—and adds a needless obscurity to his subject by the use of the analytical formula of pure science.

Dutens. “Analyse Raisonnée.” Paris. 1800.

a perfect work, he has, at all events, left us one which contains a greater mass of useful and universally interesting truths than has ever been given to the world by any other individual; and he has pointed out and smoothed the route, by following which, subsequent philosophers have been enabled to perfect much

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Lauderdale. "Inquiry into the Nature and Origin of Public Wealth," 1804. This author is marked for maintaining the distinction between public and private wealth—making the former to consist in plenty, the latter to arise from scarcity. This inconsistency is to be avoided by drawing just distinctions between *wealth* and *value*.

Ganilh. "Inquiry into the various Systems of Political Economy," a work worth referring to for its facts, rather than its reasonings; he appears as the patron of commerce.

J. B. Say. "Treatise on Political Economy." Paris, 1802. The first edition of this work was suppressed by the order of Bonaparte. A later and enlarged edition is familiar to the American public, by the reprint of Prinssep's Translation with notes, by C. C. Biddle. Boston, 1821. For the general scholar, no work, after the "Wealth of Nations," so well deserves to be studied. To the continent of Europe it may be said to have introduced the work and principles of Smith; and to all it presented them in a new and more scientific form, freed from those statistical details with which, however necessary at the time, that great work now appears to be needlessly loaded. Of this treatise Ricardo says, "it is enriched with several acute, original, and profound discussions;" and Mr. M'C. in his introductory discourse, speaks of its "clear and logical arrangements, and the felicity of many of its illustrations."

"*Conversations on Political Economy*," by Madame Marcet, London. This little work, though puerile in its form, and from a female pen, is not wanting in manly excellence. It has the high merit of being familiar without departing from scientific truth.

Malthus' "Principles of Political Economy." London, 1817. This author's reputation was established by his Essay on Population as early as 1798; a work which lies at the foundation of all subsequent inquiries into that subject. The principles so ably maintained in this work may, however, be found clearly and distinctly stated in Townshend's "Dissertation on the Poor Laws," in 1786, and still earlier, in a tract of Dr. Franklin's on Population, written in 1751. The opinions of Malthus in Political Economy, may be said to hold the medium between those of Adam Smith and Ricardo.

Sismondi. "New Principles of Political Economy." This author appears as an opponent of Malthus on the subject of population, of Ricardo in relation to Rent, and in general of the liberal system of Trade; though on other points, he is both sound and acute.

Garnier. The translator of Adam Smith into French, may be ranked next to Say, among his enlightened followers on the continent. *Blavet* had previously translated Smith in 1801, but without notes.

Ricardo's "Principles of Political Economy and Taxation," appeared in 1817, and may be considered as constituting an era in the science of which it treats, and the one with which its history closes. In the powers of acute analysis he goes beyond all his predecessors, and has given to the writings of his school a corresponding character. On the subject of Rent, and the relative influence of Wages and Profits upon each other, and on the price of commodities, he is universally acknowledged to have thrown much new light. In the former of these discoveries, however, he had been anticipated by earlier writers, by Malthus and more especially by Mr. West, a London Barrister, who two years earlier, viz. in 1815, had developed the true origin of Rent in a tract, subscribed "A Fellow of University College, Oxford." A still earlier development of its nature, has recently been detected by Mr. M'C. in a French work, entitled "Principes de tout Gouvernement," published as early as 1766.

For the maintenance of the peculiar principles of Ricardo in addition to the present article of Mr. M'Culloch, the student may refer to the valuable little work of Mills, entitled "Elements of Political Economy." London, 1821. For an attack upon them, to an able Review of the present article in the Quarterly, No. 60, of Aug. 1824, written by a liberal adherent of the older school of Adam Smith.—E.

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that he had left incomplete, to rectify the mistakes into which he had fallen, and to make many new and important discoveries. Whether, indeed, we refer to the soundness of its leading doctrines, to the liberality and universal applicability of its practical conclusions, or to the powerful and beneficial influence it has had on the progress and perfection of economical science, and still more on the policy and destiny of nations, Dr. Smith's work must be placed in the foremost rank of those that have done most to liberalise, enlighten, and enrich mankind.

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In tracing the history of Political Economy, some reference is due to the claims of our own country; though it must be acknowledged we have understood the subject much better in practice than in theory. Of scientific writers indeed, we have few or none in the early history of the colonies; their Political Economy lay in their Politics. But still in their frequent addresses to the throne, petitions for the removal of grievances, defences of their charters, speeches in their colonial legislatures, and occasional public pamphlets upon questions thus discussed, we find maintained by them in firm and clear terms, the great doctrines which lie at the foundation not only of civil liberty, but of national prosperity. This is more strikingly true, as we approach the period of their separation from the mother country, when claims arbitrarily pursued on the one part, led to free investigation on the other of the foundations on which they rested, both of policy and right. This investigation terminated, as might be expected from the spirit which excited it in the principles of free trade and unshackled industry—principles which were afterward embodied into the Constitutions of the various States, as well as into that of the General Government, and which in the advancement of our national prosperity, have so fully justified by their result, the wisdom of those who established them.

The reader desirous of referring to original documents in support of these views, may consult among others,

“The Body of Liberties of Massachusetts,” 1641.

“The Simple Cobler of Agawam, 1647.” The work of a clergyman, one Nathan Ward, and so popular that it ran through four editions in two years.

“A defence of the New England Charters,” by J. Dummer, Boston, 1721.

“The Trial of Zenger,” the editor of the Weekly Journal, N. Y. 1735.

“The Sentiments of a British American,” Thacher, Boston.

“The Farmer's Letters,” Dickinson, Baltimore.

“Report of Boston Committee,” S. Adams, Boston, 1772.

“Massachusetts State Papers,” &c. &c.

Among the subjects of internal policy which early excited the attention of the colonies, was the necessity of a paper currency. The channels of free trade being closed against them, the precious metals did not flow into the country in proportion to its needs, and the colonists were left to gather them, to use the words of Gov. Pownal in his able Tract on this subject, “from the scrambling profits of an undescribed traffic.” In addition to this, were the peculiar necessities of a new and increasing country which will always be found comparatively bare of metallic money, from the great demands which exist within it for productive improvements, and the absorption that consequently takes place of coin, which as such is a dead capital, into the mass of productive investments.

From these causes, a paper currency was universally adopted, resting necessarily on imperfect funds, and the evils which result from such arrangements, very generally experienced. These errors led to examination, and examination to a knowledge of principles, which were however more generally advocated than acted upon. In Pennsylvania alone of all the colonies, was this dangerous substitute for money established and maintained without depreciation; an honourable distinction greatly due to the influence of Franklin, who, so early as the year 1729, wrote a Tract “On the nature and necessity of a Paper Currency.” Its redemption rested upon a landed security, the best the situation of the country could offer:

and it is a high compliment both to the soundness of the principles on which the loan office was established and the integrity with which they were applied, that its paper, though not at pleasure redeemable, maintained its fair value for more than fifty years, an evidence of skill which has drawn forth the eulogium even of British writers.

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At a later period on the same subject, we have a short tract of James Otis of Boston, though rather in a political than scientific tone, opposing a proposal of Gov. Hutchinson's to make gold a legal tender at a diminished value.

As the acutest, however, of the writers on colonial currency, may be mentioned, Mr. Tench Francis of Philadelphia, an intelligent merchant and eminent lawyer, whose tract on paper money, was printed after his death by Gov. Pownal and bound up in his "Administration of the Colonies." The date of publication is 1765, though written, as Gov. P. states, several years before. The sagacious views of this writer in relation to prices, go beyond those of his contemporaries on either side of the Atlantic, and the scientific precision of many of his definitions, reminds us of the school of Ricardo.

"All value" says he, "is given to things for their fitness or power to answer or procure the necessary conveniencies or pleasures of human life. This value may be considered absolute or relative. Absolute value terminates in our esteem of any thing without referring to any other; relative, is that which it has compared with another. The latter only, (exchangeable value,) I shall have occasion to treat of."

"From the natural state and order of things, I think it may be affirmed that the worth or price of any thing, will always be as the quantity and uses among mankind; as the uses directly, and as the quantity reciprocally or inversely. Use is the sole cause of value, and value the necessary effect of use. Price depends on quantity, and they are to each other inversely, or the more the one, the less the other. Water is as necessary as any thing, and a diamond perhaps as little, yet the superfluous plenty of one has rendered it of no worth in most places, and the scarcity of the other has carried it to an extravagant price." The effect of a superfluous paper money he thus states: "If a nation has a quantity of money equal to its commerce, the lands, commodities, and labour of the people shall bear a middle price. This state is the best, and tends most to enrich the people and make their happiness lasting. If they should mint paper to pass for money, the increase of quantity in the former will lessen the value of the latter, will raise the price of lands and rents, and make the labour of such a people and the commodities, be *rated* higher than in other places. Men's fortunes will rise in *nominal, not real value*, from whence idleness, expense, and poverty shall follow. Where it is found necessary to add paper money to the coin of any country, to support its value ought to be the main and principal view. The paper derives its *intrinsic worth from the fund* which is stable and fixed. If we in Pennsylvania, upon a sufficient fund answerable in silver at a future period, mint a quantity of paper equal to the uses of the people for money, why should it not at all times have value equal to the nominal value, or to the sum chargeable on the fund at the day to come?"

From this "very judicious and able tract" as it is styled by Gov. Pownal, and one which contained, as he acknowledged, "the most exact and decisive sentiments on this subject, he had any where met with,"—the Editor has thus largely quoted both from its intrinsic merit and from the circumstance of its being locked up in a work comparatively but little known, and not very easy of access.

The writings of Franklin on these subjects, are of a higher character. They partake less of the warmth of politics, and more of the dignity of science. The most of them were written and made public many years previous to the Revolutionary war, and consequently before the appearance of that great work of Adam Smith which, by a notable coincidence, taught to England the theory of national wealth, at the very moment almost, in which the colonies were entering on its practical development, being published in the beginning of 1776, the year of the declaration of our independence.

The acuteness of the mind of Franklin, however, was rather practical than theoretical—a kind of worldly tact that carried its owner right without much reference to principle. Though his short and scattered pieces

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on Political Economy, therefore, cannot enter into any competition with the "Wealth of Nations," they are yet deserving of notice in the history of the science, from the sound and sagacious views they entertain of the true principles of internal national policy, from their preceding by several years the appearance of that work, which first made these principles familiar, and from the fact but little known, of Adam Smith's communications with him, while preparing his celebrated "Inquiry," consulting him upon parts of the work as it proceeded, and frequently deferring to his opinion.

The tone of Franklin's philosophy on these subjects, may be judged of by the following extracts.

In a note endorsed on a letter of Gov. Pownall's without date, but previous to 1760, the year of his removal," Franklin says, "This objection goes upon the supposition, that whatever the colonies gain, Britain must lose, and that if the colonies can be kept from gaining an advantage, Britain will gain it. If the colonies are fitter for a particular trade than Britain is, they should have it, and Britain apply to what it is more fit for; for other countries will get it if the colonies do not. Advantageous circumstances and situations will always secure and fix manufactures; Sheffield against Europe for three hundred years past."

His examination before the British House of Commons in 1760, abounds with strong and just views of the true policy of Trade, and produced for a time, a sensible effect on the measures of the administration.

The Essay on the principles of trade, which was the joint production of Dr. Franklin and Mr. G. Whately, deserves to rank in the history of Political Economy with the Essays of Hume, which were published about the same period.

"In transactions of trade, it is not to be supposed that like gaming what one party gains, the other must necessarily lose—an exchange is gain to each—hereby the common stock of comforts is increased." "Freedom and protection are most indisputable principles, whereon the success of trade must depend, as clearly as an open good road tends towards a safe and speedy intercourse: nor is there a greater enemy to trade than constraint." "No laws which the art of man can devise, will or can hinder or entirely stop the current of a profitable trade, any more than the severest laws could prevent the satisfying of hunger when any opportunity offered to gratify it." "The precious metals, gold and silver, are no other than merchandise acquired from countries where there are mines, by those countries which have none, in exchange for the produce of their land or manufactures."

Speaking of the Spanish laws for retaining coin at home he says, "We see the folly of these edicts, but are not our own prohibitory and restrictive laws, that are professedly made with intention to bring a balance from our trade with foreign nations, to be paid in money—are not such laws akin to these Spanish edicts—follies of the same family?" "Most of the statutes of Parliaments, Princes, and States, for regulating, directing, or restraining of trade, have, we think, been either political blunders or jobs obtained by artful men for private advantage, under pretence of public good." "It were therefore to be wished that commerce was as free between all the nations of the world, as it is between the several counties of England; so would all by mutual communication obtain more enjoyment. These counties do not ruin themselves by trade, neither would the nations. No nation was ever ruined by trade, even seemingly the most disadvantageous." "As every individual makes a part of the whole public—whatever benefits the individual must benefit the public."

On the subject of the corn laws, his language anticipates that of A. Smith. "Those who fear that exportation may so far drain the country of corn as to starve ourselves, fear what never did, nor ever can happen. They may as well when they view the tide ebbing towards the sea, fear that all the water will leave the river. The price of corn like water, will find its level. The more we export, the dearer it becomes at home. The more is received abroad, the cheaper it becomes there, and as soon as these prices are equal, the exportation stops of course."

The demoralizing effect of the poor laws, he exposes in his address entitled "On the Price of Corn and Management of the Poor." "The day," says he, "you passed that act, you took away from before their eyes the greatest of all inducements to industry, frugality, and sobriety, by giving

them a dependance on somewhat else than a careful accumulation during youth and health, for support in age and sickness : in short, you offered a premium for the encouragement of idleness." Economical Science in America.

See also, On paper money, in answer to the Report of the Board of Trade, 1764. Canada Pamphlets, 1760. Positions to be examined, &c. 1769. Observations on War, on Luxury, Idleness, and Industry. And for a practical application of principles to individual success, see his "Way to Wealth," "Poor Richard's Almanac," &c.

Not his country only, but the world at large, is indebted to him for his labours towards the abolition of slavery and the slave trade, and the mitigation of the needless miseries of war, by putting a stop to all privateering, and injury of individual property. On this subject, he published a tract entitled, "Reasons against Privateering, &c." He was a peace maker upon principles, not only of humanity, but of political calculation—upon the ground that peace was the natural and true policy of all governments. "What vast additions," says he in a letter to Hartley, "to the convenience and comfort of living might we acquire, if the money spent in war had been employed in works of public utility, what an extension of agriculture even to the tops of the mountains."

The only writer we shall notice subsequent to our Revolution, is one who gave tone and direction, by his official productions, to the vacillating policy and jarring interests of the new confederation. This is Alexander Hamilton, whose various official reports while Secretary of the Treasury, give evidence of the acuteness and versatile powers of his mind. They consist in,

A Report on Public Credit, in 1790.

" A National Bank.

" The Constitutionality of a National Bank, 1791.

" The subject of Manufactures, 1790.

" The establishment of a Mint.

And to these may properly be annexed, the Report on the coinage in the same year, by Thomas Jefferson, Secretary of State.

Of these, the most interesting as it has been the most influential, in our national policy, is that on manufactures. As the principles of this Report have sometimes been so far misunderstood as to be placed in direct opposition to the school of Adam Smith, a short analysis of it may not be without its popular use.

"The expediency of encouraging domestic manufactures," which is the object of the Report, he rests not upon reasoning but upon facts—upon circumstances which create an exception to general rules. In the case of this country they were, as stated by him, "the embarrassments which obstructed the progress of our external trade," and "the restrictive regulations which in foreign markets abridged the vent of the increasing surplus of our agricultural produce."

The general reasoning with which the Report commences, is sound and conclusive, being either in accordance with Adam Smith, or possessing the still higher merit of pointing out the error of that agricultural bias which marks his work, and which is now universally admitted to be erroneous. His argument lies against, 1. The French economists, or those who maintained agriculture to be the only productive labour, and 2. Against Adam Smith, who held it to be, though not the only, yet certainly its most productive form. On this latter point, Hamilton may be said, in some measure to antedate the discovery of the school of Ricardo; viz. that rent is the result not of the superior but of the limited productiveness of the soil, and that if any distinction is to be drawn between manufactures and agriculture, it is that "the labour employed in manufactures being at once more constant, (as to time) more uniform, (as to power) and more ingenious, (as to the applicability of machinery) will be found at the same time more productive." But of their productiveness, he rather maintains the equality. "Each furnishes a certain portion of the produce of his labour, and each destroys a correspondent portion of the produce of the labour of the other. In the mean-time the maintenance of two citizens instead of one is going on: the state has two members instead of one; and they together consume twice the value of what is produced from the land." "Hence the produce of the labour of the two farmers would not be greater than the produce of the labour of the farmer and artificer, and hence it results, that the labour of the artificer is as positively produc-

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tive as that of the farmer, and as positively augments the revenue of society."

In passing to the consideration of the main object of the Report, he fully acknowledges the advantages that would flow from the general adoption among nations, of "the system of perfect liberty and free trade." "In such a state of things," says he, "each country would have the full benefit of its peculiar advantages to compensate for its deficiencies or disadvantages. If one nation were in a condition to supply manufactured articles on better terms than another, that other might find an abundant indemnification in a superior capacity to furnish the produce of the soil. And a free exchange mutually beneficial of the commodities which each was able to supply on the best terms, might be carried on between them, supporting in full vigour the industry of each."

The reasons of expediency, which, in the opinion of the Secretary, justified a departure from this wise and liberal policy, it is not within the province of these notes to examine. It is sufficient that he placed it upon reasons that were peculiar in their nature and temporary in their influence; "dictated to the country," as he observes, "by the imperious force of a very peculiar situation." The United States being at that time, as he justly states, "to a certain extent, in the situation of a country precluded from foreign commerce."

If it may be permitted however to the writer to express an opinion, it would be, in concurrence with the Report, that the peculiar circumstances of a government recently established amid jarring interests with the resources of the country paralyzed by the exhaustion of a civil war—without capital at home, and without credit abroad—rendered it the soundest policy of the rulers to arouse, by whatever means were found most efficient, the slumbering energies of the nation, and to fortify and extend, for a time, that internal commerce over which they had the fullest control.

But the essential policy and permanent usefulness of bounties and restrictions, which are equivalent to them, is another question. And should manufactures continue to need them under more favourable circumstances, to use the language of the Report, "a presumption would arise in every such case, that there were natural and inherent impediments to success."

For the length of this note, if any apology is due from an American Editor to an American public, it must be found in his anxiety to set forth the just claims of his countrymen, however small, to the merit of advancing a science which bids fair to regenerate the world by uniting the nations of the earth in the bonds of common peace and mutual benefit.—E.

Distinction
between
Politics and
Political
Economy.

The practical part of the science of Political Economy was long confounded with that of Politics; and it is undoubtedly true that they are very intimately connected, and that it is frequently impossible to treat those questions which strictly belong to the one without referring more or less to the principles and conclusions of the other. But, in their leading features, they are sufficiently distinct. The laws which regulate the production and distribution of wealth are the same in every country and stage of society. Those circumstances which are favourable or unfavourable to the increase of riches and population in a republic may equally exist, and will have exactly the same effects, in a monarchy. That security of property, without which there can be no steady and continued exertion—that freedom of engaging in every different branch of industry, so necessary to call the various powers and resources of human talent and ingenuity into action—and that economy in the public expenditure, so conducive to the accumulation of national wealth—are not the exclusive attributes of any particular species of government. If free states generally make the most rapid advances in wealth and population, it is an indirect rather than a direct consequence of their political constitution. It results more from

the greater *certainty* which a popular government presents that the right of property will be held sacred—that the freedom of industry will be less fettered and restricted,—and that the public income will be more judiciously levied and expended, than from the circumstance of a greater proportion of the people being permitted to exercise political rights and privileges. Give the same securities to the subjects of an absolute monarch, and they will make the same advances. Industry does not require to be stimulated by extrinsic advantages. The additional comforts and enjoyments which it procures have always been found sufficient to ensure the more persevering and successful exertions. And whatever may have been the form of government, those countries have always advanced in the career of improvement, in which the public burthens have been moderate, the freedom of industry permitted, and every individual enabled peaceably to enjoy the fruits of his labour. It is not, therefore, so much on its political organization, as on the talents and *spirit* of its rulers, that the wealth of a country is principally dependant. Economy, moderation, and intelligence on the part of those in power, have frequently elevated absolute monarchies to a very high degree of opulence and of prosperity; while, on the other hand, all the advantages derived from a more liberal system of government have not been able to preserve free states from being impoverished and exhausted by the extravagance, intolerance, and shortsighted policy of their rulers.

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The sciences of Politics and of Political Economy are, therefore, sufficiently distinct. The politician examines the principles on which all government is founded, he endeavours to determine in whose hands the supreme authority may be most advantageously placed,—and unfolds the reciprocal duties and obligations of the governing and governed portions of society. The political economist does not take so high a flight. It is not of the constitution of the government, but of its acts only, that he presumes to judge. Whatever measures affect the production or distribution of wealth, necessarily come within the scope of his observation, and are canvassed by him. He examines whether they are in unison with the just principles of economical science. If they *are*, he pronounces them to be advantageous, and shows the nature and extent of the benefits of which they will be productive; if they *are not*, he shows in what respect they are defective, and to what extent their operation will be injurious. But he does this without inquiring into the constitution of the government by which these measures have been adopted. The circumstance of their having emanated from the privy council of an arbitrary monarch, or the representative assembly of a free state, though in other respects of supreme importance, cannot affect the immutable principles by which the economist is to form his opinion upon them.

Besides being confounded with politics, the practical part of Political Economy has frequently been confounded with Statistics; but they are still more easily separated and distinguished. The object of the statistician is to describe the condition of a particular country at a particular period; while the object of the political economist is to discover the causes which have brought it into that condition, and the means by which its wealth

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and riches may be indefinitely increased. He is to the statistician what the physical astronomer is to the mere observer. He takes the facts furnished by the researches of the statistician, and after comparing them with those furnished by historians and travellers, he applies himself to discover their relation. By a patient induction—by carefully observing the circumstances attending the operation of particular principles, he discovers the effects of which they are really productive, and how far they are liable to be modified by the operation of other principles. It is thus that the relation between rent and profit—between profit and wages, and the various general laws which regulate and connect the apparently clashing, but really harmonious interests of every different order in society, have been discovered and established with all the certainty of demonstrative evidence.

PART II.

PRODUCTION OF WEALTH.

SECT. I.—*Definition of Production—Labour the only source of Wealth.*

Definition of
Production.

All the operations of nature and of art are reducible to, and really consist of *transmutations*,—of changes of form and of place. By production, in the science of Political Economy, we are not to understand the production of matter, for that is exclusively the attribute of Omnipotence, but the production of *utility*, and consequently of exchangeable value, by appropriating and modifying matter already in existence, so as to fit it to satisfy our wants, and to contribute to our enjoyments. The labour which is thus employed is the only source of wealth.*

Labour the
only Source
of Wealth.

* This point has been strongly and ably stated by M. Destutt Tracy—"Non seulement," says he, "nous ne créons jamais rien, mais il nous est même impossible de concevoir ce que c'est que *créer* ou *anneantir*, si nous entendons rigoureusement par ces mots, *faire quelque chose de rien*, ou *reduire quelque chose à rien*; car nous n'avons jamais vu un être quelconque sortir du néant ni y rentrer. De là cet axiome admis par toute l'antiquité: rien ne vient de rien, et ne peut redevenir rien. Que faisons-nous donc par notre travail, par notre action sur tous les êtres qui nous entourent? Jamais rien, qu'opérer dans ces êtres des changements de forme ou de lieu qui les approprient à notre usage, qui les rendent utiles à la satisfaction de nos besoins. Voilà ce que nous devons entendre par *produire*; c'est *donner aux choses une utilité qu'elles n'avoient pas*. Quel que soit notre travail, s'il n'en résulte point d'utilité, il est infructueux; s'il en résulte, il est *productif*."—(*Elemens d'Ideologie*, Tome III. p. 162.)

"Not only do we create nothing, but it is even impossible for us to conceive the meaning of the terms *create* and *destroy*, if we use them in their strict sense; for we have never seen any thing existing, either to proceed out of nothing or to return to it again. Hence the received axiom of antiquity, "Nothing can proceed from nothing." What do we then by our labour and operations on things around us? Simply nothing but to effect in them certain changes of form or place, which appropriates them to our use, or which renders them suitable to the supply of our wants. This is what we are to understand by the term *production*; it is *to give to things a utility which before they did not possess*. Whatever be our labour, if utility do not result from it, it is unfruitful; if it do result from it, it is *productive*."—(*Elements of Metaphysics*).—E.

Nature spontaneously furnishes the matter of which commodities are made : but, independently of labour, matter is rarely of any use whatever, and is never of any value. Place us on the banks of a river, or in an orchard, and we shall infallibly perish, either of thirst or hunger, if we do not, *by an effort of industry*,* raise the water to our lips, or pluck the fruit from its parent tree. It is seldom, however, that the mere appropriation of matter is sufficient. In the infinite majority of cases, labour is required not only to appropriate it, but also to convey it from place to place, and to give it that peculiar figure and shape, without which it may be totally useless, and incapable of either ministering to our necessities or our comforts. The coal used in our fires is buried deep in the bowels of the earth, and is absolutely worthless until the labour of the miner has extracted it from the mine, and brought it into a situation where it can be made use of. The stones and mortar of which our houses are built, and the rugged and shapeless materials from which the various articles of convenience and ornament with which they are furnished have been prepared, were, in their original state, alike destitute of value and utility. And of the innumerable variety of animal, vegetable, and mineral products which form the materials of our food and clothes, none were originally serviceable, and many were extremely noxious to man. It is his *labour* that has given them utility, that has subdued their bad qualities, and made them satisfy his wants, and minister to his comforts and enjoyments. "Labour was the first price, the original purchase money that was paid for all things. It was not by gold or by silver, but by labour, that all the wealth of the world was originally purchased."—(*Wealth of Nations*, Vol. I. p. 44. 8vo. edit.)

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If we observe the progress, and trace the history of the human race in different countries and states of society, we shall find their comfort and happiness to have been always nearly proportioned to the power which they possessed of rendering their labour effective in appropriating the raw products of nature, and in fitting and adapting matter to their use. The savage, whose labour is confined to the gathering of wild fruits, or to the picking up of the shell fish on the sea coast, is placed at the very bottom of the scale of civilization, and is, in point of comfort, decidedly inferior to many of the lower animals. The *first* step in the progress of society is made when man learns to

* To term these ordinary acts, *efforts of industry*, seems an overstrained application of language; they are essential to all consumption, which necessarily involves some bodily effort, great or small, and should not, therefore, be regarded in the examination of that labour which is necessary to production. This fallacy arises from our author insisting upon labour, as the sole source of wealth,—which may be regarded as one of the peculiar doctrines of this school. It is a position rather morally than scientifically true; without labour there can be no production of wealth; but then, without the raw materials which the earth supplies, labour would necessarily be unproductive. It seems, therefore, more natural and just to regard wealth, or products which constitute it, as the combined result of the energies of labour and the productive powers of the soil,—labour being further aided in its powers, as society advances, by the *natural agents* which science calls into operation, and by those surplus products which, under the name of *capital*, introduces machinery and subdivision of labour.—*E.*

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hunt wild animals, to feed himself with their flesh, and to clothe himself with their skins. But labour, when confined to the chase, is extremely barren and unproductive. Tribes of hunters, like beasts of prey, whom they are justly said to resemble closely in their habits and modes of subsistence, are but thinly scattered over the surface of the country which they occupy; and notwithstanding the fewness of their numbers, any unusual deficiency in the supply of game never fails to reduce them to the extremity of want. The *second* step in the progress of society is made when the tribes of hunters and fishers apply their labour, like the ancient Scythians and modern Tartars, to the domestication of wild animals and the rearing of flocks. Their subsistence is much less precarious than that of hunters, but they are almost entirely destitute of all those comforts and elegancies which give to civilized life its chief value. The *third* and most decisive step in the progress of civilization—in the great art of producing the necessaries and conveniences of life—is made when the wandering tribes of hunters and shepherds renounce their migratory habits, and become agriculturalists and manufacturers. It is then, properly speaking, that man, shaking off that indolence which is natural to him, begins fully to avail himself of the productive powers of industry. He then becomes laborious, and, by a necessary consequence, his wants are then, for the first time, fully supplied, and he acquires an extensive command over the articles necessary to his comfort as well as his subsistence.

The Earth
not a Source
of Wealth.

However paradoxical the assertion may at first sight appear, it is, notwithstanding, unquestionably true that the earth does not gratuitously supply us with a single atom of wealth. It is a powerful machine given by Providence to man; but without labour this machine would be altogether useless, and would for ever stand idle and unemployed. It is to labour that the products of the earth owe their *value*, and it is by its intervention that they become useful. The surface of the earth is, in its natural state, covered with fruits and game; its bowels contain an infinite variety of mineral products; its seas and rivers are stored with fish, and it is endowed with inexhaustible vegetative and productive powers; but all these powers and products are plainly of no use whatever, and have no value, until the labour of man has called the former into action, and appropriated the latter, and given them that peculiar form which is required to fit them to support his existence, or to increase his enjoyments.

Opinion of
Hobbes.

The importance of labour in the production of wealth was very clearly perceived both by Hobbes and Locke. At the commencement of the 24th chapter (entitled, “Of the *Nutrition and Procreation of a Commonwealth*”) of the *Leviathan*, published in 1651, Hobbes says, “The *nutrition* of a commonwealth consisteth in the *plenty* and *distribution* of *materials* conducing to life.

“As for the plenty of matter, it is a thing limited by nature to those commodities which, from (the two breasts of our common mother) *land* and *sea*, God usually either freely giveth, or for labour selleth to mankind.

“For the matter of this nutriment, consisting in animals, vegetables, minerals, God hath freely laid them before us, in or

near to the face of the earth ; so as there needeth no more but the labour and industry of receiving them. Insomuch that *plenty dependeth* (next to God's favour) *on the labour and industry of man.*" Labour the only Source of Wealth.

But Mr. Locke had a much clearer apprehension of this doctrine. In his *Essay on Civil Government*, published in 1689, he has entered into a lengthened, discriminating, and able analysis to show that it is from labour that the products of the earth derive almost all their value. "Let any one consider," says he, "what the difference is between an acre of land planted with tobacco or sugar, sown with wheat or barley, and an acre of the same land lying in common, without any husbandry upon it, and he will find that the improvement of labour makes the far greater part of the value. I think it will be but a very modest computation to say, that of the products of the earth useful to the life of man, *nine-tenths* are the effects of labour ; nay, if we will rightly consider things as they come to our use, and cast up the several expenses about them, what in them is purely owing to nature, and what to labour, we shall find, that in most of them *ninety-nine hundredths* are wholly to be put on the account of labour." Opinion of Locke.

"There cannot be a clearer demonstration of any thing, than several nations of the Americans are of this, who are rich in land, and poor in all the comforts of life ; whom nature having furnished as liberally as any other people with the materials of plenty ; *i. e.* a fruitful soil apt to produce in abundance what might serve for food, raiment, and delight ; yet for *want of improving it by labour*, have not one hundredth part of the conveniencies we enjoy ; and the king of a large and fruitful territory there feeds, lodges, and is worse clad than a day-labourer in England.

"To make this a little clear, let us but trace some of the ordinary provisions of life through their several progresses, before they come to our use, and see how much of their value they receive from human industry. Bread, wine, and cloth, are things of daily use, and great plenty ; yet, notwithstanding, acorns, water, and leaves, or skins, must be our bread, drink, and clothing, did not labour furnish us with these more useful commodities ; for whatever bread is more worth than acorns, wine than water, and cloth or silk than leaves, skins, or moss, that is solely owing to labour and industry ; the one of these being the food and raiment which unassisted nature furnishes us with ; the other provisions which our industry and pains prepare for us ; which how much they exceed the other in value, when any one hath computed, he will then see how much labour makes the far greatest part of the value of things we enjoy in this world ; and the ground which produces the materials is scarcely to be reckoned on as any, or, at most, but a very small part of it.

"An acre of land that bears here twenty bushels of wheat, and another in America, which with the same husbandry, would do the like, are, without doubt, of the same natural intrinsic value. But yet, the benefit mankind receives from the one in a year is worth L. 5, and from the other possibly not worth *one penny* ; if all the profit an Indian received from it were to be valued and sold here, at least, I may truly say, not $\frac{1}{10000}$.—'Tis labour, then,

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which puts the greatest part of value upon land, *without which it would scarcely be worth any thing*: 'Tis to that we owe, the greatest part of its useful products; for all that the straw, bran, bread, of that acre of wheat, is more worth than the product of an acre of good land which lies waste, is all the effect of labour. For 'tis not merely the ploughman's pains, the reaper's, and thrasher's toil, and the baker's sweat, is to be counted into the bread we eat, the labour of those who broke the oxen, who digged and wrought the iron and stones, who fitted and framed the timber employed about the plough, mill, oven, or any other utensils, which are a vast number, requisite to this corn, from its being seed to be sown, to its being made bread, must all be charged on the account of *labour*, and received as an effect of that. Nature and the earth furnishing only the almost worthless materials as in themselves.—'T would be a strange catalogue of things that industry provided and made use of about every loaf of bread, before it came to our use, if we could trace them. Iron, wood, leather, barks, timber, stone, brick, coals, lime, cloth, dyeing-drugs, pitch, tar, masts, ropes, and all the materials made use of in the ship that brought away the commodities made use of by any of the workmen, to any part of the work; all which it would be almost impossible, at least too long to reckon up." (*Of Civil Government*, Book II. § 40, 41, 42, and 43.)*

Had Mr. Locke carried his analysis a little further, he could not have failed to perceive that neither water, leaves, skins, nor any of the spontaneous productions of nature, have any *value*, except what they owe to the labour required to appropriate them. The value of water to a man placed on the bank of a river depends on the labour necessary to raise it from the river to his lips; and its value, when carried ten or twenty miles off, is equally dependant on the labour necessary to convey it there. All the rude products, and all the productive powers and capacities of nature, are gratuitously offered to man. Nature is not niggardly or parsimonious. She neither demands nor receives an equivalent for her favours. An object which it does not require any portion of labour to appropriate or to adapt to our use, may be of the very highest utility; but, as it is the free gift of nature, it is utterly impossible it can be possessed of the smallest value.†

* This is a very remarkable passage. It contains a far more distinct and comprehensive statement of the fundamental doctrine, that labour is the constituent principle of value, than is to be found in any other writer previous to Dr. Smith, or than is to be found even in the *Wealth of Nations*. But Mr. Locke does not seem to have been sufficiently aware of the real value of the principle he had elucidated, and has not deduced from it any important practical conclusion. On the contrary, in his tract on the *Raising of the Value of Money*, published in 1691, he lays it down broadly that all taxes, howsoever imposed, must ultimately *fall on the land*: whereas, it is plain he ought, consistently with the above principle, to have shown that they would fall, not exclusively on the produce of land, but generally on the *produce of industry*, or on all species of commodities.

† That this unqualified assertion requires limitation is abundantly evident. It proceeds on the supposition that whatever nature gives freely she gives unlimitedly. But this is not the fact:—wild fruits, precious stones, and metals, water-springs in sterile countries, may all be lighted upon by accident, and acquired without labour; but they are not there-

“Si je retranche,” to use a striking illustration of this doctrine given by M. Canard, “de ma montre, par la pensée tous les travaux qui lui ont été successivement appliqués, il ne restera que quelques grains de minéral placés dans l’intérieur de la terre d’où on les a tirés, et où ils n’ont aucune valeur. De même si je decompose le pain que je mange, et que j’en retranche successivement tous les travaux successifs qu’il a reçus il ne restera que quelques tiges d’herbes, graminées, éparses dans des deserts incultes, et sans aucune valeur.” (*Principes d’Economie Politique*, p. 6.)*

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only Source
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It is to labour, therefore, and to labour only, that man owes every thing possessed of exchangeable value. Labour is the talisman that has raised him from the condition of the savage—that has changed the desert and the forest into cultivated fields—

fore destitute of exchangeable value—for they are limited in quantity, and once appropriated, become immediately the subject of exchange. Other instances of value resulting, not from labour, but from the agency of nature, and the delayed returns of capital, may easily be found: for example, take a case of fermentation,—a cask of wine ripened by age, is doubled or trebled in value, without the addition of any labour. In this case we pay the interest of a delayed capital.

Notwithstanding our author’s caution in the use of terms, he has occasionally obscured this subject, by the indiscriminate application of the terms *wealth* and *value*. These terms, however, as already stated, are far from convertible. Of wealth, labour is certainly not the only source, though an essential element, and one primarily demanded. The productive powers of the soil and all other natural agents, constitute a second, and the powers of capital a third; all which concur in production, and consequently in the advancement of wealth.

Again, of exchangeable value there are two elements, viz. labour and capital. Natural agents are here excluded, since they are either gratuitous in use, such as air, steam, &c. or if rent be paid, as is the case on land, &c. such rent has no influence upon price. The propriety of distinguishing capital from labour will hereafter be treated of.—E.

Bishop Berkley entertained very just opinions respecting the source of wealth. In his *Querist*, published in 1735, he asks,—“Whether it were not wrong to suppose *land* itself to be wealth? And whether the *industry of the people* is not first to be considered, as that which constitutes wealth, which makes even land and silver to be wealth, neither of which would have any value, but as means and motives to industry?”

“Whether, in the wastes of America; a man might not possess twenty miles square of land, and yet want his dinner or a coat to his back.”—*Querist*, Numbers 38 and 39.

We shall afterward notice Sir William Petty’s opinion on this subject.

M. Say appears to think (*Discours Preliminaire*, p. 37) that Galiani was the *first* who showed, in his treatise *Della Moneta*, published in 1750, that labour was the only source of wealth. But the passages we have now laid before the reader prove the erroneousness of this opinion. Galiani has entered into *no analysis or argument to prove the correctness of his statement*; and, as it appears from other parts of his work, that he was well acquainted with Mr. Locke’s *Tracts on Money*, a suspicion naturally arises that he had seen the *Essay on Civil Government*, and that he was really indebted to it for a knowledge of this principle. This suspicion derives strength from the circumstance of Galiani being still less aware than Mr. Locke of the value of the discovery.—See *Traitato Della Moneta*, p. 39, ediz. 1786.

* “If in thought,” says Canard. “I withdraw from my watch all the labour which has been successively applied to it, there will only remain a few grains of metal placed in the bowels of the earth, where they are destitute of value. In the same manner, if I analyze the bread which I eat, and successively separate from it all the successive labours bestowed upon it, there will only remain some stalks of grass seeded, scattered through uncultivated deserts, and without value.”—*Principles of Political Economy*.—E.

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that has covered the earth with cities and the ocean with ships—that has given us plenty, comfort, and elegance, instead of want, misery, and barbarism.

Having established this fundamental principle—having shown that it is labour only that gives exchangeable value to commodities—it is plain the great practical problem of the science of Political Economy must resolve itself into a discussion of the means whereby labour may be rendered most efficient, or whereby *the greatest amount of necessary, useful, and agreeable products may be obtained with the least quantity of labour.* Wealth, as we have already shown, is always increased with every diminution of the labour required to produce the articles of which it consists. Every measure and invention that has any tendency to save labour, or to reduce the cost of producing commodities, must add proportionably to our power of obtaining wealth and riches, while every measure or regulation that has any tendency to waste labour, or to raise the cost of producing commodities, must equally lessen this power. This is the simple and decisive test by which we are to judge of the expediency of every measure affecting the wealth of the country, and of the value of every invention. If they render labour more productive—if they have a tendency to reduce the exchangeable value of commodities, to render them more easily obtainable, and to bring them within the command of a greater portion of society, they must be advantageous; but if their tendency be different, they must as certainly be disadvantageous. Considered in this point of view, that great branch of the science of Political Economy which treats of the production of wealth, will be found to be abundantly simple, and easily understood.

Labour, according as it is applied to the raising of raw produce—to the fashioning of that raw produce, when raised, into articles of utility, convenience, or ornament—and to the conveyance of raw and wrought produce from one country and place to another—is said to be agricultural, manufacturing, or commercial. An acquaintance with the particular processes, and most advantageous methods, of applying labour in each of these grand departments of industry, forms the peculiar and appropriate study of the agriculturalist, manufacturer, and merchant. It is not consistent with the object of the political economist to enter into the details of particular businesses and professions. He confines himself to an investigation of the means by which labour in general may be rendered most productive, and how its powers may be increased in *all* the departments of industry.

SECT. II.—*Means by which the Productive Powers of Labour are increased—Security of Property—Division of Labour—Accumulation and Employment of Capital.*

Means by
which the
Productive
Powers of
Labour may
be increased.

The most careless and inattentive observer of the progress of mankind from poverty to affluence must have early perceived, that there are *three* circumstances whose conjoint operation is necessary to stimulate and improve the productive powers of industry, and in the absence of which men could never have emerged from barbarism. The *first*, and most indispensable, is the *security of property*, or a well founded conviction in the mind

of every individual that he will be allowed to dispose at pleasure of the fruits of his labour. The *second* is the introduction of exchange or barter, and the consequent appropriation of particular individuals to particular employments. And the *third* is the accumulation and employment of the produce of previous labour, or, as it is more commonly termed, of capital, or stock. All the improvements that have ever been made, or that ever can be made, in the great art of producing the necessaries, comforts, and conveniencies of human life, are *all* resolvable into the more judicious and successful application of one or more of those means of stimulating labour, and adding to its power. To give a full exposition of the nature and influence of each would far exceed the limits of this article; and we must content ourselves with such observations as may suffice to give a general idea of their operation.

Means by which the Productive Powers of Labour may be increased,

SECURITY OF PROPERTY.—Security of property is the first and most indispensable requisite to the production of wealth. Its utility in this respect is, indeed, so obvious and striking, that it has been more or less respected in every country, and in the earliest and rudest periods of society. All have been impressed with the reasonableness of the maxim which teaches that those who *sow* ought to be permitted to *reap*—that the *labour* of a man's body and the *work* of his hands are to be considered as exclusively his own. No savage horde has ever been discovered in which the principle of *meum* and *tuum* was not recognised.* Nothing, it is plain, could ever tempt any one to engage in any laborious employment—he would neither domesticate wild animals, nor clear and cultivate the ground, if, after months and years of toil, when his flocks had become numerous, and his harvests were ripening for the sickle, a stranger were to be allowed to rob him of the produce of his industry. No wonder, therefore, that the utility of some general regulations, which should secure to every individual the peaceable enjoyment of the produce he had raised, and of the ground he had cultivated and improved, suggested itself to the first legislators. The author of the book of *Job* places those who removed their neighbour's land-marks at the head of his list of wicked men; and some of the earliest profane legislators subjected those who were guilty of this offence to a capital punishment. (Goguet, *De l'Origine des Loix, &c.* Tom. I. p. 30. 4to. ed.)

Security of Property.

Dr. Paley has said that the *law of the land* is the real foundation of the right of property. But the obvious *utility* of se-

* Personal property is much earlier recognised than that of land. It seems to be a natural prejudice, slowly overcome, that the earth, that "common mother of all," belongs equally to her children, and is not capable of individual appropriation. Hence, among our northern Indians, land, though held by individuals, is the property of the nation at large. The insecurity thus attached to improvements laid out upon it, may be considered as one of the greatest barriers to their civilization, and deserves the consideration of those, who, from political or benevolent views, are devising schemes for their advancement. The want of this stimulus among them to industry and accumulation, was repeatedly acknowledged to the Editor, in a recent visit made by him to the Oneida and Tuscarora tribes, by their most intelligent Chiefs. See the reported speeches of Red Jacket, and other leaders of the heathen party, who are opposed to such appropriation, and whose arguments against it are all drawn, as our author argues, from the advantages it would bestow on the sober and industrious.—*F.*

Security of
Property.

curing to each individual the produce which has been raised by his industry, has undoubtedly formed the irresistible reason which has induced every people emerging from barbarism to establish this right. The institution of the right of property is, in truth, the foundation on which all the other institutions of society rest. Until property had been publicly guaranteed, men must have looked on each other as enemies, rather than as friends. The idle and improvident are always desirous of seizing on the earnings of the laborious and frugal; and, if they were not restrained by the strong arm of the law—if they were permitted to prosecute their attacks, they would, by generating a feeling of insecurity, effectually check both industry and accumulation, and sink all classes to the same level of hopeless misery as themselves. In truth, the security of property is even more necessary to accumulation than it is to production. No man ever did or ever will deny himself an immediate gratification when it is within his power, unless he thinks, that, by doing so, he has a fair prospect of obtaining a greater accession of comforts and enjoyments, or of avoiding a greater evil at some future period. Where the right of property is vigilantly protected, an industrious man, who produces as much by one day's labour as is sufficient to maintain him two days, does not lie idle the second day, but accumulates the surplus produce above his wants as a capital; the increased consequence and enjoyments which the possession of capital brings along with it, being, in the great majority of cases, more than sufficient to counterbalance the desire of immediate gratification. But, wherever property is insecure, we look in vain for the operation of the principle of accumulation. "It is plainly better for us," is then the invariable language of the people, "to enjoy while it is in our power, than to accumulate property which we shall not be permitted to use, and which will either expose us to the extortion of a rapacious government, or to the unrestrained depredations of those who exist only by the plunder of their more industrious neighbours."

But the security of property is not violated merely when a man is deprived of the power of peaceably enjoying the fruits of his industry; it is also violated, and perhaps in a still more glaring and unjustifiable manner, when he is prevented from using the powers with which nature has endowed him, in any way, not injurious to others, that he considers most beneficial to himself. Of all the species of property which a man can possess, *the faculties of his mind and the powers of his body* are most particularly his own. He ought, therefore, to be permitted to enjoy, that is, to use or exert these powers at his discretion. And hence the right of property is as much, or more infringed upon, when a man is interdicted from engaging in a particular branch of business, as it is when he is forcibly bereft of the property he had produced and accumulated. Every monopoly which gives to a few individuals the exclusive power of carrying on certain branches of industry, is thus, in fact, established in direct violation of the right of property of every other individual. It prevents them from using their natural capacities or powers in the manner which they might have considered best; and, as every man who is not a slave is held, and

justly held, to be the best, and, indeed, the only judge of what is advantageous for himself, the principles of natural law and the right of property are both subverted when he is excluded from any employment. In like manner, the right of property is violated whenever any regulation is made to force an individual to employ his labour or capital in a particular way. The property of a landlord is violated when he is compelled to adopt any system of cultivation, even supposing it to be really preferable to that which he was previously following. The property of the capitalist is violated when he is obliged to accept a particular rate of interest for his stock,* and the property of the labourer is violated whenever he is obliged to betake himself, in preference, to any particular occupation.

Security of
Property.

* Among the many instances of the unwise interference of governments in the regulation of private concerns, that of interest deserves peculiar attention. It is one of those omitted subjects, which, though elsewhere treated by the author, it is one of the proposed objects of these notes to supply.

Regulation of Interest.

Interest is the sum paid for the use of capital—money is but its incidental and transient form—that which is truly borrowed, is circulating capital under any of its varied forms, such as coin, goods, or credit.

The rate of interest may be considered as composed of two elements—

1. The real price of money,
2. The premium of the risk that arises from lending.

1. The real price of money is determined by the profitable application that can be made of it; it consequently varies with the state of the market; being regulated, as all market prices are, by the opposing principles of demand and supply: the demand being grounded upon the profits of business or speculation, the supply upon the quantity of disposable capital thrown into the market. The high rate of this portion of interest is the best proof of commercial and general prosperity, since it arises from brisk trade, extending markets, and high profits.

2. The second element of interest is of a different character. It is the premium paid to the lender against the risk of delay or loss. In loans to the government this portion of interest may be said to disappear, and the rate to sink to its first portion, or the real value of money grounded upon its use. In all other cases, however, this premium appears and proceeds from the smallest item up to an unlimited amount, according to the varying grades of risk. This, therefore, has its natural and fair value as well as the former, and is as little a proper subject for arbitrary limitations.

The original grounds for the interference of government on this subject were two, both founded upon error.

The first was a religious prejudice grounded upon a bigoted interpretation of a municipal provision of the Jewish code, which led the governments of Christendom, not to regulate, but to forbid all use or usury (for the terms are equivalent) of money lent, as an unchristian practice, and permissible therefore only to the Jews. This prejudice lost its hold under the influence of the Reformation, and in 1546 interest was first permitted in Europe.

The second is a prejudice equally unfounded, but of more scientific pretensions. It arose from the fallacy of regarding money alone as wealth, and the interest of money as so much extorted from the earnings of the industrious. Hence the holders of money were invidiously regarded as men pursuing their own interest to the detriment of the community: They were therefore to be restrained in the exercise of the influence it gave them, the public was to be saved from the grasp of avarice, and the poor and ignorant to be protected from their power.

Sounder views now prevail, yet the practical errors grounded on such misconceptions are still supported by government, and laws are still continued in force, which, under the plea of public good, check the free circulation of capital, and under the plea of benevolence oppress every needy borrower. The argument against all such attempts on the part of go-

Security of
Property.
—
Effects of
Insecurity.

The finest soil, the finest climate, and the finest intellectual powers, can prevent no people from becoming barbarous, poor, and miserable, if they have the misfortune to be subjected to a government which does not respect the right of property. This is the greatest of all calamities. The ravages of civil war, of pestilence, and of famine, may be repaired; but nothing can enable a nation to contend against the deadly influence of an established system of violence and rapine. It is the want of security—the want of any lively and well-founded expectation of being permitted freely to dispose of the fruits of their industry, that is the principal cause of the wretched state of the Ottoman dominions at the present day, as it was of the decline of industry and arts in Europe during the middle ages. When the Turkish conquerors overran those fertile and beautiful countries in which they are still permitted to encamp, they parcelled them among their followers, on condition of their performing certain military services, on a plan corresponding, in many important particulars, to the feudal system of our ancestors. But these possessions are not hereditary. They do not

verment, to limit the rate of interest, may be reduced to these four considerations:—

1. The futility of such laws in attaining the end proposed.
2. Their inexpediency in relation to public prosperity.
3. Their injustice towards the holders of capital.
4. Their oppressiveness towards the needy borrower.

In the first place they are *futile*,—they never did and never can regulate interest of capital, which is governed by its own necessary laws; and in every change these penal statutes have undergone in lowering the rate of interest, they have followed the market, and not governed it.

In the next place they are *inexpedient*,—they delay the circulation of capital from the barriers they oppose to its fair investment, and in so doing check one of the elements of public wealth. It is true this check is comparatively trifling, because individual cupidity will always find the means of evading such provisions, but in so far as they do operate, it is alike to the injury of the individual and the disadvantage of the public; a result which is only to be avoided by one still more to be dreaded—the demoralizing influence of deceit and legal fraud.

In the third place they are *unjust*,—setting limits to the profits of capital in one form, while they leave it free in every other. The price of goods, of rent, and of labour, are all left free to find their own natural value, while that of money alone is arbitrarily fixed at a price, sometimes too high, sometimes too low, and right and equitable only by chance.

In the last place, they are *oppressive* upon the very class of men whom they profess to defend,—the young, the ignorant, and the needy:—wherever the risk of a loan exceeds that which legal interest will cover, no man will lend; the conscientious retire from competition, and the borrower, quitting the open market, is left in the hands of the few, and comparatively, unprincipled lenders. This constitutes their business a monopoly; which, like all other monopolies, raises the price of that which it supplies.

A more definite cause of advance, is the new risk it has added to the loan,—that of the loss of character, and of the legal penalties consequent on discovery,—this risk requires a new premium of insurance to be added to the real one, and may be confidently asserted to be a gratuitous and unnecessary tax, raised upon the necessitous borrower, by the very laws which thus unwisely attempt to befriend him.

These laws should therefore be abrogated. In every case where a contract is entered into, the parties are the best judges of the value of money; and in those accidental cases where there is none, the decision may be made under a provisional law, or still more equitably, left to a legal or commercial reference.

On this subject, see Adam Smith, B. I. ch. ix. B. II. ch. iv. Say, B. II. ch. viii. sect. 1. Ricardo, Chap. xxi. xxvii.—E.

descend to the children or legatees of the present possessor, but, on his death, revert to the Sultan. Among the occupiers of land in Turkey there is, therefore, no thought of futurity. No one can feel any interest about the prosperity of an unknown successor; and no one ever executes any improvement of which he does not expect to be able to reap all the advantage during his own life. This is assigned by Lady Wortley Montague as the cause why the Turks are so extremely careless about their houses. They never construct them of solid or durable materials. And it would be a gratification to them to be assured that they would fall to pieces the moment after they had breathed their last. Under this miserable government the palaces have been changed into cottages, and the cities into villages. The long continued want of security has extinguished the very spirit of industry, and destroyed not only the power, but even the desire to emerge from barbarism.

Security of
Property.

Had it been possible for arbitrary power to profit by the lessons of experience, it must long since have perceived that its own wealth, as well as the wealth of its subjects, would be most effectually promoted by maintaining the inviolability of property. Were the Turkish government to establish a vigilant system of police—to secure to each individual the unrestricted power of disposing of the fruits of his labour—and to substitute a regular plan of taxation in the place of the present odious system of extortion and tyranny, industry would revive, capital and population would be augmented, and moderate duties, imposed on a few articles in general demand, would bring a much larger sum into the coffers of the treasury than all that is now obtained by force and violence. The *stated* public burdens to which the Turks are subjected are light when compared with those imposed on the English, the Hollanders, or the French. But the latter know that when they have paid the taxes due to government, they will be permitted peaceably to enjoy or to accumulate the remainder of their earnings; whereas the Turk has no security but that the next moment after he has paid his stated contribution, the Pacha, or one of his satellites, may strip him of every additional farthing he possesses! Security is the foundation—the principal element in every well digested system of finance. When maintained inviolate, it enables a country to support, without much difficulty, a very heavy load of taxes; but where there is no security—where property is a prey to rapine and spoliation—to the attacks of the needy, the powerful, or the profligate—the smallest burdens are justly regarded as oppressive, and uniformly exceed the means of the impoverished and spiritless inhabitant.

The Jews have been supposed to afford an instance of a people, whose property has been long exposed to an almost uninterrupted series of attacks, and who have, notwithstanding, continued to be rich and industrious. But when rightly examined, it will be found that the case of the Jews forms no exception to the general rule. The absurd prejudices with which the Jews have been almost universally regarded, long prevented their acquiring any property in land, and have excluded them from participating in the benefits derived from the charitable institutions of the different countries among which they are scattered.

Case of the
Jews.

Security of
Property.

Having, therefore, no adventitious support on which to depend, in the event of their becoming infirm or destitute, they had a powerful additional motive to save and accumulate; and being excluded from agriculture, they were of necessity compelled to addict themselves, in preference, to commerce. In an age when the profession of a merchant was generally looked upon as something mean and sordid, and when, of course, they had comparatively little competition, they must have made considerable profits; but these have been very greatly exaggerated.* It was natural that those who were indebted to the Jews should represent their gains as enormous; for this inflamed the existing prejudices against them, and afforded a miserable pretext for defrauding them of their just claims. There are a few rich Jews in most of the large cities of Europe; but the majority of that race have ever been, and still are, as poor as their neighbours.

Let us not, therefore, deceive ourselves by supposing that it is possible for any nation or any people to emerge from barbarism, or to become wealthy, populous, and civilized, without the security of property. From whatever point of the political compass we may set out, this is the principle to which we must come at last. Security is indispensably necessary to the successful exertion of the powers of industry. Where it is wanting, it is idle to expect either riches or civilization.†

Objections
of Rousseau
and Beccaria
ill founded.

Rousseau and some other sentimental writers have made an objection to the institution of the right of property, which has been, in some measure, sanctioned by the authority of the Marquis Beccaria.‡ They allow that the security of property is

* In addition to the sources of wealth enumerated by our author as peculiar to that persecuted people, is to be added, that monopoly of the monied market, which, from the religious prejudices of the community, was thrown completely into their hands. They alone were money lenders, as they alone were permitted to derive a profit from its use; an exclusive privilege of which they did not fail to take the full advantage. For their state in England, see Hume, reigns of Richard I. Appendix II., Henry III., Edward I., Hallam's Middle Ages, and Anderson's Hist. of Commerce.—E.

† “Ce n'est que la ou les propriétés sont assurés, ou l'emploi des capitaux est abandonné au choix de ceux qui les possèdent; ce n'est que la dis-je, que les particuliers seront encouragés à se soumettre aux privations les plus dures pour compenser par leurs épargnes les retards que la profusion du gouvernement peut apporter aux progrès de la richesse national. Si l'Angleterre, malgré ses guerres ruineuses, est parvenu à un haut degré d'opulence; si malgré les contributions enormes dont le peuple y est chargé, son capital est pourtant accrue dans le silence par l'économie des particuliers, il ne faut attribuer ces effets qu'à la liberté des personnes et à la sureté des propriétés qui y regnent, plus que dans aucun autre pays de l'Europe, la Suisse excepté.” (Storch, *Traité d'Economie Politique*, Tom. I. p. 317.)

“It is only where property is secure, where the employment of capital is left free to its possessors,—it is only there I say, that individuals will submit to those privations, which make up by private savings, for that delay which the profusion of government may impose on the progress of national wealth. If England, notwithstanding her ruinous wars, has arrived at a high degree of opulence; if, notwithstanding the enormous contributions with which her people are loaded, her capital has still silently increased by the parsimony of individuals, we cannot but attribute this result, to that personal liberty and security of property, which reigns there beyond any other country in Europe, Switzerland only excepted.”—(Storch's *Treatise on Political Economy*.)—E.

‡ Speaking of theft, Beccaria calls it, “Il delitto di quella infelice parte di uomini, a cui il diritto di proprietà (terribile, e forse non necessario

advantageous for those who possess it; but they contend, that it is disadvantageous for those who are poor and destitute. It has condemned, they affirm, the greater portion of mankind to a state of misery, and has provided for the exaltation of the few by the depression of the many! The sophistry of this reasoning is so apparent, as hardly to require to be pointed out. The right of property has not made *poverty*, but it has made *wealth*. Previous to the institution of this right, those nations which are now most civilized, were sunk to the same level of wretchedness and misery as the savages of New Holland and Kamtschatka. All classes have been benefited by this change; and it is mere error and delusion to suppose that the rich have been benefited at the expense of the poor. The institution of the right of property gives no advantage to any one man over any other man. It deals out justice impartially to all. It does not say, labour, and I will reward you; but it says, "*labour, and I shall take care that none shall be permitted to rob you of the produce of your exertions.*" The institution of the right of property has not made all men rich, because it could not make all men frugal and industrious. But it has done more than all the other institutions of society put together to produce this effect. It is not, as it has been sometimes ignorantly or knavishly represented, a bulwark thrown up to protect and secure the property of a few favourites of fortune. It is a rampart raised by society against its common enemies—against rapine and violence, plunder and oppression. Without its protection the rich man would become poor, and the poor man would never be able to become rich—all would sink to the same bottomless abyss of barbarism and poverty. "It is the security of property," to use the just and forcible expressions of a profound writer, "that has overcome the natural aversion of man to labour, that has given him the empire of the earth, that has given him a fixed and permanent residence, that has implanted in his breast the love of his country and of posterity. To enjoy immediately—to enjoy without labour, is the natural inclination of every man. This inclination must be restrained; for its obvious tendency is to arm all those who have nothing against those who have something. The law which restrains this inclination, and which secures to the humblest individual the quiet enjoyment of the fruits of his industry, is the most splendid achievement of legislative wisdom—the noblest triumph of which humanity has to boast."—(Bentham, *Traité de Legislation*, Tome II. p. 37.)

Security of
Property.

diritto, non ha lasciato, che una nuda esistenza."—*Dei Delitti e delle Pene*, § 22.

"The crimes of that wretched portion of society, unto whom the right of property, (a terrible and perhaps an unnecessary right,) has left nothing beyond the means of bare existence."—(*On Crimes and Punishments*.)

The Marquis Beccaria was, in point of time, the second public teacher of Political Economy; having been appointed to the chair founded for that purpose, in the University of Milan, by the Empress Maria Theresa, in 1769. His only predecessor, was Genovesi, in the University of Naples, 1754.

The merits of Beccaria as a writer have been overrated; he was a benevolent man, but a weak reasoner. Of this the above quotation is a proof. For the apparent injustice, but real advantages of the institution of property, see Paley's homely but forcible illustrations in his *Moral Philosophy*, Book II. ch. 1, 2, 3.—*E*.

Division of
Labour.

DIVISION OF LABOUR.*—The division of labour naturally divides itself into two separate branches ;—1st. The division of labour among individuals ; and 2d. Its division among nations.

1. *Individual Division of Labour.*—The division of labour can only be imperfectly introduced in rude societies, and thinly peopled countries. But in every state of society—in the rudest, as well as in the most improved—we can trace the operation and effects of this principle. The various physical powers, talents, and propensities with which men are endowed, naturally fit them for different occupations ; and a regard to mutual interest and convenience necessarily leads them, at a very early period, to establish a system of barter and a separation of employments. Each individual finds that he can obtain a greater quantity of all sorts of commodities by devoting himself to some particular business, and exchanging his surplus produce for such parts of the produce of other people's labour as he may have occasion for and they may be disposed to part with, than if he had attempted directly to produce all the articles which he consumes. As society advances, this division becomes more and more extended. In process of time, one man becomes a tanner, or dresser of skins ; another, a shoemaker ; a third, a weaver ; a fourth, a house carpenter ; a fifth, a smith, and so on. Each endeavours to cultivate and bring to perfection whatever talent or genius he may possess for the species of industry in which he is employed. The national wealth and the comforts of all classes are, in consequence, prodigiously augmented. In a country where the division of labour has been carried to a considerable extent, agriculturists are not obliged to spend their time in clumsy attempts to manufacture their own produce ; and manufacturers cease to interest themselves about the raising of corn and the fattening of cattle. The facility of exchanging is the vivifying principle of industry. It stimulates agriculturists to adopt the best system of cultivation and to raise the largest crops, because it enables them to exchange whatever portion of the produce of their lands exceeds their own wants, for other commodities conducing to their comforts and enjoyments ; and it equally stimulates manufacturers and merchants to increase the quantity and to improve the quality of their goods, that they may thereby be enabled to obtain a greater supply of raw produce. A spirit of industry is thus universally diffused ; and that apathy and languor, which is characteristic of a rude state of society, entirely disappear.

But it is not the mere facility of exchanging, or the circumstance of being able to barter the surplus produce of one's own labour for such parts of the surplus produce of other people's labour, as we may be desirous of obtaining and they may choose to part with, that renders the separation of employments of such signal advantage. The introduction of barter and the division of labour not only enables each individual to betake him-

* The best illustration of this subject, will be found in tracing the actual progress of society from its earlier stages ; and is strikingly evinced in the rapid changes which our own is actually undergoing. Individual gain is the motive, national wealth is the result. For further views on this subject the student may consult. A. Smith, Book I. chap. 1, 2., Say, Book I. chap. 8.—E.

self in preference to those departments which suit his taste and disposition, but it makes a positive and a large addition to the efficacy of his powers, and enables him to produce a much greater quantity of commodities than he could have done had he engaged indiscriminately in different employments. Dr. Smith, who has treated this subject in the most masterly manner, has classed the circumstances which conspire to increase the productive powers of industry, when labour is divided, under the following heads:—*First*, To the increase of the skill and dexterity of every particular workman; *second*, to the saving of time, which is commonly lost in passing from one particular employment to another; and, *third*, to the circumstance of the division of employments having a tendency to facilitate the invention of machines and of processes for abridging and saving labour. We shall make a few observations on each of these heads.

Division of
Labour.

1st. *Respecting the improvement of the skill and dexterity of the labourer*, it is sufficiently plain that when a person's whole attention is devoted to one branch of business, when all the energies of his mind and the powers of his body are made to converge, as it were, to a single point, he must attain to a degree of proficiency in that particular branch, to which no individual engaged in a variety of occupations can be expected to reach. A peculiar play of the muscles, or *sleight of hand*, is necessary to perform the simplest operation in the best and most expeditious manner; and this can only be acquired by habitual and constant practice. Dr. Smith has given a striking example, in the case of the nail manufacturer, of the extreme difference between training a workman to the precise occupation in which he is to be employed, and training him to a similar and closely allied occupation. "A common smith," says he, "who, though accustomed to handle the hammer, has never been used to make nails, if, upon some particular occasion, he is obliged to attempt it, will scarce, I am assured, be able to make above two or three hundred nails in a day, and those very bad ones. A smith who has been accustomed to make nails, but whose sole or principal business has not been that of a nailer, can seldom, with his utmost diligence, make more than eight hundred or a thousand nails in a day. But I have seen several boys under twenty years of age, who had never exercised any other trade but that of making nails, who, when they exerted themselves, could make, each of them, upwards of *two thousand three hundred nails in a day*;" or nearly three times the number of the smith who had been accustomed to make them, but who was not entirely devoted to that particular business!

Division of
Labour in-
creases the
Skill and
Dexterity of
the Work-
man:

2d. The effect of the division of labour in preventing that *waste of time in moving from one employment to another*, which must always take place when an individual is engaged in different occupations, is even more obvious than the advantage derived from the improvement of the skill and dexterity of the labourer. When the same individual carries on different employments, in different and perhaps distant places, and with different sets of tools, it is plainly impossible he can avoid losing a considerable portion of time in passing between them. If the differ-

Saves time:

Division of
Labour.

ent businesses in which a labourer is to be engaged could be carried on in the same workshop, the loss of time would be less, but even in that case it would be considerable. "A man," as Dr. Smith has justly observed, "commonly saunters a little in changing from one business to another. When he first begins his work, he is seldom keen or hearty; his mind is said not to go along with it, and for some time he rather trifles than applies himself in good earnest. The habit of sauntering and of indolent and careless application, which is naturally, or rather necessarily acquired by every country workman, who is obliged to change his work and his tools every half hour, and to apply his hand in working different ways almost every day of his life, renders him almost always slothful and lazy, and incapable of any rigorous application, even on the most pressing occasion. Independent, therefore, of his deficiency in point of dexterity, this cause alone must always reduce considerably the quantity of work which he is capable of performing."—(*Wealth of Nations*, Vol. I. p. 14.)*

Facilitates
the Inven-
tion of Ma-
chines.

3d. With regard to the effect of the division of employments in *facilitating the invention of machines, and processes for abridging and saving labour*, it is obvious that those engaged in any branch of industry, must be more likely to discover easier and readier methods for carrying it on, when the whole attention of their minds is devoted exclusively to it, than if it were dissipated among a variety of objects. But it is a mistake to suppose, as has been sometimes done, that it is only the inventive genius of workmen and artificers that is whetted and improved by the division of labour. As society advances, the study of particular branches of science and of philosophy becomes the principal or sole occupation of the most ingenious men. Chemistry becomes a distinct science from natural philosophy; the physical astronomer separates himself from the astronomical observer, the political economist from the politician, and each meditating exclusively, or principally, on his peculiar department of science, attains to a degree of proficiency and expertness in it to which the general scholar seldom or never reaches. And hence, in labouring to promote our own ends, we all necessarily adopt that precise course which is most advantageous to all. Like the different parts of a well constructed engine, the inhabitants of a civilized country are all mutually dependant on, and connected with, each other. Without any previous concert, and obeying only the powerful and steady impulse of self-interest, they universally conspire to the same great end, and contribute

* Of the power of labour and its subdivisions, Adam Smith may be considered the great and able eulogist. The immense superiority of modern over ancient times, in wealth and comfort, he attributes principally to this cause.

Lauderdale, again, explains it by the accumulation of capital.

And Say, by the greater natural agents which man has forced into his service, and made to labour for his benefit, the wind, the water, and the steam, which science has subjected to his power. As an instance of the immense diminution of the cost of production, and consequent accumulation of wealth, he instances the labour requisite to supply a single family in earlier times with bread; twelve slaves being described by Homer, as constantly engaged in grinding grain for the household of Ulysses.—*Odyssey*, L. xx. Compare with this, the labour of a single individual, directing the powers of a steam engine to the same result.—Say, B. I. ch. vii.—E.

each in their respective sphere to furnish the greatest possible supply of necessaries, luxuries, conveniencies, and enjoyments.

But it is necessary to observe, that the advantages derived from the division of labour, though they may be, and in fact are, partially enjoyed in every country and state of society, can only be carried to their full extent, where there is a great power of exchanging, or an *extensive market*. There are an infinite variety of employments which cannot be separately carried on out of the precincts of a large city; and, in all cases, the division becomes just so much the more perfect, according as the demand for the produce of the workmen is extended. It is stated by Dr. Smith, that ten labourers employed in different departments in a pin manufactory can produce 48,000 pins a day; but it is evident that if the demand was not sufficiently extensive to take off this quantity, it would be impossible to carry the division so far. The same principle holds good in every case. A cotton mill could not be constructed in a small country which had no intercourse with its neighbours. The demand and competition of Europe and America has been necessary to carry the manufactures of Glasgow, Manchester, and Birmingham, to their present state of improvement.

The effects of the division of labour in increasing the quantity and perfection of the products of industry have been noticed by several of the writers who preceded Dr. Smith, and especially by Mr. Harris and M. Turgot. But neither of these writers have done what Dr. Smith did. None of them have fully analysed and exhibited its various effects; and none of them have shown that the power of engaging in different employments depended on the *power of exchanging*; and that, consequently, the advantages derived from the division of labour were necessarily dependant on, and regulated by, the extent of the market. This is a principle of very great importance, and by establishing it Dr. Smith shed a new light on the whole science, and laid the foundation of many important practical conclusions. "Présentée de cette manière," says M. Storck, "l'idée de la division du travail étoit absolument neuve; et l'effet qu'elle a fait sur les contemporains de Smith, prouve bien qu'elle étoit réellement pour eux. Telle qu'elle se trouve indiquée dans les passages que je viens de citer, elle n'a fait aucune impression. Développée par Smith, cette idée a d'abord saisi tous ses lecteurs; tous en ont senti la vérité et l'importance; et cela suffit pour lui en assurer tout l'honneur, lors même que son génie aît été guidé par les indications de ses devanciers."—(Tome VI. p. 10.)

* "Presented in this light, the idea of the subdivision of labour was altogether new, and the effect it produced upon Smith's contemporaries, proves that it was really so to them. Such as it appears in the passages I have just cited. (from preceding writers,) it produced no impression: developed by Smith, it at once seized the minds of his readers. All felt its truth and importance, and that is sufficient to secure to him the honour of the discovery, even admitting that he may have been guided by the indications afforded of it by his predecessors.—(Storck, Vol. VI. p. 10.)

The work of this author, who is as yet but little known in this country, is entitled, "Cours d'Economie Politique," and was published in Petersburg, 1815, under the especial patronage of Alexander. It appears in the form of lectures, for the Grand Dukes Nicholas and Michael; and according to the opinion of our author, elsewhere expressed, stands "at the

Division of Labour.

Division of Labour Limited by the Extent of the Market.

Territorial
Division of
Labour.

2. *Territorial Division of Labour, or Commerce.*—Besides that sort of division of labour which enables each individual in a limited society to confine himself to a particular employment, there is another and most important branch of the division of labour, which not only enables particular individuals, but the inhabitants of entire districts, and even nations, to addict themselves in preference to certain branches of industry. It is on this *territorial division of labour*, if we may so term it, that the commerce which is carried on between different districts of the same country, and between different countries, is founded. The various soils, climates, and capacities of production, of different districts of an extensive country, fit them for being appropriated in preference to certain species of industry. A district where coal is abundant, which has an easy access to the ocean, and a considerable command of internal navigation, is the natural seat of manufactures. Wheat and other species of grain are the proper products of rich arable soils; and cattle, after being reared in mountainous districts, are most advantageously fattened in meadow and low grounds. Nothing is more obvious, than that the inhabitants of these different districts, by separately confining themselves to the particular branches of industry for the successful prosecution of which they have some peculiar *natural capability*, must produce an infinitely greater quantity of useful and agreeable commodities than they could do were they to devote their labour indiscriminately to every different employment. It is impossible to doubt that vastly more manufactured goods, more corn, and more cattle, are produced by the inhabitants of Glasgow, of the Carse of Gowrie, and of Argyleshire, respectively confining themselves to manufactures, agriculture, and the rearing of cattle, than if each endeavoured directly to supply themselves with all these various products, without the intervention of an exchange.

But it is easy to see that foreign trade, or the territorial division of labour between different and independent countries, will contribute to increase the wealth of each in precisely the same manner that the trade between different provinces of the same kingdom contributes to increase their wealth. There is a still greater difference between the productive powers wherewith nature has endowed different and distant countries than there is between the productive powers of the provinces of the same country. The establishment of a free intercourse between them must, therefore, be proportionably advantageous. It would evidently cost an infinitely greater expense to raise the wines of

head of all the works on Political Economy ever imported from the continent into England.”

The merits of Adam Smith on the score of originality, have been often, though vainly, contested; it lies, not in scattered thoughts, but in the union of the whole, in that grasp of mind which could embody into one harmonious system, the jarring elements of reasoning and fact, which lay scattered through the writings of his predecessors. Among the claimants to the honour of having led the way in this particular point, is Beccaria, who wrote in 1769. The principles of Smith, however, were formed and taught by him many years before they were published. He began to teach them to his class in the University at Glasgow, as early as the year 1752. For extracts from Beccaria, see Say, B. I. ch. 8. For the defence of the originality of Smith, see Dugald Stewart's Memoir of Adam Smith, read before the Royal Society, Edinburgh, 1793.—E.

France or Spain in England, than it would do to make Yorkshire yield the same products as Devonshire. Indeed, there are a multitude of products, and some of them of the very greatest utility, which cannot possibly be raised except in particular situations. Were it not for commercial intercourse, we should not be able to obtain the smallest supply of tea, sugar, raw cotton, raw silk, gold bullion, and a thousand other equally useful and valuable commodities. Providence, by giving different soils, climates, and natural productions to different countries, has evidently provided for their mutual intercourse and civilization. By permitting the people of each to employ their capital and labour in those departments in which their geographical situation, the physical capacities of their soil, their national character and habits fit them to excel, foreign commerce has a wonderful effect in multiplying the productions of art and industry. When the freedom of commerce is not restricted, each country necessarily devotes itself to such employments as are most beneficial to each. This pursuit of individual advantage is admirably connected with the good of the whole. By stimulating industry, by rewarding ingenuity, and by using most efficaciously the particular powers bestowed by nature, commerce distributes labour most effectively and most economically; while, by increasing the general mass of necessary and useful products, it diffuses general opulence, and binds together the universal society of nations by the common and powerful ties of mutual interest and reciprocal obligation. Commerce has enabled each particular state to profit by the inventions and discoveries of every other state. It has given us new tastes and new appetites, and it has also given us the means and the desire of gratifying them. The progress of domestic industry has been accelerated by the competition of foreigners. Commerce has either entirely removed, or greatly weakened, a host of the most unworthy prejudices. It has shown, that nothing can be more illiberal, irrational, and absurd, than that dread of the progress of others in wealth and civilization that was once so prevalent; and it has shown that the true glory and real interest of each particular people will be more certainly advanced by emulating and outstripping each other in the career of science and civilization, than by labouring to attain a barren pre-eminence in the bloody and destructive art of war.*

* That science and religion eventually teach the same lesson, is a necessary consequence of the unity of truth, but it is seldom that this union is so early and satisfactorily displayed as in the researches of Political Economy. In ruder ages they were esteemed altogether at variance. Wealth and virtue were in opposite scales, and rapine was the surest road to riches. In the imperfect developments of the science, which preceded the modern school, by which it appeared that national or individual aggrandizement was counterbalanced by a correspondent diminution on the part of others, Political Economy was a study which a good man must have pursued with pain, and practised with some feelings of remorse. But modern science shows a fairer picture,—the beautiful and harmonious union of public virtue and public wealth, of peace and benevolence uniting nations by the bonds of mutual interest, and national prosperity the result of all those internal and external regulations, which a good man would desire for their own sake, and a religious man choose on the score of duty and conscience.—E.

Territorial
Division of
Labour.

Effect of the
Territorial
Division of
Labour in
Augmenting
National
Wealth.

The influence of commerce in giving increased efficacy to labour, and augmenting national wealth, may be easily illustrated. Thus, in the case of the intercourse, or territorial division of labour,* carried on between England and Portugal, it is plain that the superiority of the wool of England, our command of coals, of skilful workmen, of improved machinery, and of all the instruments of manufacturing industry, enables us to produce cloth at a much cheaper rate than the Portuguese: but, on the other hand, the soil and climate of Portugal being peculiarly favourable for the cultivation and growth of the grape, she is enabled to produce wine at an infinitely cheaper rate than it can be produced here. And hence it is obvious, that England, by confining herself to the manufacture of cloth, in which she has a natural advantage on her side, and exchanging it with the Portuguese for wine, will obtain a vastly larger supply of that commodity than if she had attempted to cultivate the grape at home: and Portugal, by exchanging her wine for the cloth of England, will, on her part, obtain a much greater quantity of cloth than if she had attempted to counteract the intention of nature, by converting a portion of her capital and industry from the raising of wine, in which she has an advantage, to the manufacture of cloth, in which the advantage is on the side of another.

Sophism of
the French
Economists
on the Sub-
ject of Com-
merce.

What we have already stated is sufficient to expose the sophism involved in the reasoning of the French economists, who contended, that as an equivalent must be always given for such commodities as are obtained from foreigners, it is impossible foreign commerce can ever become a means of increasing wealth. How, they asked, can the wealth of a country be increased by giving equal values for equal values? They admitted, that commerce might be the means of making a *better distribution* of the wealth of the world; but as it did nothing more than exchange one sort of wealth for another, they denied that it could ever make any addition to that wealth. At first sight, this sophistical and delusive statement appears sufficiently conclusive; but a very few words will be sufficient to demonstrate its fallacy. The advantage of commerce does not consist in its enabling either of the parties who carry it on to obtain commodities of greater value than those they give in exchange for them. It may have cost as much, or more, to produce the cloth where-with the English merchant purchases the wine of Portugal, as it did to produce the latter. But then, it must be observed, that in making the exchange, *the value of the wine is estimated by what it takes to produce it in Portugal*, which has peculiar natu-

* Though science consists not in terms but in truth, yet the introduction of a scientific term is often found to give clearness and precision to subjects before obscure. Thus the phrase "territorial division of labour," as applied to nations, has brought that subject under analogies before unperceived, and rendered more undeniable that inference so important, yet so slowly acknowledged, that in the great family of mankind, nations are as individuals, and the mass of general wealth is increased in the one case, as in the other, by a subdivision of employment, grounded on their peculiar facilities of production. This argument our author here states so fairly and conclusively, that nothing need be added beyond the references he has given. As the work of Say, however, is more easy of access than most of those referred to, at least to the American reader, it may be mentioned that the subject will there be found. See Introduction; also, Book I. ch. ii.—E.

ral capabilities for that species of industry, and *not* by what it would take to produce it in England were the trade put an end to; and, in like manner, the value of the cloth is estimated by what it takes to produce it in England, and not by what it would cost to produce it in Portugal. The advantage of the intercourse between the two countries consists in this, that it enables each of them to obtain commodities, for the production of which they have no natural capability, and which it would, therefore, cost a comparatively large sum to produce directly at home at the price which it costs to produce them in the most favourable circumstances, and with the least possible expense. The gain of the one party is not the loss of the other. Both of them are benefited by this intercourse. For both of them are thereby enabled to save labour and expense in the production of commodities; and the wealth of the two countries is not only better distributed, but it is also positively and greatly increased by the territorial division of labour established between them.

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To set this important principle in a clearer point of view, let us suppose that in England a given number of men can, in a given time, manufacture 10,000 yards of cloth, and raise 1000 quarters of wheat, and that the same number of men can, in the same time, manufacture in Poland 5000 yards of cloth and raise 2000 quarters of wheat. It is plain, that the establishment of a free intercourse between the two countries would, in these circumstances, enable England, by manufacturing cloth and exporting it to Poland, to obtain *twice* the quantity of corn in exchange for a given expenditure of capital and labour that she could obtain in return for the same expenditure directly laid out in the cultivation of land at home; and Poland would, on the other hand, be enabled to obtain *twice* as much cloth in exchange for her corn as she could have done had she attempted directly to manufacture it. How ridiculous then to contend, that commerce is not the means of adding to the efficacy of labour, and, consequently of increasing wealth! Were the intercourse between England and Portugal and the West Indies put an end to, it would require, at the very least, a hundred, or perhaps a thousand times the expense to produce Port wine, sugar, and coffee, directly in this country, that it does to produce the equivalents sent to Portugal and the West Indies in exchange for them.

“The commerce of one country with another is,” to use the words of Mr. Mill, “merely an extension of that division of labour by which so many benefits are conferred on the human race. As the same country is rendered richer by the trade of one province with another; as its labour becomes thus infinitely more divided and more productive than it could otherwise have been; and as the mutual interchange of all those commodities which one province has and another wants, multiplies the accommodations and comforts of the whole, and the country becomes thus in a wonderful degree more opulent and happy; so the same beautiful train of consequences is observable in the world at large, that vast empire of which the different kingdoms may be regarded as the provinces. In this magnificent empire, one province is favourable to the production of one species of produce, and another province to another. By their mutual

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intercourse, mankind are enabled to distribute their labour as best fits the genius of each particular country and people. The industry of the whole is thus rendered incomparably more productive; and every species of necessary, useful, and agreeable accommodation is obtained in much greater abundance, and with infinitely less expense."—(*Commerce Defended*, p. 38.)

To enter into a more enlarged discussion of this interesting and important subject, would be inconsistent with the object and limits of this article. In our articles on COLONIES* and the

* Of the articles here referred to, all are not from the pen of Mr. M'ulloch. The only one that will be here taken up is that of "Colonies."

Colonies have been formed at different periods from different motives: in ancient times from the pressure of a surplus population, in modern times from the spirit of commercial enterprise; and in both as a relief from persecution at home, real or imaginary. But from whatever motives established, the policy of the mother country towards them, has ever been the same: viz. that of engrossing to itself the benefits of their trade, by excluding all intercourse with strangers. Such were the provisions of the navigation laws of Greece, Rome, and Carthage, and such have been those of modern Europe, from the days of Venice downwards. Among these numerous instances, those of England have been the most systematic, and to us at least, the most interesting. They began with the Commercial Ordinance of 1646, and were formed into a system by the celebrated Navigation Act of 1651; an act regarded until lately, as the Palladium of British commerce.

As the subject of colonies is one in which this country is not practically interested, it will be sufficient to point out to the student some of the sources of scientific information upon it. They will be found in Adam Smith, Book IV. chap. 7., Say, Book I. chap. 19., Ricardo, chap. xxv., Mills, sect. 17. As practical arguments against the whole system of colonial restraint, may be mentioned the general fact of such colonies being sources of expense, in place of profit, to the mother country,—and of the particular instances of mutual advantage, to both Great Britain and her North American Colonies, resulting from the independence of the latter; of the favourable effects on English commerce, by the recent modification of the East India Company's charter; and the open acknowledgment, on the part of her practical statesmen, of the impolicy of all such restrictions.

Of these the most interesting as well as convincing, is the case of our own country—which therefore deserves some fuller notice.

Great Britain and her American Colonies.

The American colonies were established, generally, in the spirit of freedom,—it was the purchase which repaid the colonists for exile,—and so far as they were left free to pursue their own measures, they were in accordance with the liberal principles of the science of Political Economy:—arrived at, not indeed by speculation, but by the clear-sightedness of men who pursue their own interests, unshackled by the arbitrary restraints of government.

For proof of this, their charters, and still more, their early fundamental laws may be referred to. Monopolies, one of the great burthens they had lain under at home, were strictly prohibited. In the New England code, issued 1641, it was enacted that there never should be "any bond slavery or villainage among the inhabitants of the province,"—that there should be "no monopolies but of such new inventions as were profitable for the country, and those for a short time only." To use the language of the charter of William Penn,—the intent of these fundamental constitutions, was "for the support of power in reverence with the people, and to secure the people from the abuse of power; since liberty without obedience is confusion, and obedience without liberty is slavery."

The operation, however, of these salutary principles, was early checked by a spirit of colonial monopoly, on the part of the government at home. In 1651, the Parliament of England passed the famous Act of Navigation, grounded upon a commercial jealousy of the Dutch, who, from their superior cheapness of freight had become the carriers between the colonies and the mother country. This confined the trade to British bottoms, and was

CORN TRADE AND LAWS, we have examined the policy of the restrictions on the colonial trade, and on the corn trade; and in the article EXCHANGE, we have pointed out the circumstances which regulate the importation and exportation of the precious metals; and have shown, that, instead of the excess of exports over imports being any criterion of an advantageous commerce,

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immediately remonstrated against by the colonists, as an act at once of injustice and impolicy. The further acts of trade, after the Restoration in 1660, led to more spirited remonstrances, and eventually on the part of Massachusetts, to a resistance which required the interference of royal commissioners,—they came over in 1667, but seem to have returned without effecting the purpose of force or persuasion, on which they were sent. In 1670 and 1672, the Parliament proceeded in the same unwise policy, from a jealousy of the shipping and fisheries of New England, to enforce customs on this fettered commerce; and in 1676, upon complaint being made “that the inhabitants of New England, not only traded to most parts of Europe, but encouraged foreigners to go and traffic with them,” the governors of these particular colonies, were commanded by royal authority, to enforce a strict obedience to the laws of trade.

For this purpose, collectors were now, for the first time, appointed:—among others, Edward Randolph for the town of Boston; but “he was considered,” says Chalmers, “as an enemy, and opposed with the steady zeal of men who deemed their chartered privileges invaded.”—Chalmers, B. I. p. 320. He twice unsuccessfully attempted the performance of his invidious duty; but on writing home that he was in danger of being punished with death, by virtue of an ancient law, as a subverter of the Constitution, he was at length, in the year 1682, ordered to return to England.

The power of the government, however, and the arbitrary policy of the latter Stuarts, was an overmatch for the spirit or wisdom of the Colonies:—a writ of “quo warranto,” followed by the forfeiture of the colonial charters, was attended by such fatal consequences to the peace and prosperity of society, that an unwilling and imperfect obedience to this restrictive policy, was at length established.

Its provisions, however, were not strictly enforced, and “an irregular and scrambling trade,” as Governor Pownall describes it, continued to be kept up with other countries, which somewhat relieved the burthen of these restrictions, though it was far from satisfying either the feelings or demands of the Colonists.

Matters continued much in this state until the termination of the French War, in 1763, when the fall of the Canadas having removed from Great-Britain all fear of rival influence on the American continent, she proceeded to enforce with greater strictness the provisions of the various acts of trade which had been past in relation to the Colonies, but which policy had hitherto permitted to remain comparatively unenforced. The new policy was alike unwise in its principles and fatal in its result. The Colonies were gradually driven, first to an unwilling resistance, and eventually to a still more unwilling separation,—a separation, however, which by its happy results, in augmenting the wealth and resources of both countries, through the medium of a free trade, has for ever put down the policy of colonial restrictions, and settled, we may consider conclusively, the greatest of all questions in the science of Political Economy.

For further information on this head, see American Annals by Abiel Holmes, Cambridge 1805; Marshall's History of the Colonies; Brougham's Colonial Policy; Anderson's History of Commerce; Seybert's Statistical Tables, Philadelphia 1818; and on the Navigation Laws, see Quarterly Review, Vol. xxviii. p. 480, No. 48. Art. I. No. 56. Art. VIII.

That the policy above stated materially retarded, though it could not altogether prevent, the mutual advantages of trade between Great Britain and this country, is evinced beyond all doubt by the different state of that commerce before and after the separation. This comparison, however, should not be instituted until after the organization of the federal government, when unity and steadiness were first given to its national policy.

During the Revolutionary war commerce had been at an end; nor did peace enable the country to resume it;—domestic dissension and foreign

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it is just the reverse, and that it is by the excess of the value of the imports over the value of the exports that the direct gains of the merchants, and consequently of the community, are to be estimated. In the fourth book of the *Wealth of Nations*, Dr. Smith has examined and refuted the various arguments in favour of the restrictions imposed on the freedom of commerce,

jealousy, opposed many obstacles; Great Britain, France, Spain, and Portugal, all rejected our commercial overtures. Still the tone of our government was that of the truest liberality, and the highest wisdom,—“instead of embarrassing commerce,” is the language of the Report of the Secretary of State, Feb. 23, 1791, “under piles of regulating laws, duties, and prohibitions, it should be relieved from all its shackles in all parts of the world,—would even a single nation begin with the United States this system of free commerce, it would be advisable to begin it with that nation.”

From the year 1790, when the country may be considered as having first entered upon it, to 1806, a course of commercial prosperity existed, surpassing all former experience. About the latter period arose checks of a political nature, which continued to operate directly until the year 1816, and indirectly, it may be said, almost ever since. From these impediments, however, the country is again rising in its native strength, and bids fair to rival, if not surpass, its former prosperity, notwithstanding some peculiar advantages it then enjoyed.

The comparative influence of these two systems upon national prosperity, will be best illustrated by the following statistical statements, drawn from the best authorities, and exhibiting their respective influence upon, 1. Great Britain, 2. The Colonies, or United States at large, and 3. Upon the City of New-York in particular.

1. Great Britain.—

Exports to the Thirteen Colonies in the year 1700,	£ 343,828 stg.
Exports to the Thirteen Colonies for an average of } six years previous to 1774, British manufactures, }	2,216,970
Exports to the United States, an average of six years } previous to 1789, the year of our confederation, }	2,119,837
Exports to the United States on an average of eight } years terminating in 1800, }	5,144,987
Exports to the United States in 1806, the year of } highest commercial prosperity, }	12,865,551

2. United States.—

Exports of the Colonies on an average of the three } years, 1771, 1772, 1773, }	\$ 1,322,532
Total value of exports from the U. States in 1790,	19,012,041
Total value of exports from the U. States in 1795,	67,064,097
Increase in five years,	48,052,056
Total value of exports from the U. States in 1800,	94,115,925
Increase in ten years,	75,103,884
Total value of exports from the U. States in 1805,	101,536,963
Increase in fifteen years,	82,524,922
Total value of exports from the U. States in 1806, } when at their maximum, }	108,343,150
Increase in sixteen years,	89,331,109

Seybert's Statistics.

Of the year just past, 1824, the exports to England alone, exclusive of Scotland and Ireland, exceed the total amount of exports of 1790, being

19,487,123

Treasury Reports.

in the most able and masterly manner, and with an amplitude of illustration, which leaves nothing to be desired. A very complete exposure of the sophisms of the French economists, on the subject of commerce, may be found in the ingenious and valuable pamphlets of Mr. Mill (*Commerce Defended*) and Colonel Torrens (*Economists Refuted*), written in answer to Mr. Spence's pamphlet entitled, *Britain Independent of Commerce*. The chapter on *Foreign Trade* in Mr. Ricardo's great work is equally original and profound, and deserves to be carefully studied by those who wish to make themselves thoroughly acquainted with the theory of commerce.

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When the division of labour was first introduced, barter was the only method by which commodities were exchanged. But according as society advanced, as the division of employments was extended, and as exchanges became more numerous, the advantage of using some one commodity as a common medium of exchange—as an equivalent for all other commodities, and as a standard by which to ascertain their relative values, soon became obvious. But this is a subject of which we have elsewhere treated at considerable length; and we beg leave to refer our readers for a full investigation of the nature and functions of the common medium of exchange to the article MONEY* in this Supplement, and the authorities there quoted.

Money.

Progress of Tonnage of the United States.—

Vessels built in the Colonies in 1769, amounted to					20,001 tons.
Do.	do.	do.	in 1789,	do.	4,366
Do.	do.	do.	in 1805,	do.	128,507
Do.	do.	do.	in 1814,	do.	154,624

Treasury Reports.

3. New-York.—

Of this city it is matter both of interest and pride, to trace the rapid advances.

In the year 1678, the city of New-York contained 343 houses, had on an average from 10 to 15 vessels, averaging 100 tons each, owned in Great Britain, and trading to the colony in the course of the year, and importing into it commodities to the value of £50,000 currency, or \$125,000. See Answers of Sir Edward Andros, Governor, 1678, to Inquiries of the Committee of the Colonies.

Its exports amounted in the year 1763, to					\$134,971
Do.	do.	do.	1773,		190,616

Anderson's History of Commerce.

Do.	do.	do.	1793,	2,932,370
Do.	do.	do.	1803,	10,818,387
Do.	in 1813, a period of war,			8,185,494
Do.	do.	do.	1817,	18,707,433

Seybert's Statistics.

Its exports commencing Oct. 1, 1823, } and ending Sept. 30, 1824, }					22,897,135
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Treasury Reports.

* In addition to the references here made to articles in the supplement to the Encyclopedia from which the present is extracted, the Editor thinks best to give at once to his readers a complete list of those therein contained, which fall within the science of Political Economy. Many of them are very ably written, and all worthy of reference. As adding to the interest that may be taken in them, the names of their respective authors are annexed, together with the signatures by which their contributions to that work are known.

Accumulation and Employment of Capital.

ACCUMULATION AND EMPLOYMENT OF CAPITAL.—Capital may be defined to be “that portion of the produce of labour which is saved from immediate consumption, and employed in maintaining productive industry, or in facilitating production.” Its accu-

Exchange.	}	J. R. M'Culloch, Esq. known by the signature S. S.; author of the present article; now Ricardo Lecturer, London.
Interest.		
Money.		
Taxation.		
Cottage System.		
Corn Laws and Trade.		
Emigration.		
Banking.		
Cotton Manufactory.	}	D. Bannatyne, Esq. Glasgow. Signature T. T.
Credit.		
Trading System.	}	By the late David Ricardo, Esq. who may justly be considered, after A. Smith, as a second founder of the science. Signature E. B. E.
Poor Laws.		
Population.	}	Rev. T. R. Malthus, author of the well known works on Population, Rent, &c. and at present, Professor of Political Economy in the East India College, Hertford. Signature O. O. O.
Commerce.		
Coinage.—	}	R. Mushet, Esq. of the Royal Mint. Signature A. A.
Economists.		
Bank for Savings.	}	J. Mill, Esq. London, author of “British India,” “Elements of Political Economy,” often quoted in the present article, and a large contribution to the supplement.
Beggars.		
Benefit Society.		
Colonies.		

The article on Money, here especially referred to in the text, is a long and able one from the pen of Mr. M'Culloch. Its length and the importance of the subject, put beyond the compass of a note, any analysis of its contents. A few observations on the subject must suffice.

From the inconveniences of barter, arose among all nations at an early period, the adoption of some commodity which might serve as a measure of value, and consequently as a medium of exchange. The substances so adopted were various, but have gradually disappeared before the superior facilities for that purpose, afforded by the precious metals.

Upon their adoption, they first passed by weight, subsequently by tale—when coinage had ascertained the value of the pieces. Such money when coinage is free, passes for its intrinsic worth. *i. e.* the cost of its production, the stamp ascertaining its value, but not giving it.

When coinage is monopolized by the government, as it commonly is, coin may bear a moderate advance of value beyond its real worth. This is termed a seigniorage, and is a tax imposed by government on the community, through the medium of the coin.

The advantage of a seigniorage, is that it retains the coin in the country—it being there of greater value than elsewhere—its disadvantage is, that it tempts to private coining. On this subject see A. Smith, Book I. ch. V.—Say, Book I. ch. 21. sect. 4.—Ricardo, ch. 13. and 27; and Tracts on Bullion, reviewed in Quarterly, Vol. III. p. 152.

The inconveniences attending the transmission of coin, led gradually among commercial nations to the adoption of Bills of Exchange, and these to a general system of paper credit, under the form of Promissory Notes, payable on demand; under which form paper now supplies at a cheaper rate the services which would otherwise be performed by a metallic currency. This is the system of Banking, a subject too extensive and complicated, to be here satisfactorily treated.

mulation and employment is indispensably necessary to the successful prosecution of almost every branch of industry. Without that species of capital, which chiefly consists of tools and engines, and which has been denominated *fixed*, labour could never be rendered considerably productive; and without that species of capital which chiefly consists of the food and clothes required for the consumption of the labourer during the time he is employed in the production of commodities, and which has been denominated *circulating*, he never could engage in any undertaking which did not yield an almost immediate return. An

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A few principles, however, will be stated.

Instead of gold and silver currency being, as it was falsely esteemed by the mercantile writers, the only wealth of a country, it is now acknowledged to be the only portion of its wealth which is unproductive. Its value lies solely in the facility it gives to the exchange, of what is truly the active capital of the nation, its industry and commodities. Hence money is to be regarded in the light of an instrument or machine, whose only value consists in the work it executes. If a cheaper machine can perform the same work, it is consequently to be preferred, and the nation becomes the gainer by the difference of their cost.

Such a machine is paper money, which is based upon credit, and not like coin upon intrinsic value; and the gain to the country in its use, is the surplus coin which is sent abroad in productive exchanges.

The danger of paper money, lies in a surplus issue by those who have the power of making it. The effect of such surplus is the rise of all money prices, the depreciation of the currency as compared with gold and silver, and all the disadvantages consequent on such a state of things, in an intercourse with foreign nations. Against this abuse of power on the part of government or of banks, the only sufficient check is the immediate convertibility of the paper at the will of the holder into that which it represents, gold and silver. This keeps the amount of paper in circulation at the level demanded by the business of the country; and that limitation of quantity maintains it at its full value.

Wherever this check is removed, the power of issue will be abused. It was so by the bank of England under the restriction bill, of 1797; it was so also, by the banks in this city during the late war.

This, therefore, is the fundamental principle on which all paper currency must rest—its convertibility at the will of the holder, into that of which it is but the representative, viz. gold and silver.

But this like all other ends is to be attained by the cheapest means—it is convertibility and not actual conversion into intrinsic value, which is needed. All that the public want, is a sufficient check against over issues.

On this principle Ricardo, on the return of the bank of England to specie payments, in the year 1818, urged the adoption of a new provision equally secure, and more economical, viz. convertibility into bullion and not into coin.—See *Economical and Safe Currency*; also, Ed. Rev. No. 61, Art. 3.

Had this taken place, it would have removed the check from the hands of the public to those of the bullion merchants, where it would have been more sensitive, equally efficacious, and more economical; as it would have set free all the coin imprisoned in the vaults of the bank.

Where a number of banks exist together, as in this city and country, the public are saved the necessity of guarding against over issues by any individual bank, by the mutual jealousy of rival institutions—the frequent settlement of balances among themselves, as they become debtor or creditor to each other is the most delicate and powerful check against all individual encroachment. This, however, is a matter of private interest, with which the public, as such, have nothing to do. Against a uniform increase of issues on the part of all the banks, it evidently affords no security; in that case individual holders must control them, by the power of returning upon them a currency which they have degraded.

For the history and principles of banking, see A. Smith, Book II. ch. 2.—Say, Book I. ch. 22.—Ricardo, Tracts on Currency. Mills, ch. 3, sect. 9, 10, &c.—And for a defence of the Restriction Bill, see Thornton on the Paper Currency of Great Britain.—E.

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agricultural labourer, for example, might have an ample supply of carts and ploughs, of oxen and horses, and generally of all the instruments and animals used in his department of industry. but if he were destitute of *circulating* capital, or of food and clothes, he would not be able to avail himself of their assistance, and instead of tilling the ground, would have to betake himself immediately to some species of appropriative industry: and, on the other hand, supposing the husbandman to be abundantly supplied with provisions, what could he do without the assistance of *fixed* capital or tools? What could the most skillful agriculturalist perform if he were deprived of his spade and his plough? a weaver if he were deprived of his loom? or a house-carpenter if he were deprived of his saw, his hatchet, and his planes? The accumulation and employment of both fixed and circulating capital is indispensably necessary to elevate any nation in the scale of civilization. And it is only by their conjoined and powerful operation that wealth can be largely produced and universally diffused.

The division of labour is a consequence of the previous accumulation of capital. Before labour can be divided, "A stock of goods of different kinds must be stored up somewhere, sufficient to maintain the labourer, and to supply him with the materials and tools for carrying on his work. A weaver, for example, could not apply himself entirely to his peculiar business, unless there was beforehand stored up somewhere, either in his own possession, or in that of some other person, a stock sufficient for his maintenance, and for supplying him with the materials and implements required to carry on his work, till he has not only completed but sold his web. This accumulation must evidently be previous to his applying himself for so long a time to a peculiar business."—(*Wealth of Nations*, Vol. I. p. 408.)

As the accumulation of stock must have preceded the division of labour, so its subsequent division can only be extended as capital is more and more accumulated. Accumulation and division act and react on each other. The quantity of raw materials which the same number of people can work up increases in a great proportion, as labour comes to be more and more subdivided; and according as the operations of each workman are reduced to a great degree of identity and simplicity, he has, as we have already explained, a greater chance of discovering machines and processes for facilitating and abridging his labour. The quantity of industry, therefore, not only increases in every country with the increase of the stock or capital which sets it in motion; but, in consequence of this increase, the division of labour becomes extended, new and more powerful implements and machines are invented, and the same quantity of labour is thus made to produce an infinitely greater quantity of commodities.*

* Lauderdale, in his exaggerated view of the importance of capital, magnifies it into one of the great causes of the superiority of man over the brutes—it may fairly be stated to be one of civilized over savage man.

Say, takes up the consideration of capital in a wider sense than our author, embracing mental as well as material wealth. Mental or immaterial capital, which consists of acquired skill or learning, is marked further by the following characteristics.

1. It is so personally appropriated that it can neither be withdrawn nor transferred.

Besides its effect in enabling labour to be divided, capital contributes to facilitate labour, and produce wealth in the three following ways :

First.—It enables us to execute work that could not be executed, or to produce commodities that could not be produced without it.

Second.—It saves labour in the production of almost every species of commodities.

Third.—It enables us to execute work better, as well as more expeditiously.

With regard to the first of these modes in which we are benefited by the employment of capital, or to the circumstance of its *enabling us to produce commodities that could not be produced without it*, it is plain that the production of all such commodities as require a considerable period for their completion, could not have been attempted if a stock of circulating capital, or of food and clothes sufficient for the maintenance of the labourer, while employed on them, had not been previously provided. But the employment of fixed is frequently as necessary to the production of commodities as the employment of circulating capital. It would be plainly impossible to produce a pair of stockings without the aid of wires ; and although the ground might be cultivated without the aid of the plough, it could not be cultivated without the aid of a spade or a hoe. If we run over the vast catalogue of the various arts practised in a highly po-

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Modes in which the Employment of Capital Facilitates Labour.

1st, It enables us to produce Commodities that could not be produced without it.

2. Its original investment is to be calculated at the time, money, and support of the individual during the period of its acquisition.

3. Its present value and amount, is to be estimated at a sum which would purchase an annuity, equivalent to the salary or wages such acquisitions would command, or rather somewhat below, thus leaving a premium against the risk of loss of health or employment.

Paley's acute mind lighted upon this principle at an earlier period, in solving a question of Morals. See Moral Philosophy, book III. ch. 13.

To these enlarged views of capital, the English writers generally are opposed, on the ground that they destroy the precision of the science, by bringing in subjects of a general and moral nature, and such as are incapable of precise definition. But a higher consideration is, whether they are not just ; whether such a capital does not actually exist in society, equally with a material one supporting its possessor, and equally advancing the prosperity of the community. If this be the case, we are not left at liberty to choose its adoption or rejection. It is part of the capital of society, having all its characteristics, being the produce of previous labour, and multiplying the original investment by that economy of future labour which is the result of the skill and science so acquired. Truth and consistency require, therefore, that the political economist should not neglect the consideration of this great and influential portion of public wealth. How inconsistent, for instance, to bestow the name of capital upon the time and money invested in the machine, but deny it to perhaps the same amount of time and money invested in that skill upon which alone the value of the machine depends. In paying the wages of skill and science, we not only acknowledge the existence of such a capital, but we estimate its amount by paying in proportion to the time and expenses required for its attainment—as in the case of the physician, the lawyer, the painter, &c. Besides, so far as scientific principles are a question of practical expediency, it may be observed that these are views favourable to moral and intellectual improvement—they give to education a new and desired value, placing it on a level with a monied capital—they elevate the artist, the scholar, and the man of science in the scale of society—and by placing more completely within the reach of every young man the materials of future usefulness, respectability and wealth—become the strongest incentive to pursue them.—Say, book II. ch. 7 ; book I. ch. 4.—E.

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lished and civilized country, it will be found that there are very few that can be carried on by the mere employment of the fingers, or tools with which man is furnished by nature. It is almost always necessary to provide ourselves with the results of previous industry, and to strengthen our feeble hands by arming them, if we may so speak, "with the force of all the elements."

2d, It saves
Labour in the
Production
of Commodi-
ties.

In the *second* place, the employment of capital not only enables us to produce many species of commodities that never could have been produced without its co-operation, but it also enables us to *save labour in the production of many others*, and, by lowering their price, brings them within the reach of a far greater number of consumers. We have been so long accustomed to make use of the productive sources of the most powerful machines, that it requires a considerable effort of abstraction to render ourselves fully aware of the real extent of the advantages we derive from them. But if we compare the state of the arts practised alike by civilized man and the savage, we cannot fail to be convinced that it is to the use and employment of fixed capital that we owe a very large proportion of our superior comforts and enjoyments. Consider the advantages which man has derived from the employment of the lower animals, which, in an economical point of view, are regarded only as machines! Consider the advantages that have been derived from the formation of roads, bridges, harbours, and canals*—the

* As the subject of canals is not taken up by our author, this incidental mention may justify some observations in regard of them, with especial reference to those of our own state.

The superior facility of transportation on a canal constitutes its national value. The society is a gainer by the amount of all the surplus labour that was previously required. The wealth of society lies in the cheapness of products, its interests, therefore, lie in reducing the costs of production and the expenses of transportation to the lowest possible amount. These principles, however, are obvious. What follows has not been so generally acknowledged. It is that none are injured by it, except temporarily by some change of industry, while all are eventually benefited by it through the extended demands created for products of every kind, arising out of the increasing wealth of society.

Thus the operation of the great Western Canal of this state was greatly dreaded by the farmers of Long Island and along the banks of the Hudson, from the belief that it would greatly reduce the value of their products by supplying grain at a much cheaper rate, and to an indefinitely great amount.

Their fears of ruin, experience has shown to be groundless, and the result leads us to perceive two erroneous opinions on which their anticipation of it was founded.

1. That the price of grain would be materially reduced by the new supply. Had the city of New-York been the real market, it doubtless would; the price would have fallen with the increased supply. But their real market is the whole world, so far as commerce has connected the various nations of it. New-York is but the *entrepôt* where it rests comparatively but a moment; and whatever influence the increased quantity may have in the reduction of prices, is felt equally, wherever the grain has free access, by the farmers of France and Italy, as well as by those of Long Island and Dutchess County.

2. That they have not foreseen the superior profits of the new applications of land, demanded by the extended wealth and population of the city. The farms of Long Island are comparatively turned into gardens, and this not by being driven from their old employment, but by the superior temptations of the new—fruit and vegetables gradually taking the place of butter and grain, and thus creating a new demand for land of the next grade of

effect they have had in facilitating the conveyance of commodities, and consequently in distributing them most advantageously, and in reducing their price to the consumer ! Consider the advantages that have been derived from the construction of ships, and the improvement of navigation ! But it is in vain to attempt even to glance at the numberless benefits which the employment of the fixed capital vested in tools and other instruments, has conferred on society, by cheapening and multiplying necessaries, conveniences, and luxuries. It is by their means that our fields are cultivated, our houses constructed, our clothes manufactured, our ships built, and the treasures of knowledge and of art transferred from one hemisphere to another ! If we consult the history of the human race—if we trace their slow and gradual advancement from barbarism to refinement, we shall be convinced that their progress from their lowest and most abject, to their highest and most polished state, has been always accompanied, and chiefly promoted, by the accumulation of fresh capital, and the invention and improvement of tools and engines.

Employment
of Capital.

The *third* advantage derived from the employment of capital consists in the circumstance of its enabling us to execute work *better*, as well as more expeditiously than it could be done without it. Cotton, for example, might be spun by the hand ; but the admirable machinery invented by Hargreaves, Arkwright, and others, has not only enabled us to spin an hundred or a thousand times as great a quantity of yarn as could be spun by means of a common spindle, but it has also improved its quality, and given to it a degree of fineness, and of evenness, or equality, in its parts, which was never previously attained. It would require a painter months, or it might be years, to paint with a brush the cottons, or printed cloths used in the hanging of a single room ; and it would be very difficult, if not impossible, for the best artist to give the same perfect identity and sameness to his figures that is given to them by the admirable machinery now in use for that purpose. Not to mention the other and more important advantages of which the invention of moveable types and printing has been productive, it is certain that the beauty of the most perfect manuscript—one on which years of patient and irksome labour have been expended—is unable, in point of delicacy and correctness, to match a well printed work, executed in the hundredth part of the time, and at a hundredth part of the expense required to copy the manuscript. The great foreign demand for English manufactured goods results no less

3d, It enables
us to Execute
Work Better
as well as
more Expedi-
tiously.

contiguity. This position may further be illustrated in the history of the supply of fat cattle for the New-York market. A century ago, they were raised on farms adjoining the city. They are now principally raised three hundred miles from it ; driven back step by step, through the superior profitability of the new crops demanded by the increasing extent and trade of the metropolis.

On this subject the following extract from Adam Smith bears so pointedly as to merit quotation. "It is not more than fifty years ago that some of the counties in the neighbourhood of London, petitioned the parliament against the extension of the turnpike roads into the remoter counties. These remoter counties, they pretended from the cheapness of labour, would be able to sell their grass and corn cheaper in the London market than themselves, and would thereby reduce their rents, and ruin their cultivation. Their rents, however, have risen and their cultivation improved since that time."—(Wealth of Nations, book I. ch. 11.—E.

Employment
of Capital.

The Power
to Employ
Labour de-
pends on the
Amount of
Capital.

from the superiority of the manufacture, than from their greater cheapness; and for both these advantages we are principally indebted to the excellence of our machinery.*

There are other considerations which equally illustrate the extreme importance of the accumulation and employment of capital. The produce of the labour of a nation cannot be increased otherwise than by an increase in the number of labourers, or by an increase in the productive powers of the existing

* The talent of America has contributed its full share, by the improvement of machinery, to this augmentation of wealth, which belongs not to one country only, but to the whole civilized world. On this point the ingenuity of an intelligent and restless people seems to have equalled the power of the more regular and scientific training of the workmen of Europe. Among these may be mentioned as prominent instances, Whittemore's machine for the manufacture of wool cards; the Philadelphia machine for making wood screws; Whitney's for the manufacture of arms, which last illustrates a further point of economy in the results of machinery, viz. the perfect similarity of the identical parts, by which they are capable of endless combination; Whitney's machine for jinning cotton, or clearing it of its seed; and the various applications of steam to the propelling of boats.

Of the increase of national wealth, arising from Whitney's cotton machine, some idea may be formed from the rapid change produced by it in the quantity of cotton grown and exported, the upland species of which, until this happy invention, was almost wholly without value.

Cotton exported from the United States in 1790,	-	-	100,000 lbs.
“ “ “ “	1795,	-	1,300,000 “
“ “ “ “	1800,	-	17,789,803 “
“ “ “ “	1804,	-	35,034,175 “
“ “ “ “	1817,	-	85,649,328 “

Yet this was the article, eight bags of which, were refused entry into the port of Bristol in 1784, on the ground that the United States raised no cotton.

To attempt an illustration of the national saving arising from transportation by steam, would be entering into too large a field. As a single item of it, there may be fairly calculated an annual national gain, of at least half a million of dollars, arising out of time saved, in the intercourse between New-York and the banks of the Hudson.

In a country like this, where labour is dear and capital comparatively cheap, the value of labour-saving machinery must be doubly great. Where on the contrary, there is a dense population, cheap support, and high profits of capital, as in India for instance, the national saving would be small; and might from the influence of these causes altogether disappear, leaving the wages saved but a mere balance to the interest on the capital invested in machinery.

The value and influence of labour-saving machinery, is a question of great interest, though of less difficulty in its solution in this country than in Europe. The general principles on which it is to be determined may thus be stated:—

The national value of machinery consists in substituting a natural agent for human labour; its economy lies in the balance between the interest of the capital invested in the machine including repairs, and the wages of the labour saved. The nation is the gainer by all such difference—its wealth being advanced in consequence of obtaining the same products at a less cost.

The influence of such machinery on the comforts of the lower class, is a point more questioned. In Europe, labourers have always violently risen against its introduction, as feeling their interests invaded.

To give precision to this inquiry, it should be distinguished into the temporary and final effects of machinery; and that in regard of all upon whom it can operate, viz. upon the labourers themselves, upon the manufacturer or owner of the machine, and upon the public consumers.

1. *Workmen.*—Upon this class the immediate but temporary effect is want of employment, and consequent distress; thus Arkwright's spinning machinery rendered needless nineteen-twentieths of the workmen before

labourers. But without an increase of capital it is in most cases impossible to employ another workman with advantage. If capital be not augmented, and if the food and clothes destined for the support of the labourers, and the tools and machines with which they are to operate, be all required for the maintenance and efficient employment of the labourers in existence at any given period, there can be no additional demand for them. In such circumstances, the rate of wages cannot rise; and if the number of inhabitants are increased, they must be worse provided for. Neither can the productive powers of the labourer be augmented, without a previous increase of capital. It is only by a better education and training of workmen, by a greater subdivision of their employments, or by an improvement of machinery, that their productive powers can ever be materially increased. But in almost all these cases, an additional capital is required. It is only by means of an additional capital that the workman can be better trained, or that the undertaker of any work can either provide his workmen with better machinery, or make a more proper distribution of employment among them. When the work to be done consists of a number of parts, to keep every man constantly employed in one particular part, requires a much larger stock than where every man is occasionally employed in every different part of the work. "When," says Dr. Smith, "we compare the state of a nation at two different periods, and find that the annual produce of its land and labour is greater at the latter than at the former, that its lands are better cultivated, its manufactures more numerous and more flourishing, and its trade more extensive, we may be assured that its capital must have increased during the interval between these two periods, and that more must have been added to it by the good conduct of some, than had been taken from it, either by the private misconduct of others, or by the public ex-

employed. The final effect is a reabsorption of them into the same business, which is extended in proportion to the cheapness of the price of the commodity. An illustration of which may also be found in the same cotton machinery, which twenty-five years after its adoption gave occupation to at least five times the number of workmen before employed.

2. *The manufacturer.*—If the improvement be a secret or a monopoly, which, for a short time at least, it always is, the manufacturer by selling at old prices while he is fabricating at a diminished cost, secures great profits, and perhaps realizes a large fortune. The final benefit, however, is not his; for no sooner is the secret known, or the machine open, than competition brings down his profits to the ordinary rate of the returns of capital.

3. *The public consumers.*—So long as the products of the machine are sold at the old prices, the interests of the public continue the same. But as soon as monopoly ceases, its profits may be said to be shared among the consumers—the price of the article falls to its real cost of production—the demand extends with its cheapness—the old consumers are the gainers by having the same commodity at a cheaper rate, and the new consumers are the gainers by being enabled to enjoy an additional comfort, from which they were before excluded.

Thus it appears, to sum up the effects of the introduction of labour-saving machinery, that labourers are the temporary sufferers—manufacturers the transitory gainers—but the public, and more especially the poor, are those who are really and permanently benefited. The stocking weaver is enabled to wear stockings through the influence of that very machine which, at first perhaps, he joined in a riot to destroy. On the subject of machinery, see Adam Smith, book I. ch. 1. Say, book I. ch. 7 and 8. Ricardo, ch. 31. N. American Review, No. 35. Quarterly Review, Vol. XIX. p. 195.—E.

Employment of Capital. extravagance of the government.”—(*Wealth of Nations*, Vol. II. p. 23.) It is, therefore apparent, that no country can ever reach the stationary state, so long as she continues to accumulate additional capital. While she does this, she will always have a constantly increasing demand for labour, and will be constantly augmenting the mass of necessaries, luxuries, and conveniences, and, consequently, also the numbers of her people. But with every diminution of the previous rate at which capital had been accumulating, the demand for labour will decline. When no additions are made to its stock, no more labour will be, or, indeed, can be employed. And should the national capital be diminished, the condition of the great body of the people would be greatly deteriorated—for the wages of labour would be reduced, and pauperism, with all its attendant train of vice, misery, and crime, would spread its ravages throughout the largest portion of society.*

Accumulation of Capital.

Advantage of High Profits.

Having thus endeavoured to point out the vast importance of the employment of capital, and the manner in which it co-operates in facilitating production, we shall proceed to explain the circumstances most favourable for its accumulation. Now, as capital is nothing more than the accumulated produce of previous industry, it is evident its increase will be most rapid where industry is most productive, or, in other words, where *the profits of stock are highest*.† The man who can produce a bushel of wheat in three days, has it in his power to accumulate twice as much as the man who, either from a deficiency of skill, or from his being obliged to cultivate a bad soil, is forced to labour six days to produce the same quantity; and the capitalist who can invest stock so as to yield him a profit of ten *per cent.* has it equally in his power to

* From this state of worthlessness and vice, there is but one remedy, viz. freedom—not political but economical: freedom of labour, freedom of trade, freedom of emigration. The state of things described in the text, is a frequent but unnatural one, and always brought on by some interference with the wise and benevolent laws of nature, which, if left to their own free operation under the protection, not guidance, of regular and peaceful governments, would postpone indefinitely the period of such calamity. Among the causes of these economical convulsions, as they may be termed, war unquestionably is one of the chief, and one perhaps not always to be avoided. It is, however, a great point gained to establish a pacific policy as is now done on the principles of science; it cuts off the pretence for many wars, and affords the strongest argument against all.

On this subject, the language of the late Dean Tucker as elsewhere quoted by our author, is peculiarly strong and just.

“A commercial war whether crowned with victory or branded with defeat, can never prevent another nation from becoming more industrious than you are; and if they are more industrious, they will sell cheaper, and consequently your customers will leave your market and go to theirs. This will happen, though you covered the ocean with fleets and the land with armies. The soldier may lay waste, the privateer whether successful or unsuccessful will make poor, but it is the eternal law of Providence, that *the hand of the diligent can alone make rich.*”

See Four Tracts on Commercial and Political Subjects, by Dean Tucker. See also, the subject incidentally but conclusively stated in Lowe’s “Present State of England.” London, 1821. Reprint, New-York, 1824. N. American Review, No. 28, Privateering.—E.

† To avoid all chance of misconception, it is necessary to observe, that this refers to *net* profit, or to the sum which remains to the capitalist after all his outgoings are compensated, including therein a sum sufficient to ensure his capital against risk, and to make up for whatever may be peculiarly disagreeable in his business.

accumulate twice as fast as the capitalist who can only obtain five *per cent.* for his capital. Conformably to this statement, it is found that the rate of profit, or, which is the same thing, that the power to accumulate capital, is always greatest in those countries which are most rapidly augmenting their wealth and population. The rate of profit, or the power to employ labour and capital with advantage, is ordinarily twice as great in the United States as in Great Britain or France; and it is to this that the more rapid advancement of the former in wealth and population is entirely to be ascribed. We do not mean to say that high profits are *necessarily*, and in *every instance*, accompanied by a great degree of prosperity. Countries with every possible advantage for the profitable employment of industry and of stock, may be subjected to a despotical government, which does not respect the right of property; and the want of adequate security resulting from this circumstance may be of itself sufficient to paralyse all the exertions of those who are otherwise placed in the most favourable situation for the accumulation of capital and of wealth.* But we have no hesitation in laying it down as a principle which holds good in every case, and from which there is really no exception, that, *if the governments of any two or more countries be equally liberal, and property in each equally well secured, their comparative prosperity will depend on the rate of profit.* Wherever profits are high, there is a great demand for labour, and the society rapidly augments both its population and its riches. On the other hand, wherever they are low, the demand for labour is proportionably reduced, and the progress of society rendered so much the slower.

Accumulation of Capital.

But however high the rate of profit, it is evident, that, if men had always *lived up to their incomes*,—that is, if they had always consumed the whole produce of their industry in the gratification of their immediate wants and desires, there could have been no such thing as capital in the world. High profits are advantageous, because they afford the *means* of amassing capital; but something more is necessary to induce us to make use of these means; and this is the *accumulating principle*.† The

Parsimony necessary to Accumulation.

* The answer given to this objection, is not as clearly stated as it might have been.

Profits, like interest, are similarly affected by opposite causes. They are raised by whatever tends to render the returns of capital great. They are raised also by whatever tends to render them insecure. Again, they are lowered by whatever tends to check prosperity. They are also lowered by whatever tends to give security.

The simple fact of high profits, does not, therefore, furnish sufficient data for estimating the existing state of prosperity. They may be high from a bad government—they may be high from a good trade; the former is exemplified in Turkey—the latter in the United States.—See *Edin. Review*, Vol. XL., Note on Interest, p. 59.—E.

† Whether industry or economy be the operative principle upon which the formation of capital depends, is a point on which there exists among writers a needless difference of opinion. Adam Smith says, that it is due to economy not industry. Lauderdale asserts, that wealth can be increased by that only which originally produced it, and that is labour; while Ganihl sides with Smith, "Capitals are always derived from economy and can neither be formed nor increased otherwise." It is, however, an idle dispute—both are evidently necessary; without labour, there will be no fund for economy to be exercised upon, and without economy that fund will be dissipated in present gratification. As a practical question,

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desire implanted in the breast of every individual of rising in the world, and improving his condition, has prompted mankind to save a portion of their income, or of the produce of their industry, from immediate consumption, and to set it apart as a fund, or capital, for the support of additional workmen. It is to this principle, therefore, or rather to its effect, *parsimony*, that we owe capital; and it is to capital that we owe almost all our comforts and enjoyments. Without its assistance and co-operation, labour could never have been divided; arts could never have made any progress; and mankind must have continued to shelter themselves, as in the earliest ages, in caves and forests, and to clothe themselves with the skins of wild animals. All the accumulated riches of the world—the cities which cover its surface—the ships which traverse its seas—and all the innumerable variety of improvements, owe their origin to this principle,—to the desire to rise in the world, and consequently, to save and amass.

It has been wisely ordered, that this principle should be as powerful as it is advantageous. “With regard to profusion,” says Dr. Smith, “the principle which prompts to expense is the desire of present enjoyment; which, though sometimes violent, and very difficult to be restrained, is in general, only momentary and occasional. But the principle which prompts to save is the desire of bettering our condition; a desire which, though generally calm and dispassionate, comes with us from the womb, and never leaves us till we go into the grave. In the whole interval which separates these two moments, there is scarce, perhaps, a single instance in which any man is so perfectly and completely satisfied with his situation, as to be without any wish of alteration or improvement of any kind. An augmentation of fortune is the means by which the greater part of men propose and wish to better their condition. It is the means the most vulgar and the most obvious; and the most likely way of augmenting their fortune is to save and accumulate some part of what they acquire, either regularly and annually, or upon some extraordinary occasions. Though the principle of expense, therefore, prevails in almost all men upon some occasions, yet in the greater part of men, taking the whole course

however, and one to be tested by experience, economy would carry the palm. Among the poor we find many who are laborious yet thriftless and unsuccessful, while the truly economical rarely miss of their reward. Economy, it must be remembered, however, is a relative term, having reference to income and expenditure, and implying a surplus of the former over the latter. He is not economical in the scientific sense of the term, who lives up to his means, however small they may be; and he will surely become rich, at least in its best acceptation of independence, who will enter early and persevere steadily in the course of this wise economy.

In this country of high wages, that wealth which gives independence is in the power of every young man setting out in life: as our author has before observed “*ce n'est que le premier pas qui coûte.*” In the first step lies all the difficulty—let him but set out right, and the victory is gained. Colquhoun in his “Police of London,” remarks, that he never knew an apprentice who saved money during the first six months of his freedom, who did not succeed; and rarely knew one who did, who at the end of the same period, had run himself in debt. See Edin. Rev. Mendicity, No. 55. Art. 1. Saving Banks, No. 45, Art. 6. Quarterly Review, Saving Banks, Vol. XII. p. 155. XVI. 89, XVIII.—E.

of their life at an average, the principle of frugality not only predominates, but predominates very greatly."—(*Wealth of Nations*, Vol. II. p. 19.) Accumulation of Capital.

It is this principle which carries society forward. The spirit of parsimony, and the efforts which the frugal and industrious classes make to improve their condition, in most instances balance not only the profusion of individuals, but also the more wasteful profusion and extravagance of governments. The spirit of economy has been happily compared by Smith to the unknown principle of animal life—the *vis medicatrix nature*,—which frequently restores health and vigour to the constitution, in spite both of disease and of the absurd prescriptions of the physician.

We must have a care, however, lest we fall into the error of supposing, as Mr. Malthus and many others have done, that public expenditure is a cause of individual accumulation.* Its effect is, in every instance, distinctly and completely the reverse. The more government spends, the less remains for individuals to save. Necessity may compel a man to exert himself to pay heavy taxes; but it is *choice*, and not necessity, which makes him withdraw a portion of the produce of his industry from immediate consumption, and employ it as a stock. This distinction must be kept constantly in view. It cannot be deni-

Expenditure of Government, not a Cause of Accumulation.

* Of all sophisms in Political Economy, this is the most dangerous. It lies at the basis of abuse of power, on the part of government, in imposing taxes and waste of wealth in disbursing them. This is an evil, however, which rests not as yet, upon our nation. Great profits and cheap government make our public burthens light; but what limit would there be to them, should the very virtue of our legislators be turned against us, by assuming this fallacious principle of the expenses of government being an exciting cause of national wealth.

A popular error analogous to this may here be mentioned. It is that of regarding public expenditure not merely as Malthus states it, a stimulus to increased accumulation, but as actually furnishing the sources of it; and to those who remember the excitement given to the industry and capital of the country during the late war, by the lavish expenditure of loans made by government, it will not appear an opinion destitute at least of plausibility. It may be worth while to detect its fallacy.

When the government after making a loan, comes into the market as a consumer, like every other consumer it supports the productive industry of the country to the amount of its disbursements. A million expended by the government, is equal in its effects to a million expended in the country by a foreign consumer. The only difference lies in the source whence the money is derived, and the productive or unproductive manner in which it is expended.

Now in the case of the foreign consumer it comes from abroad and is so much added to the wealth of the nation—in the latter case it is part of the domestic capital of the country, which has passed from the hands of individuals into those of the government. Tracing it one step further, we find that it is a portion of national wealth, which has not only changed hands but changed its destination; what before was capital is now considered as income—what before was productively invested, is now unproductively consumed, and the sum of national wealth is consequently to the same amount diminished. If the amount so expended have been raised by tax, the diminution is immediate and sensible—if by loan it is gradual and distant; but in either case it is a certain and necessary diminution of the public capital; and whatever be the show of present prosperity it produces, it is as fallacious in the case of a nation, as every one sees it would be in the case of an individual who should by loan antedate his means, or convert his capital into income.

On this subject which is too extensive and important to be satisfactorily treated of in a note, see Say, book III, ch. 8 and 9. Ricardo, ch. 8.—E.

Accumulation of Capital.

ed that it is necessity that forces farmers and manufacturers to sell a portion of their produce to pay the taxes to which they are subjected; but when these taxes are paid, the government is satisfied, and it is plainly their own free option—their desire to improve their condition, and to rise higher in the world, and not compulsion, that induces them to accumulate another portion of their produce as capital. The capitals of England and of France have not increased, *because* of the vast expenditure of their governments, but in *despite* of it. Those who continued to accumulate, notwithstanding the share of their produce taken from them by government was increased, would evidently have had greater *means* of accumulation, had this share not been increased, or increased in a less proportion. But accumulation, like the other passions, increases as the means of gratifying it increase. In point of fact, the greatest accumulations are invariably made where there is the greatest power to accumulate. There are no internal taxes in America; she is possessed of vast tracts of fertile and uncultivated soil; and industry is, in consequence extremely productive. And, agreeably to what we have now stated, America doubles her capital and population every five-and-twenty years, and is advancing in the career of wealth, and civilization with a rapidity unknown in any other country.*

Ambition to rise is the animating principle of society. Instead of remaining satisfied with the condition of their fathers, the great object of mankind in every age has been to rise above it—to elevate themselves in the scale of wealth. To continue stationary, or to retrograde, is not natural to society. Man from youth grows to manhood, then decays and dies; but such is not the destiny of nations. The arts, sciences, and capital of one generation becomes the patrimony of that which succeeds them;

* As Americans, we are indebted to Political Economists for the fairest picture of our country. To them the materials we possess of national wealth and greatness, are a subject neither of doubt nor of envy. Indeed the latter feeling can find no place in the bosom of a true economist. All the principles of the science are against it—since the prosperity of one country diffuses itself over all with which she holds intercourse—affording to them cheaper productions, ampler supplies, and larger markets.

The wealth in this way annually produced in the world, is not a peculiar, but a common heap, out of which every nation takes in proportion to its industry and capital to its moral and intellectual energies. Herein then consists the real policy and interests of a country, not in diminishing the heap but in enlarging their own rightful share—not in checking the labour and capital of other countries which are working for this common fund, but in giving free play and energy to its own powers of production—in removing all fetters upon national industry or private accumulation—in cutting off all needless government expenditure, and in giving to the people through the medium of education an intellectual, and above all a moral and religious tone which forms not only the loftiest feature of a nation's character, but the one most favourable to the advancement of public wealth and permanent prosperity.

Blest as we are, above all the nations of the earth, with an abundant share of the materials upon which national prosperity depends, let it be our pride also, to set them an example of the policy most favourable to their development, and to show ourselves worthy of that high destination to which under the guidance of a wise providence we seem to be called, that of serving as a model of reform to the Old World, as age and corruption gradually sap the foundations of its early institutions, and as a precursor and guide to the rising nations of the New. See N. Amer. Rev. Statistics of United States, Nos. 30 and 40, also Review of Coxe's Report on Arts and Manufactures, Vol. I.—E.

and in their hands, are improved and augmented, and rendered more powerful and efficient; so that, if not counteracted by the want of security, or by other adventitious causes, the principle of improvement would always operate, and would secure the constant advancement of nations in wealth and population.

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It is to this same principle that we owe the discovery and improvement of machinery. Mankind have, in every stage of society, endeavoured to increase their productive powers, and to improve their condition, by availing themselves of the assistance of natural agents, and making them contribute to the performance of tasks which must otherwise have been performed by the hand only. The savage avails himself of the aid of a club and a sling to facilitate the acquisition of game, and abridge his labour; and the same principle which prompted him to resort to and construct these rude instruments, never ceases to operate. It is always producing some new improvement; and in an advanced and refined period, gives us ships for canoes, muskets for slings, steam-engines for clubs, and cotton mills for distaffs. "The hand of man," says Colonel Torrens, "is not armed with any efficient natural instrument, such as the beak of the bird, or the claw of the quadruped, for operating directly upon the materials presented to him; but it is admirably adapted for receiving and applying artificial implements, and for employing the powers of one substance to produce the desired changes in another. Hence almost all the grand results in manufacturing industry are brought about by means of capital. Throughout the world there are no very striking inequalities in the muscular force by which direct labour is performed; and it is mainly owing to the differences in the quantity of capital, and in the skill with which it is applied, that in one country man is found naked and destitute, and that in another all the rude productions of the earth, and all the forces of nature, are made to contribute to his comfort, and to augment his power."—(*On the Production of Wealth*, p. 89.)*

SECT. III.—*Different Employments of Capital and Industry—Manufactures and Commerce shown to be equally advantageous as Agriculture—Rate of Profit true test of Individual and Public Advantage.*

We have in the previous section, endeavoured to show, that the increase and diminution of capital is the grand point on which national prosperity hinges,—that if you increase capital,

Different Employments of Capital and Industry.

* The rapid advance of general wealth within the last half century, is principally due to the introduction of machinery and the extended employment of more and more powerful natural agents. A striking illustration of their successive employment, and of the successive additions of power with which they arm, as it were, the human hand, may be found in the recent history of the collieries near Leeds. Within the memory of its older inhabitants the coal was carried from the pits to the canal in paniers upon asses: to these succeeded wagons or carts; iron rail-ways were afterward resorted to, doubling power by the diminution of friction; and finally a steam wagon was made to roll upon them, drawing behind it from eighty to a hundred tons of coal. How different a being is man, as to physical force, in the extremes of this chain of scientific improvement. In the first by the aid of a poor animal drawing little more than he could himself carry—in the second, like some great necromancer, making the elements his ser-

Different
employments
of Capital
and Industry

you instantly increase the means of supporting and employing additional labour, and that if you diminish capital, you instantly take away a portion of the comforts and enjoyments, and perhaps also of the necessaries of the productive classes, and spread poverty and misery throughout the land; and we also endeavoured to show that the increase and diminution of the rate of profit was the great cause of the increase and diminution of capital. If such be the case, it seems impossible to resist coming to the conclusion, that those employments which yield the *greatest profit*, or in which industry is most productive, are the most advantageous. But Dr. Smith, Mr. Malthus, and most other political economists, have objected to this standard. They allow that if two capitals yield equal profits, the employments in which they are engaged are *equally beneficial to their possessors*; but they contend, that, if one of these capitals be employed in agriculture, it will be productive of greater *public advantage*.* We believe, however, that we shall be able to show that this opinion rests on no good foundation; and that the *average rate of profit* is the single and infallible test by which we are always to judge which employment is most and which is least advantageous.

vants, and by the energy of his skill, moving a weight that would crush a thousand men. For this, and many interesting illustrations of the advance of modern science, see Griscom's *Year in Europe*; Quarterly Review, No. 62, Article 5.—E.

* The distinction here alluded to, between public advantage and private profit, forms the dividing line between the liberal and restrictive systems of Political Economy. a point so important, that it cannot be too frequently insisted upon.

If national wealth be but the sum of the wealth of the individuals of whom that nation is composed, then the increase of national wealth is equivalent to the sum of individual profit—and as individuals best know their own interest, national prosperity is best consulted by allowing them to follow it. This forms what is termed the *liberal* system.

But if, on the contrary, individual gains may be pursued to the detriment of national wealth, then must the guardians of the national welfare be ever upon the watch against individual encroachment—and the labour and enterprise of individuals limited and restrained within certain boundaries. This is the *restrictive* system, and looks to monopolies, bounties, and duties, to guide and direct the capital of the nation into its most productive channels. This system may be said to exist under two forms.

First, in its extreme character, wherein it teaches that individual profit may be pursued to a national loss—a doctrine that deals in prohibitions and penalties.

Secondly, in its modified form, viz. that individual profit is not the criterion of national gain; and hence that individuals must be allured into those occupations which are most for the public advantage. This system upholds bounties and countervailing duties, and generally looks to agriculture and internal trade as most entitled to the aid of government.

Between these opposing opinions the Editor does not hesitate to profess himself attached to the liberal system, or that which identifies individual profits with national benefit—subject, however, in its general principles, to three specific limitations.

1. Of a political nature, that is to say, that individual policy, which is founded upon a state of peace, should yield to those necessary preparations for a state of war, of the period and extent of which government alone are competent judges. This exception includes all provisions that relate to munitions of war, to embargoes, interdicts, &c., cases determinable by facts known only to public functionaries.

The 2d is of a moral and general nature. Individual profits are not to be extracted from the miseries of others, from the vices and passions of soci-

A capital may be employed in *four* different ways, either, *first*, in the production of the raw produce required for the use and consumption of the society; or, *secondly*, in manufacturing and preparing that raw produce for immediate use and consumption; or, *thirdly*, in transporting the raw and manufactured products from one place to another according to the demand; or, *fourthly*, in dividing particular portions of either into such small parcels as suit the convenience of those who want them. The capitals of all those who undertake the improvement or cultivation of lands, mines, or fisheries, are employed in the first of these ways; the capital of all master manufacturers is employed in the second; that of all wholesale merchants in the third; and that of all retailers in the fourth. It is difficult to conceive that a capital can be employed in any way which may not be classed under some one or other of these heads.

Different employments of Capital and Industry.

On the importance of the employment of capital in the acquisition of raw produce, and especially in the cultivation of the soil, it is unnecessary to enlarge. It is from the soil, including under that term mines and fisheries, that the *matter* of all commodities that either minister to our necessities, our comforts, or our enjoyments, must have been originally derived. The industry which appropriates the raw productions of the earth, as they are offered to us by nature, preceded every other. But these spontaneous productions are always extremely limited. And it is by agriculture only, that is, by the united application of immediate labour and of capital, to the cultivation of the ground, that large supplies of those species of raw produce, which form the principal part of the food of man, can be obtained. It is not quite certain that any of the species of grain, as wheat, barley, rye, oats, &c. have ever been discovered growing spontaneously. But, although this must originally have been the case, still the extreme scarcity of such spontaneous productions in every country with which we are acquainted, and the labour which it requires to raise them in considerable quantities, prove beyond all question that it is to agriculture that we are almost exclusively indebted for them. The transition from the pastoral to the agricultural mode of life is decidedly the most important step in the progress of society. Whenever, indeed, we compare the quantity of food, and of other raw products obtained from a given surface of a well cultivated country, with those obtained from an equal surface of an equally fertile country, occupied by hunters or shepherds, the powers of agricultural industry in increasing useful productions appear so striking and extraordinary, that we cease to feel surprise at the preference which has been so early and generally given to agriculture over manufactures and commerce; and are disposed to subscribe without hesitation to the panegyric of Cicero when he says,

Employment of Capital in Agriculture.

ety. Under this exception fall the slave trade, gambling houses, &c. which, however, profitable to the individual, are baneful to society, and check national prosperity in its very sources.

The 3d exception relates to home speculation, in which, as the wealth of the country merely changes hands, the profits are but the criterion of a rising market, since such accumulation would have taken place had the commodity continued in the hands of its original holders. Such transfers, therefore, have no influence on national prosperity. On this subject see Say, Books I. and II.—E.

Different
employments
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“*Omniū autem rerum ex quibus aliquid acquiritur, nihil est agricultura melius, nihil uberius, nihil dulcius, nihil homine, nihil libero dignius.*”*

Employment
of Capital in
Manufacturing
Industry.

But are there really any just grounds for this preference? Are not manufactures and commerce equally advantageous as agriculture? It is plain that without agriculture we could never possess any considerable supply of the *materials* out of which food and clothes are made; but is it not equally plain, that without a knowledge of the arts by which they are converted into food and clothes, the largest supply of these materials could be of little or no service? The labour of the miller who grinds the corn, and of the baker who bakes it, is equally necessary to the production of bread, as the labour of the husbandman who tills the ground. It is the business of the agriculturist to raise flax and wool; but if the labour of the spinner and the weaver had not given them utility, and fitted them for being made a comfortable dress, they would have been nearly, if not entirely worthless. Without the labour of the miner who digs the mineral from the bowels of the earth, we could not have obtained the matter out of which many of our most useful implements and splendid articles of furniture have been made; but if we compare the ore when dug from the mine with the finished articles, we shall certainly be convinced that the labour of the purifiers and refiners of the ore, and of the artists who have afterward converted it to useful purposes, has been quite as advantageous as the industry of the miner.

Necessity of
Manufacturing
Industry to the
Improvement in
Agriculture.

But not only is it certain that manufacturing industry, or that species of industry which fits and adapts the raw produce of nature to our use, is requisite to render its acquisition of any considerable value; but it is also certain, that without manufacturing industry this very raw produce could never have been obtained in any considerable quantity. The labour of the mechanic who fabricates the plough is as efficacious in the producing of corn as the labour of the husbandman who guides it. But the plough-wright, the mill-wright, the smith, and all those artisans who prepare tools and machines for the husbandman, are really manufacturers, and differ in no respect whatever from those who are employed to give utility to wool and cotton, except that they work on *harder* materials. The fixed capital vested in tools and machines is the product of the labour of the tool and engine manufacturer; and without the aid of this fixed capital, it is impossible that agricultural labour, or that any other sort of labour, could ever have become considerably productive.

* “Of all the sources of revenue, there is none preferable to agriculture, more productive, more delightful, or more worthy of a wise and liberal mind.”

Cicero herein touches upon some of those native sympathies of the human heart, which make it turn involuntarily to the country in search of happiness, and which, in questions of Political Economy, must be taken into account, inasmuch as they reconcile men to small profits when connected with its enjoyments, in preference to the tumult, the toil, and the wealth of the city. This may be cited as one out of many instances, to show that this is a moral science, resting, not merely on the physical wants, but on the desires and passions of men. See Malthus' Polit. Econ. Introduction.—E.

“Distinguer,” says the Marquis Garnier, “le travail des ouvriers de l’agriculture d’avec celui des autres ouvriers, est une abstraction presque toujours oiseuse. Toute richesse, dans le sens dans lequel nous la concevons, est nécessairement le résultat de ces deux genres de travail, et la consommation ne peut pas plus se passer de l’un que de l’autre. Sans leur concours simultané il ne peut y avoir de chose consommable, et par conséquent point de richesse. Comment pourrait-on donc comparer leurs produits respectifs, puisque, en séparant ces deux espèces de travail, on ne peut plus concevoir de véritable produit, de produit consommable et ayant une valeur réelle? La valeur du blé sur pied résulte de l’industrie du moissonneur qui recueillera, du batteur qui le séparera de la paille, du meunier et du boulanger qui le convertiront successivement en farine et en pain, tout comme elle résulte du travail du laboureur et du semeur. Sans le travail du tisserand, le lin n’aurait pas plus le droit d’être compté au nombre des richesses, que l’ortie ou tout autre végétal inutile. A quoi pourrait-il donc servir de rechercher lequel de ces deux genres de travail contribue le plus à l’avancement de la richesse nationale? N’est-ce pas comme si l’on disputait pour savoir lequel, du pied droit ou du pied gauche, est plus utile dans l’action de marcher?”*

Different employments of Capital and Industry.

In fact there is not at bottom any real distinction between agricultural and manufacturing industry. It is, as we have already shown, a vulgar error to suppose that the operations of husbandry add any thing to the stock of matter already in existence. All that man can do, and all that he ever does, is merely to give to matter that particular form or shape which fits it for his use. But it was contended by M. Quesnay and the French economists, and their opinions have in this instance been espoused by Dr. Smith, that the labour of the husbandman in adapting matter to our use is powerfully facilitated by the aid derived from the vegetative powers of nature, while the labour of the manufacturer has to perform every thing itself without any such co-operation.—“No equal quantity of productive labour or capital employed in manufactures,” says Dr. Smith, “can ever occasion so great a reproduction as if it were employed in agri-

No real difference between Agricultural and Manufacturing Industry.

Opinion of Dr. Smith respecting the superior Productiveness of Agriculture.

* See page 58 of the *Discours Préliminaire* to the second edition of the translation of the *Wealth of Nations*, by the Marquis Garnier. The same passage is in the first edition, published in 1802.

“To distinguish,” says the Marquis Garnier, “between the labour of the agriculturist and that of other workmen, is an idle refinement. All riches in the sense in which we use the term, are the result of the united labour of both, and to be complete can want neither the one nor the other. Without their concurrence there can be no completion of the product, and consequently no riches. How then can one compare their respective results, since in separating the two species of labour, there is left no true product, no consumable commodity, no real value. The value of corn unharvested, arises from the labour of the reaper who gathers it, the thrasher who separates it from the straw, the miller and the baker who convert it successively into meal and into bread, as well as it does from the labour of the farmer and his servant. Without the labour of the weaver flax would have no more claim to be ranked with riches than the nettle or any other useless vegetable. To what end, therefore, does it serve to seek which of these two species of labour contributes most to the advancement of national wealth? Is it not as if one were to dispute, whether the right foot or the left, were most serviceable in the action of walking?”—E.

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culture. *In manufactures nature does NOTHING, man does ALL ; and the reproduction must always be proportioned to the strength of the agents that occasion it. The capital employed in agriculture, therefore, not only puts into motion a greater quantity of productive labour than any equal capital employed in manufactures, but in proportion, too, to the quantity of productive labour which it employs, it adds a much greater value to the annual produce of the land and labour of the country, to the real wealth and revenue of its inhabitants. Of all the ways in which a capital can be employed, it is by far the most advantageous to the society.*"—(*Wealth of Nations*, Vol. II. p. 53.)

Error of this
Opinion.

This is perhaps the most objectionable passage in the *Wealth of Nations*; and it is really astonishing how so acute and sagacious a reasoner as Dr. Smith could have maintained a doctrine so manifestly erroneous.* It is unquestionably true, that nature powerfully assists the labour of man in agriculture. The husbandman prepares the ground for the seed, and deposits it there; but it is nature that unfolds the germ, that feeds and ripens the growing plant, and brings it to a state of maturity. But does not nature do as much for us in every other department of industry? The powers of water and of wind, which move our machinery, support our ships, and impel them over the deep,—the pressure of the atmosphere, and the elasticity of steam, which enable us to work the most stupendous engines, are they not the spontaneous gifts of nature? In fact, the single and exclusive advantage of machinery consists in its having enabled us to press the powers of nature into our service, and to make them perform the principal part of what would otherwise have been wholly the work of man. In navigation, for example, is it possible to doubt, that the powers of nature—the buoyancy of the water, the impulse of the wind, and the polarity of the magnet, contribute fully as much as the direct labour of the sailor to waft our ships from one hemisphere to another? In bleaching and in fermentation the whole process is carried on by natural agents. And it is to the effects of heat in softening and melting metals, in preparing our food, and in warming our houses, that we owe many of our most powerful and convenient instruments, and that these northern climates have been made to afford a comfortable habitation. So far, indeed, from its being true that nature does

Nature co-
operates with
Man in Man-
ufactures and
Commerce.

* One of the earliest expositions of this error, will be found in the Report on Manufactures, by General Hamilton, already quoted. The censure passed upon Adam Smith by our author is, however, somewhat harsh. With a slight modification, the language of Smith admits of full justification. Had he confined himself to the consideration of exchangeable value, it would have been true, that in agriculture alone nature is operative, and where she ceases to work with man, which is comparatively the case on inferior soils, a rise of value is the result. But not so in manufactures:—though nature works, yet working freely, equally, and universally, her services do not enter into the account: they add to wealth but not to value; they are simply a matter of capital, and add to the cost of production only the interest of the capital invested in the machine, including the costs of repair. Considering Political Economy, therefore, as the science of values, it may be correctly asserted, that in agriculture alone nature is a co-worker with man.

For a fuller defence of Smith's sentiments, see *Quarterly Rev.* No. 60. *Malthus*, Sect. 11. For opposing views, see *Say*, Book I. first 7 chapters. *Ricardo*. Chap. xxiv. xxxi.—*E.*

much for man in agriculture, and nothing in manufactures, that the fact is nearly the reverse. There are no limits to the bounty of nature in manufactures, but there are limits, and not very remote ones, to her bounty in agriculture. The greatest possible amount of capital might be expended in the construction of steam-engines, or, of any other sort of machinery, and after they had been multiplied to infinity, the last would be as powerful and as efficient in saving labour, and producing commodities as the first. Such, however, is not the case with the soil. Lands of the first quality are speedily exhausted; and it is impossible to apply capital indefinitely even to the best soils, without obtaining from it a constantly diminishing rate of profit. The rent of the landlord is not, as Dr. Smith conceived it to be, the recompense of the work of nature remaining, after all that part of the product is deducted which can be regarded as the recompense of the work of man! But it is, as we shall hereafter show, the excess of produce obtained from the best soils in cultivation, over that which is obtained from the worst—it is a consequence not of the increase, but of the diminution of the productive power of the labour employed in agriculture.

But if the giving utility to matter be, as it really is, the single and exclusive object of every species of productive industry, it is plain that the capital and labour which is employed in carrying commodities from where they are produced to where they are to be consumed, and in dividing them into minute portions, so as to fit the wants of the consumers, is really as productive as either agriculture or manufactures.* The labour of the miner gives

* As there still exists a strong prejudice in favour of judging of the profits of commerce, by the old rule of a favourable balance of trade, as derived from the custom-house books, it is worth while exhibiting its futility, by showing its inconsistency with acknowledged facts.

On an average of the years 1802, 1803, 1804, the following balances appear, as returned to the Treasury of the United States:—

	Balance Favourable.	Unfavourable.
Trade with Great Britain,		\$ 12,029,042
do. Prussia,	\$ 424,386	
do. China, and the East,		4,424,649
do. Italy,	1,344,260	
do. France,		523,887
do. Portugal,	1,268,677	
General Balance on total Commerce of U. States,		6,369,251

Thus it would appear, that of all the trade we carry on, that with Great Britain is the most injurious to our prosperity, while that of Italy is the most favourable,—that our trade to Portugal is better by near seven millions, than that to China,—and that the country is an annual loser, on the whole of its trade, to the amount of near six and a half millions.

That such a calculation is false in principle, has already been shown; this statement proves it fallacious in its conclusions. Among its specific errors may be mentioned, 1. That no allowance is made for specie exported, which ought to be entered as any other commodity; nor, 2. For the profits of freight, which are paid out of the increased value of the commodity. The former of these two items amounted in those years, to about five millions of dollars: the latter to the still greater sum of thirty millions. The ground of this latter calculation is, taking 600,000 tons as the average of the United States tonnage in those three years, employed in the foreign trade, and calculating the profits of freight at \$50 per ton, which is considered by practical men as a low estimate. Consult further, Pitkin and Seybert's Statistics, Review of Bristed's Resources in North American, Vol. VII., Review of Seybert in North American, No. 25, Balance of Trade in Quarterly Rev. Vol. V. 257, Vol. IX. 336.—F.

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utility to matter—to coal for example—by bringing it from the bowels of the earth to its surface; but the labour of the merchant, or carrier, who transports this coal from the mine where it has been dug to the city, or place where it is to be burned, gives it a further, and perhaps a more considerable value. We do not owe our fires exclusively to the miner, or exclusively to the coal merchant. They are the result of the conjoint operations of both, and also of the operations of all those who have furnished them with the tools and implements used in their respective employments.

Advantage
of Retail
Dealers.

Not only, however, is it necessary that commodities should be brought from where they are produced to where they are to be consumed, but it is also necessary that they should be divided into such small and convenient portions, that each individual may have it in his power to purchase the precise quantity of them he is desirous of obtaining. "If," says Dr. Smith, "there was no such trade as a butcher, every man would be obliged to purchase a whole ox or a whole sheep at a time: This would generally be inconvenient to the rich, and much more so to the poor. If a poor workman was obliged to purchase a month's, or six months' provisions at a time, a great part of the stock which he employs as a capital in the instruments of his trade, or in the furniture of his shop, and which yields him a revenue, he would be forced to place in that part of his stock which is reserved for immediate consumption, and which yields him no revenue. Nothing can be more convenient for such a person than to be able to purchase his subsistence from day to day, or even from hour to hour, as he wants it. He is thereby enabled to employ almost his whole stock as a capital. He is thus enabled to furnish work to a greater value, and the profit which he makes by it in this way much more than compensates the additional price which the labour of the retailer gives to the goods. The prejudices of some political writers against shopkeepers and tradesmen are altogether without foundation. So far is it from being necessary, either to tax them, or to restrict their numbers, that they can never be multiplied so as to hurt the public interests, though they may so as to hurt their own individual interests. The quantity of grocery goods, for example, which can be sold in a particular town, is limited by the demand of that town and its neighbourhood. The capital, therefore, which can be advantageously employed in the grocery trade, cannot exceed the capital required to purchase and retail these goods. If this capital is divided between two different grocers, their competition will obviously tend to make both of them still cheaper than if it were in the hands of one only; and if it were divided among twenty, their competition would be just so much the greater, and the chance of their combining together in order to raise the price just so much the less. Their competition might, perhaps, ruin some of themselves; but to take care of this is the business of the parties concerned, and it may safely be trusted to their discretion. It can never hurt either the consumer or the producer; on the contrary, it must tend to make the retailers both sell cheaper and buy dearer, than if the whole trade was monopolized by one or two persons. Some of them, perhaps, may occasionally

decoy a weak customer to buy what he has no occasion for. This evil is, however, of too little importance to deserve the public attention, nor would it necessarily be prevented by restricting their number."*—(*Wealth of Nations*, II. p. 48.)

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* These observations of Adam Smith, lead to the consideration of the policy of a measure, which was strongly urged upon Congress a few years since, by the Representatives from New-York, viz. Restriction of Auction Sales, by duties upon goods thus sold.

The arguments in favour of such restriction, were in general these, 1. The injury that accrued by reason of such mode of selling to the great body of regular merchants, on whom the prosperity of the nation so materially depended. 2. The injury done to the public by a method of selling that involved no responsibility, and thus threw into the country articles of an inferior value.

The general principles of the science, which have a bearing upon these arguments, are the following :—

1. To the first objection, the answer is,—the value of merchants to the community, is not absolute, but relative. They constitute an intermediate class, who stand between the producer and the consumer: the sole benefit they confer upon society arises, not from their numbers, but from the results obtained from their labours, and provided those be secured, the fewer the better.

The interests of the community lie, in the commodity coming to the consumer burthened with as little expense as possible; every needless charge is a tax upon society without equivalent. If then, through the medium of Auction Sales, the article reaches the hands of the consumer at a less expense than in the ordinary way, society is the gainer by that difference; and if it operate to diminish the number of regular merchants, it is because a cheaper medium of transmission has been found—a cheaper machine invented to answer the same purpose. And if it be questioned whether it be that cheaper machine or not, the answer is,—the community is the best judge,—government can only reason, but society feels,—if it be cheaper they will adopt it, if not they will abandon it. That it would throw out of employ thousands who derive their support from regular trade, is so far from being an objection, that it affords the very proof and criterion of its superiority. It proves it to be a labour-saving machine, and society is the gainer precisely to the amount of that surplus labour, which, as we have seen in the case of machines, though thrown out of employ for a time, is soon reabsorbed by the increasing prosperity of society, and by the new capital arising out of this very saving.

The general principle here laid down, and which applies to every class of the community, is that their importance to the prosperity of society is to be estimated, not by their number, but by the services they render,—the end alone is valuable; and of the means for attaining it, those are best which are cheapest, provided they are equally secure and efficacious; and of this, society, through the medium of private interest, is the best judge. This is a principle which will leave the clergy to voluntary support, curtail the law of its unnecessary intricacies, and permit consumers to determine the cheapest and best medium of purchase.

2. If Auction Sales, as it is argued, be unfavourable to the public interest, by want of surety, or inferiority of goods, the reaction arising from the consumers, will either correct the evil or abandon the method of purchase. But the real evil of Auction Sales, as existing in the State of New-York, consists in their being a monopoly,—thrown open, they will correct themselves,—there will then be a competition for character as well as present profit, and the operations of self-interest will impose a guarantee more certain and efficacious than any that the laws can devise.

To the unrestrained application of this general principle, there is, it must be acknowledged, a moral check, which calls upon government as the guardian of public morals, to interpose its power wherever private gains are at the expense of the demoralization of society. As an instance of this just control, in an analogous case, may be mentioned the restrictions imposed on the retailing of spirits. But this differs in two important respects from the restrictions under consideration :—

Different employments of Capital and Industry.

Agriculture, Manufactures, and Commerce equally advantageous.

Thus it appears, that *all* the modes in which capital can be employed in productive industry, or, in other words, that the raising of raw produce, the fashioning of this raw produce, after it is raised, into useful and agreeable articles, the carrying of the raw and manufactured products from one place to another, and the retailing of them in such portions as may suit the public demand, are *equally* advantageous: that is, the capital and labour employed in any one of these departments contributes equally with the capital and labour employed in the others, to increase the mass of necessaries, conveniencies, and luxuries. Without a previous supply of raw produce, we could have no manufactures; and without manufactures and commercial industry, the greater part of this raw produce would be entirely worthless, and could neither satisfy our wants nor contribute to our comforts. Manufacturers and merchants are to the body politic what the digestive powers are to the human body.* We could not exist without food; but the largest supplies of food cannot lengthen our days when the machinery by which nature prepares and adapts this food for our use, and incorporates it with our body, is vitiated and deranged. Nothing, therefore, can be more silly and childish than the estimates that are so frequently put forth of the comparative advantages of agricultural, manufacturing, and commercial industry. They are all intimately and indissolubly connected, and depend upon, and grow out of each other. "Land and trade," to borrow the just and forcible expressions of Sir Josiah Child, "are twins, and have always, and ever will, wax and wane together. It cannot be ill with trade but lands will fall, nor ill with lands but trade will feel it." This reasoning cannot be controverted; and on its authority, we are entitled to condemn every attempt to exalt one species of industry, by giving it factitious advantages at the expense of the rest, as being equally impolitic and pernicious. No preference has ever been given, or can be given to agriculturists over manufacturers and merchants, or to manufacturers and merchants over agriculturists, without occasioning the most extensively ruinous consequences. Men ought, in every instance, to be allowed to follow their own inclinations in the employment of their stock and industry. When industry is free, the interests of individuals can never be opposed to the interests of the public.† When we succeed best in increa-

1. First as the regulation relates to the poor, the ignorant, and the vicious; and therefore forms but a part of that just guardianship which belongs to the laws over poverty, ignorance, and vice.

2. As it relates to consumption, and not, as in the case of merchant or auction sales, to one of the charges of production: the legal check, consequently so far as it operates upon price, tends to lower it to the rightful consumer and not as in the other case to raise it.—*E.*

* This is a happy and just comparison, and exhibits in a forcible point of view, that essential concatenation of the parts of the body politic, which binds them into one common whole; a doctrine fundamental in its nature, demonstrative in its character, and harmonious in its influence: cutting off, at once, the most fertile source of intestine division, and injurious legislation. It cannot, therefore, be too frequently or strongly inculcated upon the minds either of our rising legislators, or of those who choose them.—*E.*

† That this position is not true in its present unqualified form, must be obvious to all. That there are limitations to it, both moral and political.

sing our own wealth, we must necessarily also succeed best in increasing the wealth of the state of which we are subjects.*

Different employments of Capital and Industry.

This mutual dependance of the different branches of industry on each other, and the necessity of their co-operation to enable mankind to make any considerable progress in civilization, has been ably illustrated in one of the early numbers of the *Edinburgh Review*.* "It may safely be concluded, that all those occupations which tend to supply the necessary wants, or to multiply the comforts and pleasures of human life, are equally productive, in the strict sense of the word, and tend to augment the mass of human riches, meaning by riches, all those things which are necessary, or convenient, or delightful to man. The progress of society has been productive of a complete separation of employments originally united. At first every man provided, as well as he could, for his necessities as well as his pleasures, and for *all* his wants, as well as *all* his enjoyments. By degrees a division of these cares was introduced; the subsistence of the community became the province of one class, its comforts of another, and its gratifications of a third. The different operations subservient to the attainment of each of these objects were then entrusted to different hands; and the universal establishment of barter connected the whole of these divisions and subdivisions together—enabled one man to manufacture for all, without danger of starving by not ploughing or hunting, and another to plough or hunt for all, without the risk of wanting tools or clothes by not manufacturing. It has thus become as impossible to say exactly who feeds, clothes, or entertains the community, as it would be to say which of the many workmen employed in the manufacture of pins is the actual pin-maker, or which of the farm-servants produces the crop. All the branches of useful industry work together to the common end, as all the parts of each branch co-operate to its particular object. If you say that the farmer feeds the community, and produces all the raw materials which the other classes work upon, we answer, that unless those other classes worked up the raw materials, and supplied the farmer's necessities, he would be forced to allot part of his labour to this employment, whilst he forced others to assist in raising raw produce. In such a complicated system, it is clear that all labour has the same effect, and equally increases the whole mass of wealth. Nor can any attempt be more vain than theirs who would define the particular parts of the machine that produce the motion, which is necessarily the result of the *whole powers combined*, and depends on each particular one of the mutually connected members."—(Vol. IV. p. 362.)

Much has been said respecting the extraordinary mortality of large manufacturing establishments. The ready communi-

Manufactures not productive of increased Mortality.

has already been shown. See note on page 90. But these are limitations our author would willingly admit, and the object of the Editor in stating them, is not to correct error, but to avoid misapprehension—to secure against misconstruction or verbal criticism, a principle which lies at the foundation of national prosperity.—E.

* For a particular examination of Dr. Smith's opinion with respect to the comparative advantages of different species of commerce, see Mr. Ricardo's *Principles of Political Economy and Taxation*, 1st ed. p. 497, and the *Edinburgh Review* for July 1819, p. 71.

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cation of contagion where people are crowded together—the want of sufficient ventilation—the confinement of children—and the positive unhealthiness of some particular processes, are circumstances from which most writers have been led to infer that the mortality in manufacturing cities *must* be unusually great, without giving themselves the trouble to inquire whether the fact really was so. The returns under the population acts have shown the fallacy of these opinions. No one can doubt that Great Britain was infinitely more of a manufacturing country in 1810 and 1820 than in 1780; but, notwithstanding the vast increase during the intermediate period of what we have been in the habit of considering unhealthy employments, the average mortality in England and Wales in 1810 was only one in every 53, and in 1820 only one in every 58 of the existing population, whereas in 1780 it was one in every 40. It may perhaps be said, that this increased healthiness is owing to the improvements in agriculture—to the drainage of bogs and marshes, the enclosure and cultivation of commons and wastes,—and *not* to the extension of manufactures. But suppose this were admitted, still we should have to inquire *what had occasioned these extraordinary improvements in agriculture?* And a moment's reflection would be sufficient to convince us that they have principally resulted from the improvement of manufactures—from the increased demand of the manufacturing population for the raw produce of the soil. In point of fact, however, it is certain, that much of the late diminution of mortality is a *direct*, and not an indirect consequence of the improvement and extension of manufactures. Every one knows of what vast importance it is to the health of the people that they should have the *means* of providing themselves with comfortable clothes at a cheap rate. And this is one of the many advantages which improvements in manufacturing industry always bring along with them. The reduction in the price of cotton goods only, occasioned by the greater facility with which they are now produced, has enabled the poorest classes of individuals to clothe themselves in a warm, clean, and elegant dress; and has thus been productive of an increase of comfort and enjoyment, of which it is extremely difficult for us, who have so long experienced its beneficial effects, to estimate the extent.

Division of
Labour does
not degrade
the La-
bourer.

The effect of the extreme subdivision of labour in manufacturing establishments, and the exclusive attention which it requires the workman to bestow on one single operation, has been supposed to exert a most pernicious influence on his mental faculties. The genius of the master is said to be cultivated, but that of the workman to be condemned to perpetual neglect. Most mechanical arts, we are told, succeed best under a total suppression of sentiment and reason. A habit of moving the hand or the foot is said to be independent of either; and the workshop has been compared to an engine, the parts of which are men! (Ferguson *on Civil Society*, p. 303.) Dr. Smith, who has given so admirable an exposition of the benefits which society has derived from the division of labour, has notwithstanding concurred with the popular prejudices on this subject; and has gone so far as to affirm that constant application to one particular occupation in a large manufactory, “necessarily ren-

ders the workman as *stupid and ignorant as it is possible to make a human being.*" Nothing can be more marvellously incorrect than these representations. Instead of its being true that the workmen employed in manufacturing establishments are less intelligent and acute than those employed in agriculture, the fact is distinctly and completely the reverse. The weavers, and other mechanics of Glasgow, Manchester, and Birmingham, possess infinitely more general and extended information than is possessed by the agricultural labourers of any county in the empire. And this is really what a more unprejudiced inquiry into the subject would have led us to anticipate. The variety of the occupations in which the husbandman is made successively to engage, their constant liability to be affected by so variable a power as the weather, and the perpetual change in the appearance of the objects which daily meet his eyes, and with which he is conversant, occupy his attention, and render him a stranger to that ennuj and desire for extrinsic and adventitious excitement which must ever be felt by those who are constantly engaged in burnishing the point of a pin, and in performing the same endless routine of precisely similar operations. This want of excitement cannot, however, be so cheaply or effectually gratified in any other way as it may be by cultivating—that is, by *stimulating* the mental powers. The generality of workmen have no time for dissipation; and if they had, the wages of labour in all old settled and densely peopled countries are too low, and the propensity to save and accumulate too powerful, to permit any very large proportion of them seeking to divert themselves by indulging in riot and excess. They are thus driven to seek for recreation in mental excitement; and the circumstances in which they are placed afford them every possible facility for amusing and diverting themselves in this manner. By working together, they have constant opportunities of entering into conversation; and a small individual contribution enables them to obtain a large supply of newspapers, and of the cheaper class of periodical publications. But whatever difference of opinion may exist respecting the *cause*, there can be no doubt of the fact, that the intelligence of the workmen employed in manufactures has increased according as their numbers have increased, and as their employments have been more and more subdivided. We do not believe that they ever were less intelligent than the agriculturists; but whatever may have been the case formerly, no one will now venture to affirm that they are inferior to them in intellectual acquirements, or that they are mere machines without sentiment or reason. Even Mr. Malthus, whose leanings are all on the side of agriculture, has justly and eloquently observed, that "Most of the effects of manufactures and commerce on the general state of society are in the highest degree beneficial. They infuse fresh life and activity into all classes of the state, afford opportunity for the inferior orders to rise by personal merit and exertion, and stimulate the higher orders to depend for distinction upon other grounds than mere rank and riches. They excite invention; encourage science and the useful arts; spread intelligence and spirit; inspire a taste for conveniencies and comforts among the labouring classes; and, above all, give a new and

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happier structure to society, by increasing the proportion of the *middle classes*—that body on which the liberty, public spirit, and good government of every country must mainly depend.”*—
(*Observations on the Effects of the Corn Laws*, p. 29.)

* This defence of manufactures is ingenious, and true in its leading features, and will, if it is to be hoped, serve to set aside those sweeping generalizations by which some writers have sought to oppose their introduction into our country. The evils of manufacturing establishments are not necessary but accidental, and may in a great measure be avoided by the prudent provisions of public authority or private benevolence. The very necessity of such provisions, however, may justly be considered a reason why manufacturing industry should not in an equal choice of labour, be preferred either by a nation or individuals. At the same time, to attempt its exclusion or delay when the state of the country calls for it, or what is equivalent, when the interest of individuals leads them to it, would be equally unwise and fruitless.

On this course of manufacturing industry, our country has already entered with success, and every year will doubtless witness the introduction of new varieties and higher grades. It may not, therefore, be without its use to consider the evils to which such employments are naturally exposed, and the remedies by which they are to be met.

They may be regarded as Physical and Moral.

1. The Physical evils that attend manufacturing establishments, arise from confinement—sedentary employment—the heated and impure atmosphere of manufactories—the temptation of too early labour by the occupation of the youngest children, and of over labour by the introduction of task work: hence the deformed frame, the sickly countenance, the feeble physical powers which too often mark the inhabitants of large manufactories, and painfully distinguish them from their more robust and healthy brethren of the country. That these are evils not practically small in magnitude, when private and present interest is the only governing principle of employment, will not be doubted by any one who has visited the manufactories of Europe, and by those who have not, may easily be gathered from the reports made of them, from the laws passed to regulate them, and from the exertions of benevolent individuals to remedy them. Among the latter, a gentleman now in this country, Mr. Robert Owen, of New Lanark, Scotland, has practically shown, not only that these evils are not in themselves irremediable, but that the real interests of the manufacturer are involved in that zeal and benevolence which alone can overcome them. Similar instances can doubtless be found in our own country, and as one which has fallen under the Editor's notice, may be mentioned the Cotton Mill of Mr. M. Collet, Patterson, New Jersey. For further views on this subject, the student is referred to Mr. Owen's various publications, and to a Review of them in the 64th number of the *Edinburgh Review*; to Adam Smith; to Say, book I. ch. 3; to the *Edinburgh* and *Quarterly Reviews* on these subjects especially; and to the Reports of the Select Committee of the House of Commons.

2. The second charge against manufactures, arises from their supposed demoralizing and debasing influence; and it cannot be denied that it is an evil to which large manufactories from various causes are peculiarly exposed, and one that ought to be guarded against by a vigilant internal policy, supported and enforced by the authority of law.

The root of the evil lies in that neglect of education which is the natural result of the wages of young children. Parents, pressed by necessity, make their children as early as possible a source of profit—manufacturers find their interest in employing them—and thus too frequently are they sacrificed to the cupidity of parents and employers, and allowed to grow up in that ignorance, which is not only a bar to future respectability, but the strongest temptation to idleness and vice. Against this evil, therefore, present interest affords no security; the check must be found, where a wise parental affection is not sufficient, in the power of law, or the influence of voluntary associations, regulating the age and working hours of children, and making provision for their sufficient education. Against the immoral habits naturally consequent on such crowded and mixed associations, the check must be found in the virtue, firmness, zeal, and benevolence of those who have the management of them.

Thus, then, we arrive, by a different route, at the same result we have already endeavoured to establish. The inextinguishable passion for gain—the *auri sacra fames*—will always induce capitalists to employ their stocks in those branches of industry which yield, all things considered, the highest rate of profit. And it is clear to demonstration, that those employments which yield the highest profits, are always those in which it is most for the public interest that capital should be invested. The profits of a particular branch of industry, are rarely raised except by an increased demand for its produce. Should the demand for cottons increase, there would be an increased competition for them; and as their price would, in consequence, be augmented, the manufacturers would obtain comparatively high profits. But the rate of profit in different employments has a natural tendency to equality: and it can never, when monopolies do not interpose, continue either permanently higher or lower in one than in the rest. As soon, therefore, as the rise in the price of cottons had taken place, additional capital would begin to be employed in their production. The manufacturers engaged in the cotton trade would endeavour to borrow additional capital, and the capitalists who were engaged in less lucrative employments would gradually contract their businesses, and transfer a portion of their stock to where it would yield them a larger return. The equilibrium of profit would thus be again restored. For the additional capital employed in the production of cottons, by proportioning their supply to the increased demand, would infallibly reduce their price to its proper level. Such is the mode in which the interests of individuals are, in every case rendered subservient to those of the public. High profits attract capital; but high profits in particular businesses are the effect of high prices; and these are always reduced, and the commodities brought within the command of a greater number of purchasers, as soon as additional capital has been employed in their production. It is clear, therefore, that that employment of capital is the best which yields the greatest profit; and hence, if two capitals yield equal profits, it is a plain proof that the departments of industry in which they are respectively invested, however much they may differ

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Rate of Profit true Test of the advantage of different Employments.

Against manufacturing labour carried on in families under parental guidance neither these nor the former objections are applicable. An instance of this may be found in the linen manufacture of Ireland; and it is well deserving of philanthropic consideration how far the principle is capable of application to the various branches of manufactures so rapidly introducing into our country: In cotton weaving it already exists to a very considerable extent, and in the neighbourhood of Philadelphia, as I am informed by an intelligent friend, is found attended with such advantages that it is rapidly extending.

That labours which require the operation of such securities to render them innocent in their effects, carry within themselves many arguments against themselves none will deny. The health, the freedom, the varied toil, the patriotic attachments of the husbandman cannot be thus exchanged, it would seem, without some sacrifice of personal happiness, and certainly not without some risk of virtue.

In these considerations there is at least argument sufficient to induce us not to hurry the change. With increase of population and capital, manufactures will come, and when they do come let it be our boast, that in this as in many other points of national prosperity, we have the wisdom to attain the good and avoid the evil.—E.

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in many respects, are equally beneficial to the country.* No-thing can be more nugatory than to apprehend that the utmost freedom of industry can ever be the means of attracting capital to a comparatively disadvantageous employment. If capital flows to manufactures or commerce rather than to agriculture, it can only be because it has been found to yield larger profits to the individual, and consequently to the state.

*-In applying this test to the various employments of capital, there is great danger of drawing erroneous inferences from insufficient or partial data. This subject, of varying profits, as stated by a valued correspondent thus appears :

“ Farming gives a remunerating price for labour, and from two to three per cent. on capital, including land and stock.

“ The retail merchant receives a remunerating price for his labour, and twenty-five per cent. on his capital.

“ Manufacturing gives a remunerating price for labour and from ten to thirty per cent. on capital.

“ Navigation pays insurance and repairs, and eight per cent. on capital.

“ Public funds pay four and a half per cent. on capital.

“ The mechanic receives a remunerating price for his labour, and one hundred per cent. on his capital.”

The above statement whether precisely accurate or not, exhibits some of the apparent variations to which profits are liable. To show that these variations are but apparent, and that capital under all its various forms, is productive of but one average rate of profit, it is sufficient to remember that there is no investment of it, but is open to competition, and floating capital in the country sufficient to seize upon that which is most profitable. It therefore amounts to a moral demonstration that capital considered simply as such, and free to seek its own investment, cannot yield in the same country two rates of profit. These facts, therefore, assuming their truth, must be otherwise explained; and this explanation is to be found, in averaging the returns of all capital similarly employed, in the comparative security of its different investments, in the various degrees of skill and devotion of time required for its management, in the superior independence of one occupation above another, and in those thousand nameless circumstances which, in the long run, balance a varying account, and which, to a moral and sentient being, are equivalent to a monied consideration.

Thus, of the instances enumerated, but one may be said to give the real value of money, that is an investment in the public funds; which by the attractions of perfect security of capital and perfect regularity of interest, and perfect freedom from labour, bring the returns of money down to their minimum or natural amount. This then is to be considered as in all cases the real return of capital, and the successive advances that appear in other investments as wages of labour, premiums of insurance against risk, returns for previous capital invested in acquired skill, and the varied compensation for peculiar drudgery or disagreeableness of vocation.

But of the returns from other investments as above stated, that of land falls below the minimum. This apparent inconsistency, however, is removed by considering that a portion of the real returns from land are reinvested in it, in the shape of increased value. The farmer does not take from the land all his profit, a portion remains and is worked up into his capital: a further allowance to be made on the part of farming consists in those numberless conveniences which it affords in the support of a family, which, though they form a real and important return for capital, are not easily estimated. These allowances would elevate the profits of farming capital somewhat above the returns from stock. They stand, however, the next to it—the native and indefeasible charms of a country life—the slight degree of skill that is considered requisite to success in it—and the perfect security of the principal invested in it, induce men to undervalue the circumstance of its slow and doubtful returns, and thus bring down its profits the nearest to the minimum rate.

Of the other instances, it is not necessary to enter into a detailed explanation. The principles already stated, will serve as a guide to their development. See *Edinburgh Review*, Vol. XL. pp. 1. 23.—E.

PART III.

DISTRIBUTION OF WEALTH.

Having thus endeavoured to trace the various methods by which that labour which is the only source of wealth may be rendered most productive, and to exhibit the mutual relation and dependance of the different kinds of industry, we now proceed to the *second division* of our subject, or to an investigation of the laws regulating the proportions in which the various products of art and industry are distributed among the various classes of the people:

SECT. I.—*Primary Division of the Produce of Industry—Value of Commodities measured in the Earliest Stages of Society by the Quantities of Labour expended on their Production.*

It is self-evident that only three classes—the labourers; the possessors of capital, and the proprietors of land, are ever directly concerned in the production of commodities. It is to them, therefore, that all that is derived from the surface of the earth, or from its bowels, by the united application of immediate labour and of capital, or accumulated labour, must *primarily* belong. The other classes of society have no revenue except what they derive either voluntarily, or by compulsion, from these three classes.

Primary Division of the Produce of Industry.

But although there is no state of society in which any other class besides those of labourers, landlords, and capitalists, participates directly in the produce of industry, there are states of society in which that produce belongs exclusively to *one* only of these classes; and others in which it belongs to *two* of them, to the exclusion of the third. The reason is, that, in the earliest stages of society, there is little or no capital accumulated, and the distinction between labourers and capitalists is, in consequence, unknown; and that in all newly settled and unappropriated countries, abundance of fertile land may be obtained without paying any rent.

In that remote period preceding the establishment of a right of property in land, and the accumulation of capital or stock—when men roamed, without any settled habitations, over the surface of the earth, and existed by means of that labour only that was required to appropriate the spontaneous productions of the soil, the whole produce of labour would belong to the labourer, and the *quantity of labour* that had been expended in the procuring of different articles, would plainly form the only standard by which their relative worth, or exchangeable value, could be estimated.* “If among a nation of hunters,” says Dr. Smith,

Quantity of Labour the regulating Principle of Value.

* That the quantity of labour worked up in the commodity constitutes, at this early period, the only measure of value is evident, and by all admitted. But that in a state of society so different as that which follows, where both labour and capital operate in production, labour should still continue to afford the sole measure of value, as our author and the school of Ricardo maintain, seems in no small degree inconsistent, not only with experience but with their own language and reasoning. For if this be so, there is no ground for the distinction here adopted, of different states of

Quantity of
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“it usually costs twice the labour to kill a beaver that it does to kill a deer, one beaver would naturally exchange for or be worth two deer. It is natural, that what is usually the produce of two days’ or two hours’ labour, should be worth double of what is usually the produce of one day’s or one hour’s labour.

“If the one species of labour should be more severe than the other, some allowance will naturally be made for this superior hardship; and the produce of one hour’s labour in the one way, frequently exchanges for that of two hour’s labour in the other.

“Or if the one species of labour requires an uncommon degree of dexterity and ingenuity, the esteem which men have for such talents will naturally give a value to their produce, superior to what would be due to the time employed about it. Such talents can seldom be acquired but in consequence of long application, and the superior value of their produce may frequently be no more than a reasonable compensation for the time and labour which must be spent in acquiring them. In the advanced state of society, allowances of this kind, for superior hardship and superior skill, are commonly made in the wages of labour; and something of the same kind must probably have taken place in the earliest and rudest period.

“In this state of things, the whole produce of labour belongs to the labourer; and the quantity of labour commonly employed in acquiring or producing any commodity, is the only circumstance which can regulate the quantity of labour (*of other commodities*) which it commonly ought to purchase, command, or exchange for.”—(*Wealth of Nations*, Vol. I. p. 70.)

Thus far there is no room for doubt or difference of opinion. When there is no class but labourers, *all* the produce of labour must obviously belong to them; and the *quantity of labour* required to produce commodities must form the only standard by which their exchangeable worth or value can be estimated. It is at this point, therefore, that we are to begin the investigation of the laws regulating the division of the produce of industry among the three great classes, of labourers, capitalists, and landlords; and we shall do this by endeavouring, in the first place, to acquire a knowledge of the laws which regulate the *exchangeable value* of commodities in an advanced period of society, when circulating and fixed capital are employed in their production, and when land is appropriated, and rent paid. A previous acquaintance with the circumstances which determine

society, or of the different classes to whom in those states the produce of industry respectively belongs. If all value be resolvable into labour because capital is but another name for accumulated labour, then interest is but another name for wages, and capitalists for workmen, and every state of society is resolvable into its first and only one. This confounding of terms, ordinarily and necessarily distinguished, would, it is evident, render science nugatory,—but it is the obvious result of that analysis which refuses capital into labour. If they cannot in every case be comprehended under the same term, they ought not in any,—if a capitalist differ from a workman, capital differs from labour,—and if labour be the criterion of value where labour only is employed, a new element must certainly be brought into calculation when the agency of capital is further added. The necessity of the distinction may also be shown by the different laws they obey,—the consideration of this, however, is deferred to Sect. IV. of the present part. See Malthus, Chap. II. Sect. 2, 3, 4, 6.—E.

the value of commodities, will be found to be indispensable to enable us to ascertain the principles which regulate their distribution. Equality of Wages and Profits.

SECT. II.—*Preliminary Considerations—Equality of Wages and Profits—Inquiry into the Effect of Variations of Demand and Supply on Price—Cost of Production shown to be its regulating Principle.*

If the popular opinions on this subject were well founded, the inquiry on which we are now about to enter might be disposed of in a very few words. The exchangeable value of commodities, when compared with each other, and their value or price when compared with money, is held almost universally to depend on their *relative abundance or scarcity in the market, compared with the demand*. We believe, however, that we shall be able to show, that this opinion rests on no good foundation, and that it is the *cost of production* which is the sole regulating principle of price. But, before proceeding further, it is necessary, in order to facilitate our investigations in this and the following sections, to premise, that wherever industry is free, *the rate of wages earned by the labourers engaged in any particular department of industry, and the rate of profit derived from the capital vested in it, cannot, for any considerable period, either fall below, or rise above, the rate of wages and profits accruing to the labourers and capitalists engaged in other departments.* Preliminary Considerations.

With regard to the *first* of these positions, or to the equality of the wages earned by the labourers engaged in different employments, it is not meant to infer that all labourers receive precisely the same sum of money, or the same *proportional share* of the produce of their labour. Such an opinion would be equally at variance with the fact,—and with the principle it is our object to elucidate. Wages are a compensation given to the labourer in return for the exertion of his physical powers, or of his skill, or ingenuity. They must, therefore, vary according to the greater intensity of the labour to be performed, and to the degree of skill and ingenuity required. Wages would not be equal if a jeweller or engraver, for example, received no higher rate than a common farm servant, or a scavenger. A long course of training is required to instruct a man in the business of jewellery and engraving; and if this were not compensated, by a higher rate of wages, it is evident no one would choose to learn so difficult an art; but would addict himself in preference to such employments as hardly require any training. The cost of producing artificers, or labourers, regulates the wages they obtain, precisely in the same way that the cost of producing commodities regulates their value. A man who practises a difficult or nice business, loses all the time that is spent in his apprenticeship, and generally also the clothes and provisions consumed by him during the same period. This person ought, therefore, to obtain not only the same rate of wages as husbandry labourers, and those who do not require to serve an apprenticeship, but he ought also to obtain an additional rate proportioned to the extra time and expense spent in learning his business. If he does not obtain this additional rate, it is plain Equality of the Wages earned by the Labourers engaged in different Branches of Industry.

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he would not be so well paid as the husbandry labourers; and if he obtained *more* than what was a fair and reasonable compensation for the greater expense to which he had been put, there would be an immediate influx of labourers into that particular business, and competition would not fail to reduce wages to their proper level.

Besides this prominent cause of apparent inequality, wages vary in amount proportionably to the ease and hardship, the agreeableness and disagreeableness, the constancy and inconstancy of employment.* In the greater part of manufactures, a journeyman may, except in periods of general revulsion, generally be able to obtain constant employment. But there are several businesses, such, for example, as those of masons and bricklayers, that can neither be carried on in hard frost nor foul weather. Their earnings must therefore be able not only to maintain them while they are employed, but also while they are idle, and to make them some compensation for those anxious and desponding moments which the thought of so precarious a situation must sometimes occasion. "Hence," says Dr. Smith, "where the daily earnings of the greater number of manufacturers are nearly upon a level with the daily earnings of the superior class of farm servants, the wages of masons and bricklayers are generally from fifty to one hundred *per cent.* higher. Where common labourers earn four or five shillings a week, masons and bricklayers frequently earn seven and eight; and where the former earn nine or ten, the latter commonly earn fifteen and eighteen."—(*Wealth of Nations*, I. p. 157.)

* To this may be added the comparative respect or disgrace attached to the occupation,—which, in the higher divisions of the industrious classes of society, has an important influence. It may here be necessary to premise, that the term wages in its scientific meaning is not confined to manual labourers, but applies generally to all who derive their support, not from capital or land, but from personal exertion,—including all salaried officers, men of science, professional men, and artists, and forming what Say terms the "industrious class." Thus Adam Smith remarks that the scholar, the poet, and the philosopher, are mainly paid in personal consideration, while the actor and the dancer are overpaid for their talents for the very reason that their persons are despised. This is painfully illustrated among ourselves, by the very low salaries to which the support of the country clergy is reduced, frequently not going beyond the wages of a day labourer. It is well that higher motives should tempt to the profession, but it is not well that those motives should be turned against the individual to diminish both his comforts and his influence, and his conscientiousness be made a plea for his starvation.

The case of men of science was not fully analyzed by Smith,—this was reserved for Say; who, while he elevates them into the prime movers of national wealth, explains also the reasons why they in general partake of so little of it. This arises from the productions which they furnish of scientific truth being in their nature inconsumable. They are paid for them once while those who apply them are paid upon each successive reproduction. Thus the inventor starves amid the riches which he has himself created. Could the family of Fulton, for instance, receive one-thousandth part of the wealth which his successful experiment is annually producing in this country, they would not now have to depend upon the slow returns of public gratitude. The fruits of a man's mental labour are peculiarly his own; and if society become the purchaser of them, it should be at an adequate price; rewarding ingenuity and talent with some reasonable proportion of the mines of wealth which it opens to the community. See Say, Book II. chapter vii. sect. 2. Smith, Book I. chap. x.—E.

But these variations, instead of being inconsistent with the principle we have been endeavouring to establish, plainly result from it. The wages earned by different classes of workmen are equal, not when each earns the same number of shillings or of pence, in a given space of time—but when each is paid in proportion to the severity of the labour he has to perform, to the degree of previous education and of skill that it requires, and to the other causes of variation. So long, indeed, as the principle of competition is allowed to operate without restraint, or so long as each individual is allowed to employ himself as he pleases, we may be assured that the higgling of the market will always adjust the rate of wages in different employments on the principle we have now mentioned, and that it will be very nearly equal. If the rate of wages in one department were depressed below the common level, labourers would leave it to go to others; and if it were to rise above this common level, then, it is plain, labourers would be attracted from those departments where wages were lower, until the increased supply had sunk them to their just level. A period of greater or less duration, according to the circumstances of the country at the time, is always required to bring about this equalization. But all theoretical inquiries, and such as have the establishment of principles for their object, either are, or ought to be founded on periods of average duration; and whenever such is the case, we may always, without occasioning the slightest error, assume, that the wages earned in different employments are, all things considered, *precisely equal*.

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In like manner the profit, accruing to the capitalists engaged in different businesses must always vary proportionably to the greater or less risk, and other circumstances specially affecting the capital they employ in them. It is obvious, indeed, that profits have not attained their level until they have been adjusted so as to balance these different advantages and disadvantages. None would engage in unusually hazardous undertakings, if the capital employed in them only yielded the same profit that might have been obtained by employing it in more secure businesses. No one would choose voluntarily to place his fortune in a situation of comparative danger. Wherever there is extraordinary risk, that risk must be compensated. And hence, the well known distinction between *gross* and *nett* profit.* Gross profit

Equality of
the Profits
of the Capital
employed
in different
Businesses.

* Another necessary caution, is to remember, that it is not the profits of the individual but of the business at large, as including all who are engaged in it, of which equality is asserted. While of two men equally competent and economical, one grows rich and the other poor, it would evidently be absurd to assert that the profits of each are equal. But taking into one common calculation, the gains and losses of all engaged in the same business or profession, it will be found that they nearly balance those of any other, supposing the same capital to be employed. The cause of the apparent variation is, that in different professions profits are differently divided among the individuals engaged in it. In farming, for instance, with comparative equality,—in commerce and the learned professions with great disparity. The chance of success in the various occupations of life, may be compared to lotteries of different schemes,—in some numerous small prizes and few or no blanks,—in others many blanks, but with the temptation of a few capital prizes. The latter illustrates the hazards of business and of professional life. "In a profession," says Smith, "where twenty fail for one that succeeds, that one ought to gain all that should have been

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Wages and
Profits.

always varies according to the risk, the respectability, and the agreeableness of different employments, while nett profit is the same or very nearly the same, at any particular period, in them all. A gunpowder manufacturer, for example, must obtain as much profit, over and above the profit obtained from the capital engaged in the securest businesses, as will suffice to guarantee or insure his capital, from the extraordinary risk to which it is exposed, in a business of such extreme hazard. If the gunpowder manufacturer were to obtain more than this rate, additional capital would be attracted to his business, and if he were to obtain less, he would withdraw capital from it. The great and constantly acting principle of competition, or, which is just the same thing, the *self-interest* of every individual will never permit the wages or the profits obtained by any particular set of workmen or capitalists, taking all things into account, to continue either long below or long above the *common and average* rate of wages and profits obtained by those who are employed, or who have capital invested in other businesses. It is by this common standard that the wages and profits of particular businesses are always regulated; they can never diverge considerably from it; they have a constant tendency to equalization; and may, in all theoretical inquiries, be supposed, without occasioning any error of consequence, exactly to coincide.

The principle of the equality, or rather of the constant tendency to equality, of the wages earned by the labourers, and of the profits derived from the capital employed, at the same time, in all the various branches of industry, was pointed out by Mr. Harris, and also by Mr. Cantillon, in his work entitled, *The Analysis of Trade*, &c. published in 1759; but it was first fully demonstrated in the eighth, ninth, and tenth chapters of the first book of the *Wealth of Nations*. The establishment of this principle was one of the greatest services rendered by Dr. Smith to the science of Political Economy. Nothing can be clearer, more convincing and satisfactory, than his reasoning on this subject. The equality of wages and of profits has, ever since the publication of his work, been always assumed as admitted and incontestible.

Variations
of Demand
and Supply
exert no per-
manent in-
fluence on
Price.

The principle of the equality of wages and profits once established, it is easy to show that variations in the demand and supply of commodities can exert no lasting influence on price. It is the *cost of production*—denominated by Smith and the Marquis Garnier *necessary* or *natural price*—which is the permanent and ultimate regulator of the exchangeable value or price of every commodity which is not subjected to a monopoly, and which may be indefinitely increased in quantity by the application of fresh capital and labour to its production. That the market price of such commodities and the cost of production do not al-

gained by the unsuccessful twenty." Thus it is perfectly fair that some great fortunes should grow out of commerce when so many are lost by it,—that a few lawyers and physicians should be in great receipts as a counterbalance to those who starve. These few splendid prizes give reputation at a distance to the scheme that involves them, but like other schemes of chance they are fallacious, they tempt into them more adventurers than they can maintain,—a consideration that should tend to content the farmer in the enjoyment of his more moderate, because more equal and certain, gains.—E.

ways coincide is certain ; but they cannot, for any considerable period, be far separated, and have a constant tendency to equality. It is plain that no man will continue to produce commodities if they sell for *less* than the cost of their production—that is, for less than will indemnify him for his expenses, and yield him the common and average rate of profit on his capital. This is a limit below which it is obviously impossible prices can be permanently reduced ; and it is equally obvious, that if they were, for any considerable period, to rise above it, additional capital would be attracted to the advantageous business, and the competition of the producers would lower prices.

Equality of
Wages and
Profits.

The Will
and the
Power to
Purchase
necessary to
constitute
Demand.

A demand, to be effectual, must be such as will cover the expense of production. If it is not sufficient to do this, it can never be a means of causing commodities to be produced and brought to market. A real demander must have the *power*, as well as the *will*, to purchase. A person with 20s. in his pocket may be as anxious,—nay, he may be ten times more anxious, to become the purchaser of a coach than of a hat ; why then does he not obtain the one as readily in exchange for his 20s. as the other ? The reason is obvious—20s. will pay the expense of producing the one, and it will *not* pay the expense of producing the other. But if such an improvement were to take place in the art of coachmaking, as would enable any one to produce a coach as cheaply as a hat, then 20s. would buy a coach as easily as it can now buy a hat. The demand for any particular commodity may become ten or ten thousand times more extensive, or it may decline in the same proportion ; but if the cost of its production continues the same, no permanent variation will be occasioned in its price. Suppose, for example, that the demand for hats is suddenly doubled, that circumstance would undoubtedly occasion a rise of price, and the hatters would, in consequence, make large profits ; but this rise could only be of very limited duration ; for the large profits would immediately attract additional capital to the hat manufacture ; an increased supply of hats would be brought to market, and if no variation took place in the cost of production, their price would infallibly sink to its former level. Suppose, on the other hand, that the demand for hats is increased a thousand fold, and the cost of producing them diminished in the same proportion, we should, notwithstanding the increased demand, be able, in a very short time, to buy a hat for the thousandth part of what it now costs. Again, suppose the demand for hats to decline, and the cost of producing them to increase, the price would, notwithstanding the diminished demand, gradually rise, till it had reached the point at which it would yield the hatters the common and average rate of profit on the capital employed in their business. It is admitted that variations in the demand and supply occasion temporary variations of price. But it is essential to remark, that these variations are only *temporary*. It is the *cost of production* that is the grand regulator of price—the centre of all those transitory and evanescent oscillations on the one side and the other ; and wherever industry is free, the *competition of the producers* will always elevate or sink prices to this level.*

* That the cost of production is the regulator of price, is one of the leading doctrines of the modern school of Ricardo. The doctrine of the

Cost of Pro-
duction the
regulating
Principle of
Price.

In certain branches of industry, such, for example, as agriculture, which are liable to be seriously affected by the variations of the seasons, and from which capital cannot be easily withdrawn, there is a somewhat longer interval than in others,

older school of Adam Smith, teaches that it is regulated by demand and supply, and the advocates of each—maintain their respective sentiments with more zeal and pertinacity, than should belong to opinions which may be made harmoniously to unite. For the doctrine of Adam Smith, see *Wealth of Nations*, Book I. chap. v. and vii. Malthus, Chap. ii. sect. 3. *Quarterly Review*, Vol. XXX. p. 314. For the exposition and defence of the later doctrine, see Ricardo, *Polit. Econ.* Chap. XXX. Mill, Chap. III. *Westminster Review*, No. 4, Art. 1.

For a clear understanding of this subject, the student must first make himself familiar with the distinction between the natural and market price of commodities; and in the relation they bear to each other he will see the means of uniting these apparently discordant opinions. Natural price being governed solely by the costs of production, while actual, or market price is governed by the general control of the costs of production, specifically modified by the influence of demand and supply. In this subjection of market price to the control of two regulating forces, it may be likened to the state of a satellite, which revolving around its primary planet, its actual position is the result of the laws of motion which regulate both. Thus of market price, natural price may be said to be the primary, about which the former like a satellite is continually revolving, moving as it moves, and yet governed by its own laws of motion. As natural price by a straight forward movement, rises or falls with the increase or diminution of the costs of production, market price accompanies it with its ceaseless oscillations, with a constant tendency to settle at it as its centre, but for ever thrown beyond it by the successive reaction of demand on the one hand and supply on the other.

If this illustration be correct, both opinions are true to a certain extent, and both defective if exclusively held: gradual and permanent changes of price are the result of corresponding alterations in the cost of production: sudden and temporary changes are the result of comparative demand and supply; and actual price is the result of the operations of both. As a practical principle the doctrine of Adam Smith is the most valuable, since it is, First, of universal application, being equally true of all commodities, whether in state of monopoly or of free competition; and Secondly, of practical application, as it relates to that actual market price upon which the profits of individuals depend.

The doctrine of Ricardo, though essentially true, is yet modified by so many and such powerful causes, as to render it inapplicable in many very important cases. That the costs of production form the central point, about which market price oscillates, is admitted. These oscillations, however, are slow or rapid in proportion to the rapidity of production and consumption,—the more rapid these are, the more does the market price coincide with the natural,—the slower they are, the greater may be their deviation, and the longer the period which must elapse before the costs of production can regulate the price. This may be instanced in the case of shipping and buildings, which are slowly consumed,—of skill and learning, which are slowly acquired,—the effect of which often is, in the case of the former, to retain market price below natural price; and of the latter, above it for years together.

Another case may be stated, in which centuries may elapse before such regulation takes place: of this our own country furnishes an example.

The natural price of labour is, the lowest rate of wages by which the labourer and his children can be supported. The market price of it, in new and fertile countries, is always far beyond it, and will so continue under a liberal policy, until a crowded population produces a competition for employment and brings it down to its minimum, or natural price. How far we are removed from that point, will be best seen by comparing the situation of our labourers with those abroad. See *Quarterly Review*, No. 56, Art. 4. *Edinburgh Rev.* No. 71, Art. 6. *Quarterly Rev.* Colquhoun on Condition of the Poor, Vol. VIII. p. 319. XII. p. 146. Report of Select Committee. Vol. XIX. p. 492.—*F.*

before the market price of produce and the cost of producing it can be equalized. But that such an equalization will be brought about in the end is absolutely certain. No farmer, and no producer whatever, will continue to bring corn or other products to market, if they do not sell for such a price as will pay the expense of their production, including therein the common and average rate of profit on the capital employed by them.* An excess of supply has now (January 1823) depressed the prices of corn and other farm produce below this level; and the occupiers of poor land are, in consequence, involved in the greatest difficulties; but most assuredly this glut will not continue. A part of the cultivators of poor soils will be driven from their employment. A smaller supply will be brought to market; and prices will be adjusted so as to yield the customary rate of profit, and no more, to the agriculturists who continue the cultivation of the poorest soils.—The self-interest of the cultivators will not permit prices to be permanently depressed below this level; and the self-interest of the public will not permit them to be permanently raised above it; for, if they were raised above it, then the cultivators would gain more than the common and average rate of profit, and capital would, of course, be immediately attracted to agriculture, and would continue flowing in that direction, until the natural and indestructible equilibrium of profit had been restored—that is, as we shall afterward show, until the price of agricultural produce had fallen to such a sum as would just yield the average rate of profit to the cultivators of the worst soils, or the improvers of the best. This is the point at which *average* prices must continue stationary, or about which market prices must oscillate, until the cost of production be increased or diminished. If any great discovery were made in agriculture—such a discovery, for instance, as would reduce the cost of cultivation a half, the price of agricultural produce would fall in the same proportion, and would continue to sell at that reduced rate until the increase of population forced recourse to soils of a *decreasing degree of fertility*. Whenever this took place, prices would again rise. Why is the price of corn almost invariably higher in this country than in France? Is it because we have a greater demand for it, or because of the greater cost of production in this country?

Cost of Production the regulating Principle of Price.

A pound weight of gold is at present worth about *fifteen* pounds of silver. It cannot, however, be said that this is a consequence of the demand for gold being greater than the demand for silver, for the reverse is the fact. Neither can it be said to be a consequence of an absolute scarcity of gold; for, those who choose to pay a sufficient price for it may obtain it in any quantity they please. The cause of this difference in the price of the two metals consists entirely in the circumstance of its costing about *fifteen* times as much to produce a pound of

Reason why Gold is more valuable than Silver.

* Some of the advocates of the agricultural interest have represented this as one of the "dangerous dogmas" of the Scotch Economists! But it can boast of a much more remote origin:—"Nemo enim sanus," says Varro, "*debet velle impensam ac sumptum facere in culturam, si videt non posse re-fici.*"—(*De Re Rustica*, Lib. I. § 2.)

"No man in his senses will lay out labour and expense in cultivation, if he foresees that he cannot be repaid."—(Varro on Agriculture.)—E.

Cost of Pro-
duction the
regulating
Principle of
Price.

gold as to produce a pound of silver. That this is really the case, is plain from the admitted fact that the producers of gold do not gain any greater profit than the producers of silver, iron, lead, or any other metal. They have no monopoly of the business. Every individual who pleases may send capital to Brazil, and become a producer of gold; and wherever this is the case, the principle of competition will always force the product to be sold at such a price as will just pay the expenses of its production and no more. Were a gold mine discovered of equal productiveness with the silver mines, the production of gold would immediately become the most advantageous of all businesses; an immense supply of that metal would, in consequence, be thrown on the market, and its price would, in a very short period, be reduced to the same level as silver.

Reasons why
Cottons have
declined in
price.

As a further illustration of this principle take the case of cottons. No one can deny that the demand for them has been prodigiously augmented within the last fifty or sixty years; and yet their price, instead of increasing, as it ought to have done, had the popular theory of demand and supply been well founded, has been constantly and rapidly diminishing.* If it is said that this is a consequence of the supply of cottons having augmented in a still greater ratio than the demand, we answer that this is not enough to explain the fall of price. The supply would not and could not possibly have been brought to market, had not the constant diminution of prices, which has been going on since the invention of spinning-jennies in 1767, been balanced by an equal diminution of the cost of production. It is to this principle—to the vastly increased facility of production, occasioned by the stupendous inventions and discoveries of Hargreaves, Watt, Arkwright, Crompton, and others, that the lower price and increased demand for cottons is exclusively owing. The increased facility of production has brought them within the reach of all classes of the people; and enabled the poorest individuals in the kingdom to clothe themselves in a dress which, at the accession of George III. was fully as expensive as silk.

Competition
of the Pro-
ducers in a
Civilized So-
ciety will al-
ways sink
Prices to the
Cost of Pro-
duction.

If you bring a set of men together from various countries who are ignorant of each others wants, and of the labour and expense necessary to produce the commodities which each possesses, the commodities will be bought and sold according to the relative wants and fancies of the parties. In such circumstances, a pound of gold might be given for a pound of iron, and a gallon of wine for a gallon of small beer. As soon, however, as a commercial intercourse has been established, and as the wants of society and the powers of production come to be well and generally known, an end is put to this method of bartering. Thousands of sellers, then enter the market. But when such is the case, it is no longer possible to sell a pound of gold for a pound of iron; and why? because the producers of iron will undersell each other until they have, by their competition, reduced its price to such a sum as will just suffice to pay the

* This is not candidly stated. No theory teaches that price rises with demand, absolutely; it is relative demand as compared with supply. Through the greater powers of machinery an increased supply was first thrown into the market, and each succeeding decrease of price has been accompanied by increase of quantity.—E.

expense of its production. This is in every civilized society the pivot on which exchangeable value always turns. A civilized man might be able to obtain commodities from a savage, in exchange for toys or trinkets, which it cost infinitely less to produce; but if he tries to obtain the same advantage over his own countrymen, a very short experience will be enough to satisfy him that they are quite as clear-sighted and attentive to their own interests as he is.

Cost of Production the regulating principle of Price.

Thus, then, it appears, that *no variation of demand, if it be unaccompanied by a variation in the cost of production, can have any lasting influence on price.** If the cost of production be diminished, price will be equally diminished, though the demand should be increased to any conceivable extent. If the cost of production be increased, price will be equally increased, though the demand should sink to the lowest possible limit.

It must always be remembered, that this reasoning only applies to the case of those commodities on which competition is allowed to operate without restraint, and whose quantity can be indefinitely increased by the application of fresh capital and industry to their production. When a particular individual, or class of individuals, obtain the exclusive privilege of manufacturing certain species of goods, the operation of the principle of competition is suspended with respect to them, and their price must, therefore, entirely depend on the proportion in which they are brought to market compared with the demand. If monopolists supplied the market liberally, or kept it always as fully stocked with commodities as it would have been had there been no monopoly, the commodities produced by them would sell at their natural price, and the monopoly would have no further disadvantage than the exclusion of the public from an employment which every one ought to have the right of carrying on. In point of fact, however, the market is never fully supplied with commodities produced under a monopoly. Every class of producers naturally endeavour to obtain the highest possible price for their commodities; and if they are protected by means of a monopoly, against the risk of being undersold by others, they will either keep the market understocked, or supply it

Influence of Monopolies.

* The truth of this assertion depends on the extent given to the term *lasting*, and at any rate must, as we have seen, be limited by many considerations. It is altogether inapplicable in all cases of monopoly, or in those more numerous ones which approach to it, even in a state of freedom, such as peculiar talent or skill, which constitute as it were, a personal monopoly of the products which result from them, or of those numberless natural monopolies in which the bounty of nature is limited and cannot by the art of man be increased. The rule of our author is strikingly inaccurate in its application to the price of all raw produce, in which the market price seems to lose all reference to costs of production, and to be governed simply by the comparative demand and supply. Those who reject the costs of production as the regulating principle of exchangeable value, argue that they operate only in subordination to the dominant principle of demand and supply; they are the necessary condition of the article or commodity being brought into market, but when once there, it is effective demand as compared with supply which determines its price. For these views, see Malthus, ch. 2, sect. 3. Where such men, however, as Ricardo and Malthus differ, truth will generally be found in a middle opinion, and the dispute to be less about the nature of things than the meaning of words, or the light in which things are to be regarded. See Ricardo, ch. 1, and 30. Say, Book II. ch. 1, and 4.—E.

Cost of Production the regulating principle of Price.

with inferior articles, or both. In such circumstances, the price of the commodity, if it cannot be easily smuggled from abroad, or clandestinely produced at home, will be elevated to the highest point to which the competition of the *buyers* can raise it, and may, in consequence, be sold for five, ten, or twenty times the sum for which it would be offered were competition permitted to operate in its production. The *will* and *power* of the purchasers to offer a high price forms the only limit to the rapacity of monopolists.

Besides the commodities produced under an artificial monopoly, there is another class whose quantity cannot be increased by the operation of human industry, and whose price is not, therefore, dependant on the cost of their production. Ancient statues, vases, and gems, the pictures of the great masters, some species of wines which can be produced in limited quantities only from soils of a particular quality and exposure, and a few other commodities, come under this description. As their supply cannot be increased, their price must vary inversely as the demand, and is totally unaffected by any other circumstance.

Average Price always coincident with Cost of Production.

But with these exceptions, which, when compared to the great mass of commodities, are extremely few and unimportant, wherever industry is unrestricted and competition allowed to operate, the *average* price of the various products of art and industry, always coincides with the cost of their production. When a fall takes place in the market price of any commodity, we cannot say whether that fall is really advantageous, or whether a part of the wealth of the producers be not gratuitously transferred to the consumers, until we learn whether the cost of production has been equally diminished. If this is the case, the fall of price will not have been disadvantageous to the producers, and will be permanent; but if this has not been the case—if the cost of production continues the same, the fall must have been injurious to the producers, and prices will, in consequence, speedily attain their former level. It is the same with a rise of prices. No rise can be permanent except where the cost of production has been proportionably increased. If that cost has remained stationary, or has not increased in a corresponding ratio, prices will decline as soon as the ephemeral causes of enhancement have disappeared.

The extreme importance of having correct opinions respecting the regulating principle of price, and the discordant and erroneous opinions that are still so exceedingly prevalent with regard to it, will, we hope, be deemed a sufficient apology for the length of the previous remarks, and for the insertion of the following paragraph from the *Histoire de la Monnaie* of the Marquis Garnier, in which the doctrine we have been endeavouring to establish is enforced with equal ability and eloquence:

Opinion of the Marquis Garnier.

“Mais les producteurs tendent continuellement à régler la quantité des productions sur la somme des demandes; ils ne resteront pas au-dessous de ce point, sans être tentés, d’accroître la masse de leurs produits; et ils ne peuvent le dépasser sans s’exposer à perdre. Ces deux quantités, celle des produits et celle des demandes, s’efforcent donc à se mettre en équilibre l’une avec l’autre. Il existe donc un point de repos vers lequel elles

gravitent chacune de son côté ; un point qui est leur niveau, et c'est ce point qui constitue le *prix naturel* de la chose vénale. Quelle est la limite au-delà de laquelle le producteur ne peut porter la quantité de ses produits ? C'est le prix naturel ; car, s'il ne peut obtenir ce prix pour tout son produit, il sera en perte. Quelle est la borne des demandes du consommateur ? C'est le prix naturel ; car il ne veut pas donner plus que l'équivalent de ce qu'il reçoit. Si, par une découverte, ou par un perfectionnement de l'industrie, le producteur est mis à même d'établir l'article sur lequel il s'exerce à moins de temps et de dépense, alors le prix naturel baissera, mais aussi la somme des demandes accroîtra dans une proportion pareille, parce que plus de consommateurs seront en état de payer ce prix naturel, moins élevé que l'ancien. *Le prix naturel sera toujours, pour chaque chose vénale, la limite commune au-delà de laquelle la somme des demandes de cette chose et la quantité de sa production ne devront plus faire de progrès.* Quand le prix courant est le prix naturel, le producteur et le consommateur se donnent réciproquement l'équivalent de ce qu'ils reçoivent. Quand le prix courant s'écarte du prix naturel, ou c'est la consommation qui souffre au profit de la production, ou c'est la production qui souffre au profit de la consommation. Cet état de souffrance ne peut durer, et de là procèdent les variations du prix courant. Ces variations, que Smith a expliquées et analysées avec une si parfaite lucidité, ne sont autre chose que les efforts pour revenir au prix naturel. Tenter d'expliquer ces variations, sans reconnaître l'existence d'un prix naturel, ce serait vouloir expliquer les oscillations du pendule sans convenir de sa tendance vers un centre de gravitation ; ce serait supposer un effort sans but et sans mobile ; ce serait admettre le mouvement et nier le repos ; enfin, en voyant les phénomènes du cours des fluides et de l'équilibre des solides, ce serait contester les lois du niveau et de la pesanteur. Si les choses vénales n'ont point de prix naturel, alors les mouvemens de la circulation seront dirigés par une force aveugle et inconnue ; les prix moyens ne seront plus que le résultat de chances purement fortuites ; il n'y aura plus d'équivalent réel ; les valeurs n'auront plus de mesure naturelle ; l'économie politique ne pourra plus aspirer à être au rang des sciences, puisqu'elle manquera du caractère essentiel qui les constitue telles, et que les faits dont elle traite ne seront plus fondés sur les lois immuables de la nature."*—(Tome I. *Introduction*, p. 62.)

Cost of Production regulating principle of Price.

*. "Producers constantly seek to regulate the quantity of their products by the extent of the demand. They cannot remain below this point without being tempted to increase the amount of their products, nor can they pass it without being exposed to loss. These two quantities, therefore, of demand and supply are necessarily always tending to an equilibrium. There is a certain period of rest towards which each on its own side gravitates—a point which brings them to a level, and which constitutes the *natural price* of the thing sold. For what is the limit beyond which the producer cannot pass in the quantity of his products? It is their natural price—for he is a loser if he cannot obtain this price for all. What too is the limit of the demand of the consumer? It is the natural price, for he will not give more than an equivalent for that which he receives. If by a new discovery or improvement, the producer is enabled to furnish the article on which he labours in less time and at less expense, the natural price will then sink; but at the same time the demand will increase in a

Nature and
Causes of
Rent.

Having thus shown that it is the *cost of production* which is the sole regulating principle of price, we shall now proceed to investigate the elements which enter into and constitute the cost of producing commodities in an advanced state of society, when a rent is paid for land, and circulating and fixed capital employed to facilitate the labour of the workman. This is, of all others, the most important, as it is the most radical inquiry in the science of the distribution of wealth; and it is indeed impossible, without possessing accurate notions on this subject, to advance a single step without falling into errors. We shall begin by endeavouring to ascertain whether rent enters into the cost of production, or not.

SECT. III.—*Nature, Origin, and Progress of Rent—Not a Cause but a Consequence of the High Value of Raw Produce—Does not enter into Price—Distinction between Agriculture and Manufactures.*

Dr. Smith was of opinion, that, after land had become property, and rent began to be paid, such rent made an equivalent addition to the exchangeable value of the produce of the soil. (*Wealth of Nations*, I. p. 75.) This opinion was first called in question in two pamphlets of extraordinary merit, published nearly at the same time, by Mr. Malthus,* and a Fellow of University College, Oxford.† These writers endeavoured to show that rent was not, as had been generally supposed, a consequence of land being appropriated and of limited extent, but of the superior productiveness of one species of land over another;

like proportion, because more consumers will be able to purchase at this reduced cost. *Natural price, therefore, in every case, constitutes the limit beyond which, in all vendible commodities, demand and supply cannot advance.* When the market price concurs with the natural, the producer and consumer give in turn an equivalent for that which they receive. Whenever the market price deviates from the natural, either the consumer suffers for the profit of the producer, or the producer suffers for that of the consumer. This state of loss cannot be permanent; and hence proceed the variations of market price. These variations which Smith has explained and analyzed with such perfect clearness, are nothing else than efforts to return to the natural price. To attempt the explanation of these variations without referring to a natural price, would be to explain the oscillations of a pendulum without acknowledging its tendency to the centre of gravity; it would be to suppose an effort without aim, to admit motion and deny rest; it would be equivalent in fine, after witnessing the phenomena of the course of fluids and the weight of solids, to a denial of the laws which bring the one to a level and the other to an equilibrium. If vendible commodities have no natural price, then the movements of its circulation will be directed by a blind and unknown force, and average prices will be the result of causes altogether fortuitous; there will be no such thing as a real equivalent; value will have no natural measure; Political Economy can no longer aspire to the rank of science, since it will want that which constitutes it such, viz.—that the facts of which it treats are founded upon the immutable laws of nature.”—E.

* *An Inquiry into the Nature and Progress of Rent*, by the Rev. T. R. Malthus, 1815.

† *An Essay on the Application of Capital to Land*, by a Fellow of University College, Oxford, 1815.

See note p. 43, where mention is made of this essay; though its priority to the Inquiry of Malthus is incorrectly stated. Malthus' Inquiry into the nature of Rent having been published in 1815, his Principles of Political Economy not until 1819.—E.

and that the annihilation of rents would not, provided the same extent of land was cultivated, enable its produce to be sold at a lower price. Mr. Ricardo has illustrated and enforced this doctrine with his usual ability—has stripped it of the errors by which it had been encumbered, and has shown its vast importance to a right understanding of the laws which regulate the rise and fall of profits. But the subject is still far from being exhausted; and we hope to be able to treat it in a somewhat different manner from what it has been treated by either of these gentlemen, and to obviate some rather specious objections which have not come under their notice.*

Nature and Causes of Rent.

Rent is properly "that portion of the produce of the earth which is paid by the farmer to the landlord for the use of the *natural and inherent* powers of the soil." If buildings have been erected on a farm, or if it has been inclosed, drained, or in any way improved, by an expenditure of capital and labour, the sum which a farmer will pay to the landlord for its use will be composed, not only of what is properly rent, but also of a remuneration for the use of the capital which has been laid out in its improvement. In common language, these two sums are always confounded together, under the name of rent; but in an inquiry of this nature, it is necessary to consider them as perfectly distinct. The laws by which rent and profits are regulated being totally different, those which govern the one cannot be ascertained if it be not considered separately from the other.

Definition of Rent:

On the first settling of any country, abounding in large tracts of unappropriated land, no rent is ever paid; and for this plain and obvious reason, that no person will pay a rent for what may be procured in unlimited quantities for nothing.† Thus in New Holland, where there is an ample supply of fertile and *unappropriated* land, it is certain that until the best lands are all cultivated no such thing as rent will ever be heard of. Suppose,

No Rent paid on the first settling of any Country.

* Regarding as the Editor does this new analysis of Rent as one of the peculiar merits of the modern school, and the present as one of the ablest exhibitions of it, he is not inclined to trouble the reader with the arguments of its opponents; they may be found in their original form in the *Wealth of Nations*, Book I. ch. 11. Part 1, 2, and 3. In Say, Book II. ch. 9; and in a note of the translation of Say, Vol. II. p. 118, Boston, 1821; and in the *Quarterly Review*, No. 60. The arguments of its maintainers may be seen in the essays above referred to, in Malthus' *Political Economy*, ch. 3, and Ricardo, ch. 2, or Mills' *Elements*, ch. 2, sect. 1; *Edinburgh Review of Ricardo*.—E.

† Of the truth of this position the interior of our country affords abundant illustration. Distance from a market, and the previous labour of clearing render a land-owner poor in the midst of the materials of wealth, and cause the full returns of land to be no more than a fair equivalent for the labour necessary to its cultivation. It is indeed true that the appreciation of the land arising from this labour is to the owner an equivalent for rent, but it is equally true that this being an incidental result and not paid for by the tenant, does not enter into the price of the grain so raised, since it will continue to be raised at a price which repays simply the labour employed in its production. Hence in our country the anomalous class of indigent rich men—capitalists who with funds locked up in land, which the needs of society have not yet brought into cultivation, starve in the midst of the bounties of nature. By such at least the discriminating judgment of Madam de Sevigné will not be questioned when she writes from the country—"I wish my son could come here and convince himself of the fallacy of fancying ourselves possessed of wealth when one is only possessed of lands." De Sevigné, let. 224. Say, Book I. ch. 9.

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however, that tillage has been carried to this point, and that the increasing demand can, in the actual state of the science of agriculture, be no longer supplied by the best lands, it is plain that either the increase of population must cease, or the inhabitants must consent to pay such an additional price for raw produce as will enable the *second* quality of land to be cultivated. No advance *short of this* will procure them another bushel of corn; and competition will not, as we shall immediately show, allow them to pay more for it. They have, therefore, but one alternative. If they choose to pay a price sufficient to cover the expense of cultivating land of the *second* quality, they will obtain additional supplies; if they do not, they must want them. Suppose, now, that the consumers offer such a price as will pay the expense of producing corn on soils which, in return for the same expenditure as would have produced 100 quarters on lands of the *first quality*, will only yield 90 quarters; it is plain it will then be just the same thing to a farmer whether he pays a rent of ten quarters for the first quality of land, or farms the second quality, which is unappropriated and open to him, without paying any rent. If the population went on increasing, lands which would yield only 80, 70, 60, 50, &c. quarters in return for the *same expenditure that had obtained 100 quarters from the best lands*, might be successively brought under cultivation. And when recourse had been had to these inferior lands, the rent of the land of the higher qualities would plainly be *equal to the difference, or the value of the difference, between their produce and the produce of the worst quality under cultivation*. Suppose, for example, that the worst quality under cultivation yields 60 quarters, then the rent of the *first* quality will be 40 quarters, or 100—60; the rent of the *second* quality would, in like manner, be equal to the difference between 90 and 60, or 30 quarters; the rent of the third quality would be equal to 80—60, or 20 quarters, and so on. The produce raised on the land last cultivated, or with the capital last applied to the soil, would always be sold at its *necessary price*, or at that price which is just sufficient to yield the cultivators the common and average rate of profit, or, which is the same thing, to cover the cost of its production. If the price were above this level, then agriculture would be the best of all businesses, and tillage would be immediately extended; if, on the other hand, the price fell below this level, capital would be withdrawn from the soil, and the poorer lands thrown out of cultivation. In such circumstances, it is undeniably certain that no rent could enter into the price of that portion of produce raised with the capital last applied to the soil. Its price is exclusively made up of wages and profits. The proprietors of the superior lands obtain rent; but this is the necessary result of their *greater fertility*. The demand cannot be supplied without cultivating inferior soils; and to enable them to be cultivated, their produce must sell for such a price as will afford the ordinary rate of profit to *their* cultivators. This price will, however, yield a surplus over and above the ordinary rate of profit to the cultivators of the more fertile lands, and *this surplus is rent*.

An increase of rent is not, therefore, as is very generally supposed, occasioned by improvements in agriculture, or by an

increase in the fertility of the soil. It results entirely from the necessity of resorting, as population increases, to soils of a *decreasing* degree of fertility. Rent varies in an inverse proportion to the amount of produce obtained by means of the capital and labour employed in cultivation;—that is, *it increases when the profits of agricultural labour diminish, and diminishes when they increase.* Profits are at their maximum in countries like New Holland, Indiana, and Illinois,* and generally in all situations in which no rent is paid, and the best lands only cultivated; but it cannot be said that rents have attained their maximum so long as capital yields any surplus in the shape of profit.

A quarter of wheat may be raised in the Vale of Gloucester, or in the Carse of Gowrie, at perhaps a *fourth* or a *fifth* part of the expense necessary to raise it on the worst soils in cultivation. There cannot, however, be at the same time *two or more* prices for the same article in the same market. And it is plain, that if the average market price of wheat be not such as will indemnify the producers of that which is raised on the *worst soils*, they will cease bringing it to market, and the required supplies will no longer be obtained; and it is equally plain, that if the market price of wheat exceeds this sum, fresh capital will be applied to its production, and competition will soon sink prices to their natural level—that is, to such a sum as will just afford the *common and ordinary rate of profit to the raisers of that portion of the required supply of corn which is produced in the most unfavourable circumstances, and with the greatest expense.* It is by the cost of producing this portion that the average price of all the rest must always be regulated. And, therefore, it is plainly all one to the consumers whether, in an advanced stage of society, the excess of return over the cost of production on lands of the first quality belongs to a non-resident landlord, or an occupier. It *must* belong to the one or the other. Corn is not high because a rent is paid, but a rent is paid because corn is high—*because the demand is such that it cannot be supplied without cultivating soils of a diminished degree of fertility, as*

* Our nearer acquaintance with the sections of country here specified, enables us to perceive that some error must lurk in the reasoning which selects them as instances of peculiarly high profits. The simple fact of no rents being paid, or what is equivalent, only the first quality of land cultivated is not a sufficient criterion; that may arise from two causes, from either the want of a market for produce, or a present surplus of fertile land. It is from the latter alone that high profits and great prosperity flow. If the non-existence of rent arising from the former cause were sufficient, then the closing of our roads and great canal would bring our western country to a more flourishing state than it is at present, for it would infallibly greatly reduce, if not altogether abolish rents, and confine its inhabitants to the cultivation of the first quality of soil.

It would also have been more correct in our author to have made the reference general to the United States, the sea ports of which participate equally with the new country in profits arising from an abundance of fertile soil. It is besides contrary to the fundamental proposition of the average profits of capital in a country, to institute a distinction between its rate in different parts of it. The truth is, the rate of profit is no higher in Indiana than in New-York, except in so far as a premium is paid for the risk of the employment of capital, or as it is united with those higher wages for personal services which must bribe a man to that sacrifice of comfort and enjoyment necessarily involved in a removal to a new country.—E.

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compared with the best.* Suppose there is an effectual demand for 10 millions of quarters, and that it is necessary to raise one million of these quarters on lands which yield nothing but the common and average rate of profit to their cultivators; it is clear that the relinquishing of the rents payable on the superior lands would be no boon whatever to the cultivators of the inferior lands. It would not lessen their expenses; that is, it would not lessen the quantum of capital and labour necessary to produce that portion of the *required supply* which is raised in the most unfavourable circumstances; and, if it did not reduce this expense, it is utterly impossible, supposing the demand not to decline, that it could lower prices. Mr. Malthus is, therefore, right in saying, that although landlords were to give up the whole of their rents, their doing so would have no influence on the price of corn. Such an act would only turn farmers into gentlemen, and gentlemen into beggars. The case is, however, distinctly and completely different when the cost of production varies. If it is diminished, the competition of the producers will infallibly sink prices in an equal proportion: If it is increased, no supplies will be brought to market, unless the price be raised to a corresponding level. In no case, therefore, whether the demand be great or small—whether for one or one million of quarters, can the price of raw produce ever permanently exceed or fall below the sum necessary to pay the cost of producing that portion of the supply that is raised on the worst land, or with the last capital laid out on the soil.

Objections to
this theory.

Two objections have been made to this theory. In the *first* place, it has been said that, though it might hold good in a country like New Holland, where land is not appropriated, still it is true that all the lands in every civilized and appropriated country like England, always yield some small rent to the proprietor; and that, therefore, it cannot be said that the price of produce is, in such countries, determined by the cost of raising it on that quality of land which pays no rent.

Mr. Mill has justly observed of this objection, that even if it were well founded, it could not practically affect any of the conclusions we have endeavoured to establish. There are in England and Scotland thousands of acres of land which do not let for L. 20; but to cultivate them would require an outlay of many thousands; and the rent would consequently bear so small a proportion to the expenses of production, as to become altogether evanescent and inappreciable. (*Elements of Political Economy*, p. 19, 1st edit.)

Land in every
extensive
Country
which yields
no Rent.

There can be no doubt, however, that there is in this, and most other extensive countries, a great deal of land which yields no rent whatever. In the United States and Russia such is unquestionably the case; and yet no one presumes to say that the laws which regulate rent in the United States and Russia are different from those which regulate it in England and France. The poorest lands are always let in immense tracts. If it were at-

* That this explanation of the origin of rent is satisfactory and conclusive, may be drawn from the silence of those writers who maintain the sentiments of Adam Smith in opposition to what they term the novelties of the school of Ricardo. See *Quarterly Review*, Vol. XXX. p. 307.—E.

tempted to let particular portions of these tracts separately, they would bring no rent whatever; but they appear to yield rent, because rent is paid not for them, but for the more fertile spots intermixed with them. But although it were really true that every rood of land in Britain paid a high rent, it would still be true that such rent did not, and could not, enter into the price of raw produce. The rent of a country consists of the difference, or the value of the difference, between the produce obtained from the capital first applied to the land, and that which is last applied to it. It would, as we have already shown, be exactly the same thing to the cultivator, whether he paid a rent of ten quarters to a landlord for land yielding, with a certain outlay, 100 quarters of corn, or employed the same capital in cultivating inferior land yielding only 90 quarters, for which he paid no rent. If it were possible always to obtain 100 quarters for every equal additional capital applied to the superior soils, no person, it is obvious, would ever resort to those of inferior fertility. But the fact, that, in the progress of society, new and less fertile land is always brought into cultivation, demonstrates that additional capital and labour cannot be indefinitely applied with the same advantage to the old land. The state of society in any particular country may be such—the demand for agricultural produce may be so great, that every quality of land actually yields rent; but it is the same thing if there be any capital employed on land which yields only the return of stock with its ordinary profits, whether that capital be employed on old or new land. That there is a very large amount of capital employed in such a manner in this and every other country, is abundantly certain. A farmer who rents a farm, besides employing on it such a capital as will, at the existing prices of raw produce, enable him to pay his rent, to obtain the average rate of profit,* and to replace his stock previously to the expiration

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—
Payment of Rent on all Soils not inconsistent with the principle that Rent does not enter into Price.

* This novel but sound analysis furnishes us with the solution of a phenomenon often noticed but not always understood, viz., the want in our country of that neat and cleanly husbandry which adds such beauty to the farms of England or of Flanders. Few of our country gentlemen visit Europe without returning with the resolution of rivalling its farmers in that particular, and perhaps with the instruments and machines by which it is to be obtained. A few years' experience, however, throws them back by a kind of necessity into their former habits; a falling off which they attribute either to their own indolence or to the incapacity of those whom they employ. This analysis of our author's shows it to be the result of a more powerful agent, viz., self interest, which keeps them down to that amount of capital expended upon land which is attended with the greatest returns. The expenditure from which this perfect neatness of cultivation results, is the last capital laid out on superior lands, and therefore only equivalent in its returns to that which is derived from the poorest soils in cultivation; hence the profit of our farmers would be prematurely diminished by attempting its attainment. It is a thing which grows with the price of land, and is always most evident when rent is highest, it arises not so much from taste or skill as from the necessities of a country, and shows that it has fallen from that high rate of profits which is the mark and the blessing of a new people.

But lest these remarks be misunderstood, it is proper to observe that the perfection of English farming arises from moral as well as physical causes. Though the drill, the scarifier, and threshing machine of England are unsuited to our western wilderness, and will disappoint those who attempt their introduction, yet the order and regularity, and economy of time and materials which are equally operating causes of superiority upon an English farm,

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of his lease, will also employ an additional capital, if it will only replace itself, and afford the ordinary rate of profit. Whether he shall employ this additional capital or not, depends entirely on the circumstance of the price of raw produce being such as will repay his expenses and profits; for he knows he will have no additional rent to pay. Even at the expiration of his lease, his rent will not be raised; for, if his landlord should require rent, because an additional capital had been employed, he would withdraw it; since, by employing it in agriculture, he got only the same profits he might have got by employing it in any other department of industry. If the capital last applied to the soil yields *more* than the common and average rate of profit, fresh capital will be invested in agriculture, and competition will sink prices to such a level as will just enable them to yield this rate, and no more; if the capital last applied to the soil yields *less* than this common and average rate of profit, it will be withdrawn, until, by the rise of price, the last remaining capital yields this common rate. In every case, therefore, whether the last quality of land taken into cultivation yields rent or not, *the last capital applied to the soil yields only the common and average rate of profit*; and, consequently, the price of the produce which it yields, and which regulates the price of all the rest, is totally unaffected by rent.

Does not
suppose that
Landlords
will allow
Farmers to
occupy their
lands with-
out paying
Rent.

It has, in the *second* place, been objected to this account of the nature and causes of rent, that it takes for granted, that, in all extensive countries, landlords permit the farmers of the worst lands to occupy them without paying any rent. But, it is easy to show that this is a mistake. The price of raw produce is not kept down to its necessary price by the competition of farmers, but by that of the landlords themselves. Though there must necessarily be a very wide difference, in any country of considerable extent, between the best and worst soils, still the gradation from the one extreme to the other is gradual, and almost imperceptible. The best differ but little from those which are immediately inferior to them, and the worst from those immediately above them. And hence it is just as impossible to point out the precise point where the first quality ends and the second begins, or where the second ends and the third begins, as it is to point out the precise point where the contiguous colours of the rainbow differ. Now, suppose that the numbers 1, 2, 3, 4, 5, 6, 7, &c. designate the different qualities of soil in an extensive country, and suppose that the effectual demand for raw produce is such as will just afford the common and average rate of profit to those who cultivate land of the *fifth* degree of fertility, or that represented by No. 5; when such is the case, there can be no doubt that No. 5 will be cultivated; for, besides the peculiar attractions which agriculture possesses, it would be quite as advantageous to cultivate it as to engage in any other business. It would not, however, be more advantageous; for its produce would yield no surplus in the shape of rent. But suppose that

are also equally suited to all countries; nations, and stages of society, since they are obtained without capital and exercised without cost. These it is that diffuse over a country an air of neatness and comfort which refreshes not only the eye but the heart of a traveller, since it tells him of an industrious, a moral, and a thriving people.—E.

a combination took place among the proprietors of Nos. 1, 2, 3, 4, and 5, to withhold a portion of their produce from market; and that in consequence of this, or any other cause, the price of corn is raised ever so little above the expense of its production on No. 5; in that case, it is obvious that soils of the *very next* degree of fertility, or that that portion of No. 6, which, in point of productive power, differs extremely little from No. 5, would be instantly brought under cultivation; and the increased supply would infallibly sink prices to the level that would just afford the average rate of profit, and no more, to the cultivators of No. 5, or of the poorest soils which the supply of the effectual demand renders it necessary to cultivate. It is quite the same thing, therefore, in so far as price is concerned, whether a country is appropriated or not. When it is appropriated, prices are kept down to their lowest limit by the competition of the landlords. And it is by the self same principle,—the *cost of producing that portion of the necessary supply raised in the most unfavourable circumstances*,—that the price of raw produce is determined in England and France as it is determined in New Holland and Illinois.

But then it is said, that this reasoning involves a contradiction,—that it accounts both for a rise and a fall of price in the same way, or by an extension of cultivation! In point of fact, however, it does no such thing.* The market price of corn will always be low where it is cheaply produced, as in Poland; and it will *occasionally* be low where it costs a great deal to produce it, when a redundant supply is brought to market, as is the case in England at this moment. Suppose, as before, that the effectual demand for corn in Great Britain is at present such as will just enable lands of the *fifth* degree of fertility to be cultivated; but that, owing to variable harvests, to injudicious en-

Does not account both for a Rise and Fall of Price in the same way.

* Our author's unwillingness to acknowledge the influence of demand and supply upon price, deprives him here of the simple and true solution of this apparent inconsistency, and forces him into vague and inconclusive language.

Among the peculiarities which attend corn or other agricultural products this is one, that while its price wavers from year to year with a much wider oscillation than the products of any other species of labour, its average price from century to century varies only by a gradual and slow advance. The former of these is the market price determinable simply by demand and supply, and the reason of its wider variations is to be found in the necessity of its use. Men cannot, as in other articles, put a restraint upon their inclinations, and do without it; their power to adopt a substitute is extremely limited, and thus the necessity of a general distribution causes its price to rise strictly in proportion to the diminution of the supply.

The latter of these, or the natural price, is the cost of production, which consequently rises as the product is obtained from soils of inferior fertility. It is not correct, however, to speak of the cultivation of inferior soils as the cause of this higher price, it is not their actual cultivation, but the necessity of cultivating them that determines it. The price is raised before the inferior soil is brought into cultivation, and would rise still higher, but for such extension of agriculture.

A rise in price is determined by the deficiency of the supply as compared with the demand; a fall of price is determined by a surplus, and the average price is determined by the costs of production on the poorest soil in cultivation, or by the returns of the last capital laid out on lands.

See Malthus, ch. 3 sect. 5, 6, and 10. Edinburgh Review, No. LIX. art. 2.—E.

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couragement held out by the Legislature, to the ardour of speculation, to the miscalculation of farmers, or to any other cause, lands of the *sixth* degree of fertility have been cultivated; the increased quantity of produce that must thus be thrown on the market will plainly depress prices to such an extent, that, instead of yielding average profits to the cultivators of No. 6, they will not yield them to the cultivators of No. 5. But they will yield *more* to the cultivators of No. 5 than to those of No. 6; the latter, therefore, will be first driven from their business; and when they have retired, prices will rise, *not* indeed to such a height as to enable No. 6 to be cultivated, but so high as to enable the cultivators of No. 5 to continue their business; that is, as we have already shown, to the precise sum that will enable the raisers of the last portion of the produce necessary to supply the effectual demand to obtain the common and average rate of profit. Should the demand, instead of continuing stationary, increase so that it could not be supplied without cultivating Nos. 6 and 7, the price will have to rise in proportion to the increased expense of cultivating them. But to whatever extent the demand might increase, still, if such an improvement were made in agriculture, or in the art of raising corn, as would enable the supply to be obtained from No. 1 only, the price would necessarily and infallibly fall to the precise sum that paid the expenses of its cultivators, and rent would entirely disappear.

Distinction between Agriculture, Manufactures, and Commerce.

This analysis of the nature and causes of rent discovers an important and fundamental distinction between agricultural and commercial and manufacturing industry. In manufactures, the worst machinery is first set in motion, and every day its powers are improved by new inventions; and it is rendered capable of yielding a greater amount of produce with the same expense. And as no limits can be assigned to the quantity of improved machinery that may be introduced—as a million of steam-engines may be constructed for the same, or rather for a less, proportional expense than would be required for the construction of one—the competition of capitalists never fails to reduce the price of manufactured commodities to the sum which the least expensive method of production necessarily requires for their production.

Tendency of Manufactured Products to fall in Price.

Tendency of Agricultural Products to rise in Price.

In agriculture, on the contrary, the best machinery, that, is, the *best soils*, are first brought under cultivation, and recourse is afterward had to inferior soils, requiring a greater expenditure of capital and labour to produce the same supplies. The improvements in the construction of farming implements, and meliorations in agricultural management, which occasionally occur in the progress of society, really reduce the price of raw produce, and, by making less capital yield the same supplies, have a tendency to reduce rent. But, the fall of price which is permanent in manufactures, is only *temporary in agriculture*. A fall in the price of raw produce, by enabling every class to obtain greater quantities than before, in exchange for their products or their labour, raises the rate of profit, and leads, of course, to an increased accumulation of capital. But the industry of a nation being always in proportion to the amount of its capital, this accumulation necessarily leads to a greater demand for labour, to higher wages, to an increased population, and, consequently, to a

further demand for raw produce and an extended cultivation. Agricultural improvements check for a while the necessity of having recourse to inferior soils and the rise of rents; but the check can only be temporary. The stimulus which they, at the same time, give to population, and the natural tendency of mankind to increase beyond the means of subsistence, is sure, in the end, to raise prices, and by forcing recourse to poor lands, to raise rents.

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Mr. Malthus has, in illustrating this important distinction between agricultural and manufacturing industry, set the doctrine of rent in a clear and striking point of view. "The earth," he observes, "has been sometimes compared to a vast machine, presented by nature to man for the production of food and raw materials; but to make the resemblance more just, as far as they admit of comparison, we should consider the soil as a present to man of a great number of machines, all susceptible of continued improvement by the application of capital to them, but yet of very different original qualities and powers.

Earth compared by Mr. Malthus to a series of Machines, endowed with different Productive Powers.

"This great inequality in the powers of the machinery employed in procuring raw produce, forms one of the most remarkable features which distinguishes the machinery of the land from the machinery employed in manufactures.

"When a machine in manufactures is invented, which will produce more finished work with less labour and capital than before, if there be no patent, or as soon as the patent is over, a sufficient number of such machines may be made to supply the whole demand, and to supersede entirely the use of all the old machinery. The natural consequence is, that the price is reduced to the price of production from the best machinery, and if the price were to be depressed lower, the whole of the commodity would be withdrawn from the market.*

"The machines which produce corn and raw materials, on the contrary, are the gifts of nature, not the works of man; and we find by experience that these gifts have very different qualities and powers. The most fertile lands of a country, those which, like the best machinery in manufactures, yield the greatest products with the least labour and capital, are never found sufficient to supply the effective demand of an increasing population. The price of raw produce, therefore, naturally rises till it becomes sufficiently high to pay the cost of raising it with inferior machines, and by a more expensive process; and, as there cannot be two prices for corn of the same quality, all the other machines, the working of which requires less capital compared with the produce, must yield rents in proportion to their goodness.†

* As this is not the fact in any case, that "the whole of the commodity is withdrawn from the market," it would be better to add the explanatory clause, "or such proportion of it as would be sufficient by producing competition among the buyers to elevate the price to the costs of production."—E.

† This analysis of rent, which traces it to the diminishing productive powers of the soils successively brought into cultivation, completely overthrows the very basis upon which the system of the French economists rested, and from which all their practical deductions were drawn. Instead of Rent being as they regarded it, a surplus yield, arising from the bounty of nature, and exalting in the scale of productiveness agricultural labour

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“Every extensive country may thus be considered as possessing a gradation of machines for the production of corn and raw materials, including in this gradation not only all the various qualities of poor land, of which every large territory has generally an abundance, but the inferior machinery which may be said to be employed when good land is further and further forced for additional produce. As the price of raw produce continues to rise, these inferior machines are successively called into action; and, as the price of raw produce continues to fall, they are successively thrown out of action. The illustration here used serves to show at once the necessity of the actual price of corn to the actual produce, and the different effect which would attend a great reduction in the price of any particular manufacture, and a great reduction in the price of raw produce.

“I have no hesitation, then, in affirming that the reason why the real price of corn is higher and continually rising in countries which are already rich, and still advancing in prosperity and population, is to be found in the necessity of resorting constantly to poorer land—to machines which require a greater expenditure to work them—and which consequently occasion each fresh addition to the raw produce of the country to be purchased at a greater cost;—in short, it is to be found in the important truth that corn is sold at the price necessary to yield the actual supply; and that, as the production of this supply becomes more and more difficult, the price rises in proportion.

“I hope to be excused for having dwelt so long, and presented to the reader in various forms the doctrine that corn, in reference to the quantity actually produced, is sold at its necessary price like manufactures, because I consider it as a truth of the highest importance, which has been entirely overlooked by the economists, by Dr. Smith, and all those writers who have represented raw produce as selling always at a monopoly price.”—(*Inquiry into the Nature and Progress of Rent*, p. 37.)

It appears, therefore, that in the earliest stages of society, and when only the best lands are cultivated, no rent is ever paid. The landlords, as such, do not begin to share in the produce of the soil until it becomes necessary to cultivate lands of an inferior degree of fertility, or to apply capital to the superior lands with a diminishing return. Whenever this is the case, rent begins to be paid; and it continues to increase according as cultivation is extended over poorer soils; and diminishes according as these poorer soils are thrown out of cultivation. Rent, therefore, depends exclusively on the extension of tillage. It is high where tillage is widely extended over inferior lands; and low

above all its other forms, this proves it to be the result of the opposite principle, viz.—that while in other operations of natural agents as wind, fire, steam, the bounty of nature is equal and unlimited, in land alone, it is various and bounded. That rent originates from this peculiarity is evident, because it requires only a similar limitation of quantity or variety of power in the other natural agents immediately to effect its introduction into them also. If we suppose, for instance, the steam engines first made to appropriate a higher or more perfect form of the natural agent employed in them, than those subsequently erected, it is clear that the earlier engines like the superior soil, would command a rent grounded on this distinction, which would begin to be paid as soon as the demands of society for the products resulting from their use, required the introduction of those of inferior power.—E.

where it is confined to the superior descriptions only. But in no case does rent ever enter into price. For, the produce raised on the poorest lands, or with the capital last applied to the cultivation of the soil, regulates the price of all the rest; and this produce never yields any surplus above the common and average rate of profit.

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It being thus established that the circumstance of land being appropriated, and rent paid to the landlords, cannot affect the price of commodities, or make any difference whatever on the principle which regulates their exchangeable value in the earliest stages of society, we proceed, in the next place, to inquire into the effects of the accumulation and employment of capital, and of the rise and fall of wages on the value of commodities.*

SECT. IV.—*Effect of the Accumulation and Employment of Capital, and of Fluctuations in the Rate of Wages on Exchangeable Value.*†

It will be remembered, that the comparative quantities of labour required to produce commodities, and to bring them to market, formed, in the early ages of society, and before capital was accumulated, the principle by which their comparative or exchangeable value was regulated. But capital is nothing more than the accumulated produce of *anterior labour*; and when it is employed in the production of commodities, their value must

Value of Commodities regulated by the amount of immediate Labour and of Capital expended in their Production.

* The section now ended deserves to be thoroughly studied by the student. It contains the elucidation of a fundamental principle of society, and may be considered one of the main pillars upon which the science now rests. In practical importance it yields to that which identifies private interest with public prosperity, and free trade with mutual benefit; but as a fundamental law in the analysis of public wealth, there is perhaps none of equal importance; the profits of capital and the rate of wages, and consequently the accumulation of wealth and the state of population, are all greatly modified if not directly regulated by the laws which it imposes. Its discovery or rather its elucidation is the great glory of the school of Ricardo, and unquestionably the greatest advance which has been made in Political Economy since the time of Adam Smith. It may be said indeed to have given a new aspect to the analytical part of the science, and to have opened to the student a new field of inquiry. In prosecuting it, however, he must take care lest he be misled by the simplicity and beauty of the analysis into a disregard of other operating causes, more incidental in their nature but equally operative when they exist, and by which the character of the result is always modified, and sometimes perhaps wholly changed.

As this forms one of the peculiar principles on which the reputation of Ricardo rests as an improver of this science, it may not be uninteresting to the reader to have his merits here summed up by one who fully understands and highly appreciates them.

They are thus stated by our author in his "Discourse on Political Economy:"

1. "That rent is altogether extrinsic to the cost of production.
2. "That capital being the produce of previous labour, and having no value except what it derives from that labour, the fact of the value of the commodities produced by its agency being always determined by the quantities of capital laid out or wasted in their production, shows that it is really determined by the *quantities of labour* bestowed on them.
3. "That a *rise of wages* occasions a *fall of profits* and not a rise in the price of commodities, and a *fall of wages* a *rise of profits* and not a fall of prices." Introductory Discourse, p. 67.—E.

† The ensuing section is not, in the Editor's opinion, entitled to the same unqualified commendation with the last. It sets out on the sound principle laid down by Smith, that exchangeable value includes within it a return

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plainly be regulated, not by the quantity of immediate labour only, but by the total quantity of immediate labour and of accumulated labour, or capital, which have been necessarily laid out in their production. Suppose that an individual can by a day's labour, without the assistance of any capital whatever, kill a deer; but that it requires a day's labour to construct weapons necessary to enable him to kill a beaver, and another day's labour to kill it, it is evident, supposing the weapons to have been rendered useless in killing the beaver, that one beaver really took as much labour to kill it as was required to kill two deer, and must, therefore, be worth twice as much. The durability of the weapons, or capital of the beaver hunter, is obviously an element of the greatest importance in estimating the value of the animals killed by him. Had the weapons been more durable than we have supposed,—had they served, for example, to kill twenty beavers instead of one, then it is plain the quantity of labour required to kill a beaver would only have been one twentieth more than the labour required to kill a deer, and the animals would, of course, have been exchanged in that proportion to each other. With every extension of the duration of the weapons, the value of the deer and the beaver would obviously be brought still nearer to equality.

It appears, therefore, inasmuch as capital is nothing but anterior labour, that its accumulation and employment cannot affect the principle which makes the exchangeable value of commodities dependant on the quantities of labour required for their production. A commodity may be altogether produced by capital, without the co-operation of any immediate labour whatever, and, if so, its value in exchange will plainly be regulated by the quantity of capital, that is, of *labour* expended in its production: or it may be partly produced by capital, and partly by immediate labour, and then its exchangeable value will be proportioned to the *sum of the two*, or, which is still the same thing, to the total quantity of labour bestowed upon it. The principles we have now laid down are almost self-evident, and we are not aware that they have been disputed by any political economist of considera-

both for the labour and capital consumed in production. This, however, is virtually abandoned by identifying capital with labour, and thus coming round again to the fundamental proposition of Ricardo already stated, viz., that exchangeable value is regulated by labour alone, a proposition untenable in practice, as has been pointed out in some of the preceding notes.

The elucidation which follows of the effects of fluctuations in the rate of wages on exchangeable value according as the capital employed in production are of the *same* or *different* degrees of durability, offers again to the student one of those marked instances of novel, acute, and sound analysis, which give attraction and value to the writings of Ricardo. The same may be said of the principle which follows from it as a corollary, viz., that *profits vary inversely as wages*. This last is admitted, even by his opponents, and ranked by the reviewer, as "one of the most useful and important of all the truths which Mr. Ricardo has established." Quarterly Review, Vol. XXX. p. 315.

The section closes with a return to his fundamental but fallacious proposition that labour is "the single and only principle" which enters into the composition of exchangeable value.

For a further examination of these points, see *Wealth of Nations*, Book I. ch. 6 and 10, ch. 11, sect. 3. Malthus, ch. 2, ch. 5, sect. 2 and 4. Say, Book II. Mills, ch. 2, sect. 3, ch. 3, part. 3. Ricardo, ch. 1, 6, 21, and 30. Edinburgh Review of Adam Smith, Vol. VII. p. 470.—E.

tion;* but a considerable difference of opinion is entertained respecting the effects occasioned by the employment of workmen by capitalists, and by fluctuations in the rate of wages, on value.

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It does not, however, seem to us that there is much room for these differences. Suppose that a certain quantity of goods, twenty pairs of stockings for example, manufactured by independent workmen, freely exchanged for forty pairs of gloves also manufactured by independent workmen, they would necessarily continue to do so, provided the quantity of labour formerly required for their production continued invariable, after the workmen had been employed by some master manufacturer. In the first case it is true, as Dr. Smith has observed, that the whole goods produced by the workmen would belong to themselves, and that, in the second case, they would have to share them with others. But it must be recollected, that in the first case the capital, or accumulated labour, made use of in the production of the commodities, *belonged to the workmen*, and that in the latter case it has been *furnished them by others*. The question then comes to be, Can the circumstance of the labourers voluntarily agreeing to give a portion of the commodities produced by them, as an *equivalent*, or compensation for the advantage and assistance derived from the use of the capital, or labour of others, afford any ground for raising the value of the commodities? It is evident it cannot. The profits of stock are only another name

The Employment of Workmen by Capitalists does not raise the Price of Commodities.

* That capital is nothing more than the accumulated produce of anterior labour, all sound economists must admit; but that, therefore, the returns of capital, are to be regarded as the same with the wages of labour, is a very different position, and one very far from being universally assented to. How far it is from satisfying the adherents of Adam Smith, may be judged of by the following extract from the Quarterly Review of this article. "The author, (Mr. M'Culloch,) says that 'the profits of stock are only another name for the wages of accumulated labour,' p. 263, and it is no doubt true, that if the value of commodities be resolvable into wages and profits, and profits be only another name for wages, the whole is resolvable into wages. It is equally true, that if five be another name for four, two and two will equal five. But whether it will not tend to confuse matters, either to consider five as another name for four, or profits as another name for wages, deserves our serious consideration." Vol. XXX. p. 311. The Editor cannot but agree with Adam Smith and the reviewer, that this unnatural simplification of things so obviously different as labour and capital, or wages and profits, tends to confuse instead of giving clearness to an investigation into the phenomena of production and price. The analysis, indeed, is just as far as it goes; capital is the produce of previous labour—this, however, but explains its origin; an analysis into its operations, showing that it obeys the same laws as labour, and is modified by the same causes, is that which must be further given before its returns can be identified with those of labour, and before profits and wages are to be used as synonymous terms. But this our author has not, and in the Editor's opinion, cannot show.

The wages of *living* labour are governed by laws peculiar to themselves and grounded upon the circumstances of vitality, so that they cannot without error be confounded with those which govern the returns of capital, or as profits may be termed, the wages of *dead* labour. A single illustration of the different law imposed by this distinction will be sufficient.

The wages of living labour have an assignable minimum; they cannot sink below the absolute means of support, or they react with uncontrollable power if ever forced below it. Profits on the contrary have no minimum; they may fall below any assignable limit, caused either by an increased supply, or by a diminished means of profitable investment.—E.

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for the *wages of accumulated labour*. They make a part of the price of every commodity in whose production any portion of capital has been wasted. But whether the capital belongs to the labourer himself, or is furnished him by another, is obviously of no consequence. When the capital does not belong to the labourer, the commodities produced by him are divided into *two* specific portions, whereof one is the return for the immediate labour, and the other for the capital, or accumulated labour, expended in producing them. But the aggregate value of the commodities is precisely the same into how many portions soever they may be divided. A shoemaker who manufactures shoes on his own account, must obtain the same rate of profit on their sale, that would accrue to a master shoemaker were he employed by him as a workman. He must not only possess a capital adequate to maintain himself and his family until his shoes can be disposed of, but he must also be able to provide himself with a workshop and tools, to advance money to the tanner to pay his leather, and to provide for various other outgoings. If he did not, exclusive of the ordinary wages of labour, realize a rate of profit, or a compensation for the employment of his capital, equal to the profit obtained by the master shoe-maker, it would obviously be for his advantage to lend it to him, and to work on his own account; and it is plain, inasmuch as his shoes could not be sold for a *higher price* than those of the capitalist, that he could not realize a greater rate of profit.

It appears, therefore, that the circumstance of the accumulated labour or capital, and the immediate labour required to produce commodities being furnished by different classes of people, makes no difference whatever on the principle which shows that their exchangeable value depends on the total quantity of labour necessary for their production. It now only remains to trace the effects of fluctuations in the rate of wages on price. When we have done this, we shall have exhausted the subject.

Effect of
Fluctuations
in the Rate of
Wages on
Exchange-
able Value:—

To simplify this inquiry, we shall divide it into two branches. We shall inquire, *first*, whether fluctuations in the rate of wages* have any, and what effects on the relative value of commodities produced by the aid of capitals of *equal* degrees of durability; and, *second* whether these fluctuations have any, and what effects when the capitals employed are of *unequal* degrees of durability.

1st. Effect of
these Fluctu-
ations when
the Capitals
employed in
Production
are of the
same degree
of Durabi-
lity.

I. When every class of producers employ either fixed or circulating capitals, of precisely the same degree of durability, they must be all equally affected by a rise or fall of wages. This is a principle which is equally assented to by Mr. Ricardo and Mr. Malthus, and which is indeed self-evident.* But when such is the case, it is plainly impossible that a rise or fall of wages can occasion any variation in the exchangeable, or compa-

* It is necessary to observe, that this relates to proportional not real wages, and to a general not a partial fluctuation in their rate. It supposes the rise or fall to be universal and equal,—a supposition required in the settlement of principles, though rarely or never existing in fact, except in the gradual and almost imperceptible change that takes place, in the progress of society, upon the expenses of corn cultivation.—E.

† The sentiments of Ricardo on this point will be found, Chap. V. and VI. Malthus, Chap. IV. and V. See also Quarterly Rev. Vol. XII.—E.

rative value of commodities. To revert to our former example, let us suppose that wages, at the rate of one shilling a day, were paid by the stocking manufacturer, one pair of whose stockings exchanged for two pairs of gloves, and that, from some cause or other, the wages of his workmen have been doubled, or raised to two shillings, the question is, could he now obtain a greater quantity of gloves in exchange for his stockings? It is obvious he could not. He could not urge the circumstance of his being obliged to pay a greater amount of wages to his workmen, as a reason why the glove manufacturer should give him more gloves in exchange for his stockings; for, the latter would have it in his power to reply, that *the same rise of wages affected him to precisely the same extent*. If, therefore, one pair of stockings was previously worth two pairs of gloves, they would continue to preserve this relation to each other, so long as the quantities of labour required for their production was not varied, whatever might be the fluctuation of wages—whether they fell to a sixpence, or rose to a guinea a day. Even if the price of commodities rose, which it could not, when wages rose, that would be of no advantage to the producers. Commodities are always bought by commodities, or by labour. Of what consequence, then, could it be to a capitalist, when wages rose, to sell his commodities at an equal advance; when he, in his turn, would be obliged to give so much more for every commodity which he purchased? If wages rise 50 per cent. a producer, a farmer, for example, would be precisely in the same condition, whether he sold his corn for 50 per cent. advance, and gave an additional 50 per cent. as he would be obliged to do, for his hats, shoes, clothes, &c. &c. or sold his corn at its former price, and bought all the commodities which he consumed at the prices he had formerly given for them.

In order further to illustrate this principle, we may be allowed to make a supposition, which, although it can never actually take place, will serve to set our doctrine in a clearer point of view. Should the quantities of labour required for the production of every species of commodities be increased in exactly the same proportion, it is plain their exchangeable values would remain unaltered. Their real price would, however, be augmented. A bushel of corn would not then exchange for a greater quantity of muslins or of broad cloth, than it did before the increased expense of its production; but each would be the produce of a greater quantity of labour. In such circumstances, the prices of commodities would remain stationary, while the wealth and comforts of the society would be materially diminished. Every person would have to make greater exertions to obtain a given quantity of any one commodity; but as the expense of producing *all* commodities is, by the supposition, equally increased, it would not be necessary to make any greater exertions to obtain one than another, and their comparative values would be totally unaffected.

But, if a general and equal increase of the quantity of labour required for the production of commodities could not alter their relative values to one another, how is that to be effected by a general and equal increase of the wages paid for that labour? The thing is obviously impossible. If a beaver exchanged for

Exchangeable Value.

a deer, when wages were at one shilling a day, it must do the same when they are increased to two shillings, or ten shillings, or twenty shillings. However high wages might be raised, the market price of the beaver and deer would continue unchanged. After wages had been raised, the value of the deer would be differently divided—a *greater* share would belong to the labourer, and a *less* to the capitalist; but that would be the only effect produced. The real price of the commodities would not be in the least influenced by this rise of wages. The quantity of labour required for their production would not be increased; and it would, therefore, be equally easy to obtain them.

21. Effect of these Fluctuations when the Capitals employed in Production are of different degrees of Durability.

II. We have seen by the investigation under the preceding head, that, where the fixed or circulating capitals employed in the production of commodities are of *equal* degrees of durability, fluctuations in the rate of wages affect all classes of producers to the same extent, and have, therefore, no influence on the exchangeable value of commodities, or on their price. But when the capitals employed are of *different* degrees of durability, this is not the case. Fluctuations in the rate of wages cannot, in such circumstances, equally affect every class of producers, and the natural and indestructible equilibrium of profit could not be maintained without a variation in the relative value of their products. To illustrate this, let us suppose, that a certain quantity of goods, the produce of fixed capital or machinery fitted to last many years, freely exchange for a certain quantity of other goods entirely produced by manual labour. It is plain they could not continue to be exchanged on this footing, after a rise or fall of wages. For the proprietor of the machinery would be very little affected by such fluctuations, while the proprietor of the goods produced by manual labour would be very seriously affected by them. And, therefore, when wages fluctuate, the relative values of the goods produced by capitals of different degrees of durability must also fluctuate—that is, they must be adjusted so that they may still continue to yield the same common and average rate of profit. Let us now endeavour to trace the mode in which this adjustment is effected.

The arguments we have brought forward, to show the impossibility of fluctuations in the rate of wages, affecting the exchangeable value of commodities produced by capitals of the same durability, were first advanced by Mr. Ricardo. He, too, was the first who endeavoured to analyze and discover the precise effects of fluctuations in the rate of wages on commodities, when the capitals employed in their production were *not* of the same degree of durability. The results of his researches in this most difficult branch of the science were still more important, and more completely at variance with the universally received opinions of political economists. Mr. Ricardo not only showed that it was impossible for any rise of wages to raise the price of *all* commodities, but he also showed, that in many cases a rise of wages necessarily led to a *fall* of prices, and a fall of wages to a *rise* of prices! The novelty of these opinions, and the talent and ingenuity with which they were supported, immediately recommended them to general notice; and the repeated examinations to which they have been subjected have served to confirm their truth, and to set them in a still

clearer point of view. Some of the subordinate doctrines respecting value advanced by Mr. Ricardo in the first and second editions of his *Principles of Political Economy and Taxation*, were opposed by Mr. Malthus in his recent publication. But Mr. Malthus does not attempt to invalidate the leading principles established by Mr. Ricardo; and the alterations and corrections which the latter has made in the third edition of his work, have gone far to remove the objections of Mr. Malthus.*

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able Value.

Suppose a manufacturer has a machine worth 20,000*l.* of a high degree of durability, and which can, without the assistance of any manual labour, produce commodities. If profits were at 10 *per cent.*, the commodities produced by this machine would sell for 2000*l.*, together with a very small addition to replace its wear and tear.† Now, it is quite certain, that if, from any cause whatever, profits either rise or fall, the price of the goods produced by this machine would also rise or fall.—(Malthus's *Principles of Political Economy*, p. 92.) If profits were to rise to 15 *per cent.*, the price of the goods produced by the machine must, in order that its owner may obtain the same profit with other capitalists, rise to 3000*l.*; and if, on the other hand, profits fall to five *per cent.*, the price of his goods must, for the same reason, fall to 1000*l.* If, therefore, it can be shown that a rise of wages reduces the rate of profits, it is plain it must also reduce the exchangeable value, or price, of all such commodities as are chiefly produced by machinery, or fixed capital of a considerable degree of durability, or by circulating capital returnable at distant periods, and *vice-versa*. But it is not difficult to show that this is really the case, and that, in point of fact, profits always fall when wages rise, and rise when wages fall.‡

If a Rise of
Wages lowers
Profits, it
must lower
the Value of
Goods chiefly
produced
by Fixed
Capital or
Machinery.

* Of the ingenuity and originality of this analysis by Ricardo there can be no question; it is equal in acuteness to the elucidation of rent, already treated of, and perhaps, second only to it in the important deductions that flow from it. But among these cannot be admitted the one its author was most strenuous in deducing from it, viz. that labour forms the sole element of exchangeable value. The objections to which this position is liable are so strong, that even Mr. Ricardo himself seems to have vacillated in his final decision, and to have thereby been led into a modification of it, which retains the error while it virtually abandons the principle for which he was contending. "I affirm only," says he, "that their relative values (i. e. of commodities) will be governed by the relative quantities of labour bestowed on their production."—(*Principles*, &c. Ch. I. sect. 6. last sentence.)—*E.*

† So small a sum as two shillings and elevenpence would be sufficient for this purpose, if the machine would last for 100 years; for an annuity of two shillings and elevenpence accumulating for 100 years at 10 *per cent.*, would, at the end of that period, amount to £20,000.

‡ The reader must again be reminded that it is not every market variation of wages, that answers to the rise or fall here spoken of. Our author has reference, as he afterward explains himself, to a real rise or fall, or in other words, to the greater or less proportion which the workman receives of the product of his labour. This, it is obvious, is equivalent, inversely, to a rise or fall of profits;—the product of the labour of the workman being that sum by the division of which both wages and profits are determined:—that which goes not, therefore, to one, is necessarily added to the portion of the other.

The difference between *real* and *nominal* wages arises from the intervention of money as a measure of value. This measure being itself variable, the change may take place either from its own variations, or from those of the commodity it is brought to measure, and thus a market rise of

Exchange-
able Value.

It is plain, from what has been previously stated, that to whatever extent wages might rise, it would be impossible for the producers of any species of commodities, whether the capitals employed in their production were returnable in a day, or week, or any other period, to obtain a larger share of the commodities produced by others of the *same class*,—that is, whose capitals were returnable in *equal periods* with their own. Suppose wages rise ten or twenty *per cent.*, that would not enable the holder of a capital returnable every month, or every twelve months, to obtain any additional value in exchange for his commodities from such of his fellow capitalists as were affected to precisely the same extent with himself by the rise of wages,—that is, whose capitals were returnable in the very same period as his own. This is as absolutely impossible as it is to change the relation of proportional numbers by multiplying or dividing them all by the same number; and, therefore, it cannot be true that a rise of wages will raise the price of any one commodity, as compared with all other commodities.

But, if a rise of wages cannot do this, it is demonstrably certain it must lower profits. Let us suppose that the numbers 1, 2, 3, 4, 5, 6, 7, 8, 9, and 10, represent capitals of corresponding degrees of durability. When wages fluctuate, the proprietors of the least durable capitals, numbers 1, 2, 3, 4, and 5, are plainly more affected thereby than the proprietors of the more durable capitals, numbers 6, 7, 8, 9, and 10. Let us suppose that wages rise, and let us endeavour to discover what would be the effect of this rise on the holder of a capital of the *tenth* degree of durability. We have already shown that whatever might be the amount of the rise—whether it were 1, 10, or 100 *per cent.*, the holder of such a capital could not possibly obtain any additional quantity of the commodities belonging to other producers whose capitals were also of the *tenth* degree of durability; and in so far, therefore, as this class of commodities is concerned, profits will be reduced to the precise extent that wages have risen. But the holders of the other capitals are all of them *more* affected by the rise of wages than the holders of No. 10; and if we took either of them as a standard by which to measure profits, they would appear to have fallen in a still greater proportion.

Profits vary
inversely as
Wages.

It is absolutely certain, therefore, that *profits vary inversely as wages*,—that is, *they fall when wages rise, and rise when wages fall*. But owing to the different and ever varying proportions in which fixed and circulating capital and immediate labour are employed in the production of commodities, it is extremely difficult to discover the precise extent to which any given fluctuation in the rate of wages affects profits. We shall, however, state three different cases which will briefly, and, we hope, satisfactorily, elucidate the manner in which fluctuations in the

wages may denote, either an *appreciation* of labour—that is a *real* rise, or a *depreciation* of money, which is consequently but a *nominal* rise. It is to the real rate of wages only that science looks: on its variations depend the comforts of the poor and the profits of the rich. The nominal rate is a mere fiction of language, or rather the error of expression arising from the adoption of an imperfect standard of value, and taken into the account by the Political Economist, only to guard against the erroneous deductions that might unwarily be drawn from it.—E.

rate of wages always operate, and the method to be followed in estimating their influence on profits.

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able Value.

Method of
estimating
the Effects of
Fluctuation
in the Rate of
Wages on
Profits.

1. If all commodities were produced by immediate labour, or by capital employed in the payment of wages, it is obvious that every rise of wages would cause an equal fall of profits. A capitalist who employed 1000*l.* in the payment of wages, must, if profits were at 10 *per cent.*, sell the commodities for 1100*l.* But when wages rise 5 *per cent.*, or to 1050*l.*, he would not be able to sell his commodities for more than 1100*l.*; *for money is itself a commodity, and as, by the supposition, all commodities are produced by immediate labour, the rise of wages would affect the producers of money in the very same degree that it affected all other producers.* In this case, therefore, it is plain every rise of wages will equally sink profits, and every fall of wages will equally raise them.

2. If all commodities were produced, *one half* by immediate labour, and the *other half* by capital, profits would only fall to half the extent that wages rose. Suppose a capitalist employs 500*l.* in the payment of wages, and 500*l.* as a fixed capital, when profits are at 10 *per cent.*, the commodities produced must, as before, sell for 1100*l.* If wages rose 5 *per cent.*, the capitalist would have to pay 525*l.* as wages, and would, consequently, only retain 75*l.* as profits. In this case, therefore, a rise of wages to the extent of 5 *per cent.* would, because of the employment of equal quantities of capital and immediate labour in the production of commodities, only sink profits $2\frac{1}{2}$ *per cent.*

3. If all commodities were produced by capital of a high degree of durability, the capitalists, it is obvious, would not be at all affected by a rise of wages, and profits would, of course, continue as before.

Now, suppose that commodities, instead of being wholly produced either by immediate labour, as in the first case, or wholly by equal quantities of immediate labour and of capital, as in the second, or wholly by fixed capital as in the third, are partly produced in the one mode and partly in the other, and let us see what effect this increase of 5 *per cent.* in the rate of wages would have on their relative values. To facilitate this inquiry, we shall distinguish these three descriptions of commodities by the Nos. 1, 2, and 3. Now, it is quite evident that the rise of wages has affected No. 1 $2\frac{1}{2}$ *per cent.* more than it has affected No. 2, and 5 *per cent.* more than it has affected No. 3. No. 1 must, therefore, as compared with No. 2, have risen $2\frac{1}{2}$ *per cent.* in exchangeable value, and, as compared with No. 3, it must have risen 5 *per cent.*; No. 2 must have fallen $2\frac{1}{2}$ *per cent.* as compared with No. 1, and risen $2\frac{1}{2}$ *per cent.* as compared with No. 3; and No. 3 must have fallen 5 *per cent.* as compared with No. 1, and $2\frac{1}{2}$ *per cent.* as compared with No. 2. If wages, instead of rising, had fallen, the same effects would obviously have been produced, but in a reversed order. The proprietors of the commodities of the class No. 1 would gain 5 *per cent.* by the fall; those of No. 2 would gain $2\frac{1}{2}$ *per cent.*, and those of No. 3 nothing; and the relative values of these commodities would be adjusted accordingly.*

* The examples we have here given are substantially the same with those given by Mr. Mill. See his valuable work entitled *Elements of Political Economy*, p. 77.

Exchange-
able Value.
—
General Rule
on the sub-
ject of all
Fluctuations.

Thus, then, it appears, inasmuch as any commodity taken for a standard by which to estimate the relative values of other commodities, must itself be produced by capital returnable in a certain period, that *when wages rise, all commodities produced by LESS durable capitals than those which produce the commodity taken for a standard, will rise in exchangeable value, and all those produced by MORE durable capitals will fall; and conversely when wages are reduced.* Suppose, as before, that the Nos. 1, 2, 3, 4, 5, 6, 7, 8, 9, and 10, represent capitals of corresponding degrees of durability. If a commodity produced by the least durable capital, No. 1, and which may be supposed to be wholly employed in the payment of wages, be taken for a standard, all commodities whatever produced by the other and more durable capitals would *fall* in value when wages rose; and if we suppose those produced by No. 2 to decline 1 *per cent.*, those produced by No. 3 would decline 2 *per cent.*, those produced by No. 4, 3 *per cent.*, and so on until we arrive at No. 10, which will have fallen 9 *per cent.* If, on the other hand, a commodity produced by the most durable capital, No. 10, and which may be supposed to consist wholly of highly durable machinery, be made the standard, when wages rise, all the commodities produced by the other less durable capitals would also rise; and if those produced by No. 9 rose 1 *per cent.*, those produced by No. 8 would rise 2 *per cent.*, and those produced by No. 1, 9 *per cent.* If a commodity produced by capital of a *medium* degree of durability, as No. 5, and which may be supposed to consist half of circulating capital employed in the payment of wages, and half of fixed capital or machinery, be taken as a standard, the commodities produced by the less durable capitals, Nos. 4, 3, 2, and 1, will *rise* with a rise of wages, on the former hypothesis, the first, or No. 4, 1 *per cent.*, the second, or No. 3, 2 *per cent.*, &c.; while those produced by the more durable capitals, Nos. 6, 7, 8, 9, and 10, will *fall*, the first, or No. 6, 1 *per cent.*, the second, or No. 7, 2 *per cent.*, &c. exactly the reverse of the other.

Hence it is obvious that the effect which variations in the rate of wages have on *price* will principally depend on the nature of the capital employed in the production of gold and silver.* Whatever may be the proportions of circulating capital appropriated to the payment of wages, and of fixed capital employed in the production of the material of which money is made, all those commodities which are produced by the agency of a greater quantity of labour and with less fixed capital or machinery, will rise when wages rise, and fall when wages fall; but those that are produced by the agency of a less quantity of labour, and with more fixed capital or machinery, will fall when wages rise, and rise when wages fall; and those that are produced in nearly the same circumstances, or by the agency of

* Supposing this to be the case where gold and silver form the medium of exchange, it becomes a nice question how far the substitution of a paper currency modifies the rule; whether it is to be estimated as the result of that proportion of fixed and circulating capital required by the specie which it represents, or of that which is necessary to its own manufacture, or lastly of an average of all commodities as being their common representative. This is a question, however, of too refined a nature for the Editor at present to pursue,—it is here thrown out, merely as an analytic speculation, to the zealous student.—E.

the same quantities of circulating and fixed capital, as money, will not be affected by the fluctuations of wages.

It should, however, be observed that the variations in the exchangeable value of commodities caused by variations in the rate of wages, are confined within very narrow limits, and can hardly, in any circumstances, exceed 6 or 7 *per cent.** There can be no rise of wages without a fall of profits. The produce of the land, or rather of the capital which pays no rent, and which governs the price of all the rest, is divided between the farmer and the labourer, and the more that is given to the latter, the less will plainly remain for the former. The same is the case in every other department of industry. Whenever, therefore, wages rise, profits necessarily and unavoidably fall; and this fall not only checks the rise that would otherwise take place in the price of the goods produced by less durable capitals than the medium in which price is estimated; but it also checks the fall that would take place in the price of the goods produced by more durable capitals. To exemplify this, let us suppose a manufacturer employs a capital of 10,000*l.*, one-half being employed as machinery, and the other half as a circulating capital appropriated to the payment of wages. If profits are at 10 *per cent.*, the goods produced by the manufacturer must sell for 11,000*l.*† Now, suppose wages to rise one *per cent.*, if the price of the goods were proportionably increased, they would have to sell for 11,050*l.* But they would not be proportionably increased; for every rise of wages must lower profits. Suppose, then, that profits are reduced $\frac{1}{2}$ *per cent.*, the goods will still sell for 11,000*l.* the increase of 50*l.* caused by the rise of wages, being just equivalent to the fall of 50*l.* caused by the reduction of profits. Although, therefore, a rise of wages has a necessary tendency to raise the exchangeable value of one class of commodities, and to lower that of another class, the fall of profits, which must inevitably follow every rise of wages, has a different effect, and tends to sink the price of the commodities which the increase in the rate of wages would raise, and to elevate the price of those which the same increase would sink. In the great majority of cases, these opposite effects mutually balance each other; and prices continue nearly the same, after a fall or rise of wages, as before.

“ This is not the case with the other great cause of variations in the value of commodities, namely, the increase or diminution in the quantity of labour necessary to produce them. An alteration in the permanent rate of profits, to any great amount, is the effect of causes which do not operate but in the course of years; whereas alterations in the quantity of labour necessary to produce commodities are of daily occurrence. Every im-

* Ricardo *On the Principles of Political Economy and Taxation*, 3d edit. p. 33.

† Is there not an error in this calculation? Of the capital employed, one half is fixed, the other circulating: the annual returns, therefore, will consist, not of the whole amount, but merely of that portion which is circulating, together with interest and profits on the whole, that is, of £6,000. That which is yielded by the half fixed in machinery, consists, in addition to ordinary interest and profits, of the expenses of repair and renewal. This variation, however, does not affect the soundness of our author's reasoning, which depends simply upon the proportion employed as circulating capital, and applied to the payment of wages.—E.

Exchangeable Value.

Variations of Exchangeable Value caused by Fluctuations in the Rate of Wages confined within narrow limits.

Exchange-
able Value.

provement in machinery, in tools, in building, in raising the raw material, saves labour, and enables us to produce the commodity to which the improvement is applied with more facility, and, consequently, its value alters. In estimating, then, the causes of the variation in the value of commodities, although it would be wrong wholly to omit the consideration of the effect produced by a rise or fall of labour, it would be equally incorrect to attach much importance to it; and, consequently, in the subsequent part of this work, though I shall occasionally refer to this cause of variation, I shall consider all the great variations which take place in the relative value of commodities to be produced by the greater or less quantity of labour which may be required to produce them." (Ricardo, *Principles*, &c. p. 33.)

Variations in
the Rate of
Money Wages
cause of
the Popular
Opinion.

The universally received opinions respecting the effect of a rise of wages on the price of commodities have obviously originated from a rise in the *money* price of commodities being almost always confounded with a rise in their *real* price. But these two things are totally distinct. *Real wages*, as we shall afterwards show, depend on the *proportion of the produce of industry which belongs to the labourer*. They are high when this proportion is large, and they are low when it is small.* It is to real

* The term *real wages* admits of another and equally important interpretation. By it we may imply, the value of the labourer's wages, in reference to his means of support. In this sense, wages are high when they afford a comfortable provision for the labourer, or rather a surplus beyond it. They are low when they fail to fulfil this necessary condition of the continuance of labour, whatever be the rate at which they are estimated in money, or whatever be the proportion that his share bears to the whole product of his labour.

Hence it appears, that there are three criteria by which the rate of wages may be estimated, in comparing them in different periods or countries; these it is very important that the student should not confound.

1. The money price of labour,—which, it is evident, from the varying value of the money itself, can afford no real or useful criterion. This constitutes nominal wages,—and often varies, while real wages continue the same, or remains unchanged while real wages have undergone a great alteration. This criterion, therefore, is to be noted by the student, only that he may be upon his guard against any fallacious deductions drawn from it. Among the familiar illustrations of its fallacy may be instanced, the false estimate often made by our northern labourers and mechanics, of the profits to be realized in the southern states; they do not consider that the high wages they receive are counterbalanced by the high prices they are forced to pay for almost every commodity they purchase.

2. The second criterion ascertains what should alone bear the name of "real wages,"—since they determine the comfort and prosperity of the labourer himself:—it is the proportion his wages bear to the means of his support, or the real value which he receives in return for his labour. It is on this, whatever may be the monied estimate of his work, that depends the independence of the labourer, the comforts of the lower class of society, and the well being of the whole community. This, therefore, is the criterion of real wages.

3. The third form in which they appear is that of proportional wages,—or the ratio which the workman's portion bears to the whole product of his labour. This is the criterion which determines the situation, not of the labourer, but of the capitalist. On it depend the profits of the agriculturist, the manufacturer, and the merchant,—they being but the residue of the fruits of labour, after the labourer's portion is withdrawn.

From each of these criteria some important deductions may be drawn,—from the first we learn the comparative plenty and cheapness of the precious metals. From the second, the general happiness of society, and the comparative increase of its wealth and population. From the third, we learn the accumulation of capital, the extension of agriculture, and the rate of profits.—*E.*

wages that we always refer. And it is plain, that every inference respecting the rate of real wages, drawn from fluctuations in the rate of money wages at different periods, must be completely erroneous, if we have not estimated such money wages with reference to the relative values of money and commodities at the time when the fluctuations took place. The money wages of labour may be raised from 1s. to 2s. or 5s. a-day; and the real wages of labour may, notwithstanding, be all the while diminishing. This has been actually the case in Britain during the last thirty-five years. Money wages were in 1810 double what they had been in 1790; but, as the exchangeable value of our currency had, in the interval, been more than proportionably reduced, the price of commodities rose still faster than wages; and the proportion of the produce of industry belonging to the labourers, or their real wages, was consequently diminished. In such a case, to ascribe the rise of prices to the rise of wages would be evidently absurd. In no case, however, will it be found that a rise of real wages will raise the price of *all* commodities. A large class will remain stationary, after wages rise; another class will rise a little; and another class will fall a little. All considerable variations in the relative value of commodities are the consequence of variations in the quantity of labour required for their production, and not of variations in the rate at which that labour is paid.

Exchangeable Value.

Colonel Torrens contends, in his late valuable work on the *Production of Wealth*, in opposition to the theory we have now endeavoured to establish, that after capital has been accumulated, the relative, or exchangeable value of commodities is no longer, as in the early stages of society, determined by the total quantities of labour required to bring them to market, but by the quantities of capital expended on their production. At bottom, however, this theory is precisely the same with that which we have just explained. Capital is nothing but immediate labour accumulated; and to say that the exchangeable value of commodities depends on the quantity of it employed in their production, is only another way of expressing the identical proposition we have illustrated. Colonel Torrens, however, and those who agree with him, contend that the difference between the two theories is not apparent but real. "If," say they, "two capitalists employ *equal* stocks, the one in paying the wages of masons employed to build a house, and the other in purchasing wine after it has been put into casks, and keeping it until it has become fit for use, then, as the products of equal capitals must always be equal, the house and the wine will be worth precisely the same sum, though it is plain they are produced by very different quantities of labour." This case is very ingeniously put; and it deserves attention from the opportunity which it affords of explaining a point respecting which there has been a great deal of misconception. At first sight, it certainly seems as if *both* accumulated labour and immediate labour had been employed in the construction of the house, and accumulated labour only in the production of the wine. But, in point of fact, all that is done in either case is, to *change the form of equal capitals*; to transmute, if we may so speak, a certain quantity of capital, through the medium of human hands,

Exchangeable Value of Commodities does not depend on the Quantity of Capital employed in their Production.

Exchange-
able Value.

into a house; and to transmute the same quantity of stock, through the medium of natural powers, into wine fit for drinking. The capital which is consumed by the mason in food and clothes is plainly not expended on the house, but on *himself*; and it is his immediate labour only, or the exertion of his physical powers, that forms the only labour really expended on the house. The employer of the mason paid him his wages, *not*, as Colonel Torrens supposes, in the unreasonable expectation, that he would lay out these wages, in addition to the labour of his hands, on his house, but that he might lay out the wages on himself, and give him his labour *as an equivalent* for them. The object which the builder of the house had really in view was, to convert a certain amount of capital into a house, and to accomplish this object, it was necessary that the capital should, in the first place, be exchanged for, or converted into, the immediate labour of masons. In the production of the wine, this species of transmutation was not necessary; the effect which had, in the first case, been produced by the agency of men, being, in the second case, produced by the agency of the processes which nature herself carried on in the casks. It is clear, therefore, that no greater quantity of labour was required to produce the house than to produce the wine. Different *agents* were employed to convert the capital into the finished commodities, but that was all. The quantity of capital which set these agents in motion was, in both cases, exactly the *same*, and consequently, both products were brought into existence by the same quantity of labour.*

* If this case of Colonel Torrens has been ingeniously put, it has been also ingeniously answered. To the analysis of our author there can be no valid objection. Capital is accumulated labour, and whether it operates for the production of value through the medium of man's hands, or of the natural agents which by machinery or expensive arrangements are made to labour in its attainment, it is the same prime agent which sets them to work, and by which they may be estimated.

But to deduce from this analysis the identity of the profits of stock with wages, a proposition which makes labour the only element of exchangeable value, is not only to confound things which, however similar in their nature, are diverse in their operation, but is to maintain an opinion at war with our daily experience. The leading objections to the laying of this refined analysis as the basis of the science, which is done by the school of Ricardo, may be thus stated:

1. It confounds terms which the common language and apprehensions of men will always keep distinct,—labour and capital,—wages and profits,—and no system, we may be assured, will long stand, however analytically true, which thus opposes the common sense and daily experience of men. To persist in calling capital labour, is as if in physical science the experimentalist should insist upon ranking water among gaseous bodies, because it was such in its original elements.

2. In identifying profits with wages these writers confound things, which by their own acknowledgments, are governed by laws, not only different, but opposite; see p. See also Adam Smith, Book II. chap. vi. where he shows conclusively, that “In the price of commodities the profits of stock constitute a component part altogether different from the wages of labour, and regulated by quite different principles.” The same objection applies to reducing under one head capital and labour,—they obey, as has been already shown, different laws, and are liable, respectively, to peculiar limitations. If the productive services of capital and man be only distinguished as *dead* and *living* labour, then the generic term *labour* will unquestionably apply indifferently to both, and all reasoning in relation to the subject will be true so long as the term is used in its generic sense, as including all the

The error into which Colonel Torrens has fallen, shows the necessity, in estimating the cost of commodities, of always separating between the capital, or accumulated labour, expended in the payment of wages, and the immediate labour which that capital employs. The *sum* of these two really amounts to *twice* the quantity of labour actually expended on the commodities. The capital given as wages to the labourer is merely the price, or equivalent of his labour; and the cost of producing the commodity must, therefore, be determined by the amount of wages, or of immediate labour given for these wages, taken *singly* and not together. When fixed capital is used, the cost of the commodity depends, as we have already shown, on the quantity of immediate labour, or circulating capital, and of fixed capital, necessarily expended on their production.

No one can fail to observe how naturally and beautifully these conclusions harmonise with the principles we endeavoured to establish when treating of the production of wealth. We there showed that no commodity which it did not require some portion of labour to appropriate or produce, could be possessed of exchangeable value, or become wealth; and that every diminution of the quantity of labour required to produce commodities, lowered their exchangeable value, and made them more easily obtainable by all classes: And the analysis we have now completed shows, that labour is not only essential to the existence of exchangeable value, but that it is in every stage of society, from the rudest to the most improved, *the single and only principle which enters into its composition.**

specific characteristics of the agency of capital as well as of man. In this case the only objection to the phrase would be the inexpediency of adopting a general term to comprehend such wide specific differences, and a term besides already so clearly appropriated in common speech to a special meaning. But with the school of Ricardo this is not the case, it is not used as a generic term, but it is the resolution of capital into *labour* as that term is commonly apprehended; thus denying to *capital* any specific peculiarities. It is in this sense that the doctrine is to be denied as inconsistent with fact.

3. The great principle which they deduce from this supposed identity, is that labour is "the single and only element which enters into the composition of exchangeable value,"—this is one at variance with fact in so many cases as not to entitle it to be regarded as a fundamental proposition. It is indeed inconsistent with it in all, unless we admit the gratuitous assumption, which renders the proposition itself nugatory, of the term *labour*, as involving the operations of capital: "without this strange and most uncalled for misnomer," to use the language of an adherent of Adam Smith, "how is it possible to say, that commodities exchange with each other according to the quantity of labour worked up in them, that is, that fifty pounds worth of kept wine has had the same quantity of labour worked up in it as fifty pounds worth of stone walls sold as soon as built? or that fifty pounds worth of young firs planted thirty years ago on a barren heath had cost in their production the same quantity of labour as fifty pounds worth of Scotch pebbles picked up on the sea shore, or fifty pounds worth of straw-plat."—Quarterly Review, Vol. XXX. p. 312.

These considerations will justify the student in withholding his assent from this fundamental proposition of our author's, and in regarding it as a specimen of analysis over-refined for practical science.—E.

* Sir William Petty had stated, so early as 1667, that the value of commodities is always regulated by the quantity of labour required to produce them; but there is the same difference between his statements and the analysis and investigations of Mr. Ricardo, whom we have followed in this section, that there is between the conjectures of Pythagoras respecting

Profits and
Wages.

SECT. V.—*Profits and Wages vary inversely—Accumulation of Capital not the Cause of a Fall of Profits—The Increasing Sterility of the Soil shown to be the Chief Cause of a Rise of Wages, and consequently of a Fall of Profits—Distinction between Absolute and Proportional Wages.**

Having shown in the previous sections, that no part of the produce of the capital last applied to the cultivation of the land, and which regulates the price of all the rest, goes to the landlord as rent, but that it is exclusively divided between the capitalist and the labourer; and having also shown that a rise of wages does not raise the value of commodities, it follows necessarily and directly that *profits must vary inversely as wages, that is, they must fall as wages rise, and rise as wages fall.* The limits to which this article has already extended, prevent our entering into an investigation of the various circumstances which determine the market rate of wages. It is sufficient to remark, that it can never, for any considerable period, fall below such a sum as is required to support the existing labourers, and to enable them to continue their race. This is termed by Dr. Smith and Mr. Ricardo the *necessary* rate of wages, and forms a limit below which it is quite impossible they can be permanently reduced. But as the subsistence of the labourer must always principally

the true system of the world and the demonstrations of Newton. The statement of Sir William Petty is however curious, and we subjoin it:

"If," says he, "a man can bring to London an ounce of silver out of the earth in Peru, in the same time that he can produce a bushel of corn, then one is the natural price of the other; now, if, by reason of new and more easie mines, a man can get two ounces of silver as easily as formerly he did one, then corn will be as cheap at 10s. the bushel as it was before at 5s. *ceteris paribus.*"—*Treatise of Taxes and Contributions*, ed. 1679, p. 31.

* This section is ably written and ingeniously argued,—it is one of those instances of original inquiry which entitle Ricardo to the high praise of being named second to Adam Smith in the history of Political Economy, as an improver if not a founder of the science.

On this subject of profits, however, there is an apparent want of candour on the part of the new school, in stating the opinions of Adam Smith as necessarily at variance with those of Ricardo; a juster light in which to view them is, as imperfect, not false: the solution given by Smith is true, though it stops short of detecting the governing principle, which Ricardo has gone on to analyze with equal truth and ingenuity. The position of Adam Smith is, that the price of capital or rate of profits is determined, like all other market prices, by the comparative influence of demand and supply. This position is demonstrably true, and can never be superseded. The "competition of capitalists," of which he speaks, is known but as the proximate cause of the fall of profits, being itself an effect of the accumulation of capital outrunning the means of profitable investment. Here the analysis of Adam Smith stops, and it is from this that Ricardo sets out,—that fact, with which Adam Smith commences without professing to explain, Ricardo has unfolded; and shown, not that it is false, but that it is necessarily true, the diminished means of profitable investment being the result of a necessary resort in the progress of society to inferior soils. Hence it appears that there is no discrepancy between these writers, and need be no opposition on the part of their followers. Adam Smith went very far in analyzing the phenomena of profits, but Ricardo has gone further, and carried out the analysis to what we may consider its final results.

On this subject, see *Wealth of Nations*, B. I. chap. 8, 9, 10. Say, B. II. chap. 3. sect. 2. Ricardo, Chap. XXI. Malthus, Chap. V. sect. 1, 2, 3, and 4; in the latter of which the opinions of Ricardo are especially examined. See also review of Ricardo, *Edin. Rev.* No. 59, Art. 2.—E.

consist of raw produce ; and as, owing to the necessity of resorting to inferior* soils as society advances, its price has a constant tendency to rise, the necessary rate of wages must have the same tendency. Agreeably to this theory, therefore, we should expect, that in all newly settled countries, and where none but the best soils are cultivated, profits would be high ;† and that in all old settled and densely peopled countries, and where soils of a very inferior quality are cultivated, profits would be comparatively low—and such we find to be really the case.

Profits and
Wages.

We might here take leave of this part of our subject ; but as the theory we have deduced from the conclusions in our previous sections is very different from the common one, we shall endeavour to set it in a still clearer point of view.

Dr. Smith was of opinion, that the rate of profit varied inversely as the amount of capital, or, in other words, that it was always greatest where capital was least abundant and lowest where capital was most abundant. He supposed, that, according as capital increased, the principle of competition would stimulate capitalists to endeavour to encroach on the employments of each other ; and that, in furtherance of their object they would be tempted to offer their goods at a lower price, and to give higher wages to their workmen. (*Wealth of Nations*, Vol. II. p. 38.) This theory was long universally assented to. It has been espoused by MM. Say, Sismondi, and Storch, by the Marquis Garnier, and, with some slight modifications, by Mr. Malthus. But, notwithstanding the deference due to these authorities, it is easy to see that the principle of competition could never be productive of a general fall in the rate of profit. Competition will prevent any one individual from obtaining a higher rate of profit than his neighbours ; but no one will say that competition diminishes the *productiveness of industry*, and it is on this that the rate of profit must always depend. The fall of profits which invariably takes place, as society advances, and population becomes denser, is not owing to competition, but to a very different cause—to a DIMINUTION OF THE POWER TO EMPLOY CAPITAL WITH ADVANTAGE, resulting either from a decrease in the fertility of the soil, which must be taken into cultivation in the progress of society, or from an increase of taxation.

Opinion of
Dr. Smith.
&c.

Error of this
Opinion.

Mr. Malthus has demonstrated, that population has a constant tendency not only to equal, but to exceed the means of subsistence.‡ But if the supply of labourers be always increased in proportion to every increase in the demand for their labour, it is

The Decreasing Fertility of the Soil the Principal Cause of a fall of Profits.

* In the original, by a misprint, this reads "resorting to superior soils."—E.

† The high profits of young and fertile countries, is strikingly exemplified in the early history of the American colonies. In 1627, the Plymouth company were able to pay thirty per cent. on borrowed money. The year before they had paid forty-five per cent. This, however, absorbed their profits, for the Governor, speaking of it with the piety characteristic of the times, says, "these were such straits that it was God's marvellous Providence that we were enabled to wade through things." Holmes's Annals of America, 1627.—E.

‡ Our author uses the strong term, "demonstrated," in reference to the great work of Malthus on Population. It can hardly be said to be too strong, since it is a work which has settled conclusively and finally, the

Profits and
Wages.

plain the mere accumulation of capital could never sink profits by raising wages—that is, *by increasing the labourer's share of the commodities produced by him*. It is true, a sudden increase of capital would, by causing an *unusually* great demand for labourers, raise wages, and lower profits : but such a rise of wages could not be permanent ; for the additional stimulus it would give to the principle of population would, as Mr. Malthus has shown, by proportioning the supply of labour to the increased demand, infallibly reduce wages to their former level. If, therefore, it were possible always to employ additional capital in the raising of raw produce, in the manufacturing of that raw produce when raised, and in the conveying of the raw and manufactured products from place to place, with an equal return, it is evident, supposing taxation to continue invariable, that no conceivable increase of the national capital could occasion the slightest fall in the rate of profit. So long as labour is obtainable at the same rate, and so long as the productive power of that labour is not diminished, so long *must* the profits of stock continue unaffected. Assuming, then, that the mere increase of capital has no lasting effect on wages, it must obviously be the same thing, in so far as the rate of profit is concerned, whether ten or ten thousand millions be employed in the cultivation of the soil, in the manufactures and commerce of this, or any other

great operating principle which regulates the advance of national population, and the policy of government in relation to it. For its principles, with which every student of Political Economy should be familiar, reference ought to be had to the work itself. For an examination both of the work and the objections urged against it, see Edinburgh Review, Vol. XL. and XVI. p. 464. Quarterly Review of Malthus, Vol. XVII. p. 369, and art. 7 of No. 51. See also North American Review, of Godwin's Reply to Malthus, Vol. XVI. No. 37 ; and in Vol. XVII. No. 41, Everett's "New Ideas on Population."

Among the principles settled on this subject, the student may adopt the following as the principal.

1. The population of a country is limited by the means of support.
2. Population is forever pressing on the means of subsistence, a pressure arising from the natural rate of population being more rapid than the increase of food.
3. Population is kept down to the means of subsistence by a variety of checks which may be reduced to two classes.
 1. Preventive, being the check of prudence, of reason, and foresight.
 2. Actual, being the check imposed on an over increase by vice, misery, and famine.

The policy which follows from these principles, goes to increase population, not by bounties, but by an increased supply of the means of support. In a time of scarcity, money to the poor but shifts starvation from the objects of charity to an equal number of their poorest neighbours. In such a case, diminished consumption is the only true charity.

In judging of the prosperity of a country, the amount of population affords no criterion—but the rate of population the surest and best.

The population of a country may be either progressive, stationary, or retrograde. In the first the mass of the people are comfortable and prosperous—in the second their lot is tolerable—but in the last it is wretched.

The first or happiest state is prolonged by whatever delays the necessity of resorting to inferior soils for food—by improvements in agriculture at home, and free admission of corn from abroad. Hence the impolicy of the corn laws of Great Britain, a subject which will be hereafter noticed. For the returns of the population of the United States, see Seybert's Statistics ; see also, note on overloaded markets in this article, Part IV.—E.

kingdom ; provided the last million so employed be as productive, or yields as large a return as the first. But such is always the case with the capital employed in manufactures and commerce. The greatest possible amount of capital and labour may be employed in fitting and adapting raw produce to our use, and in transporting it from where it is produced to where it is to be consumed, without a diminished return. If a given quantity of labour will now build a ship of a given burden, or construct a machine of a given power, it is certain that an equal quantity of labour will at any future period be able to build a similar ship, or to construct a similar machine ; and it is also certain, that although these ships and machines were indefinitely increased, the last would be equally well adapted for every useful purpose, and equally serviceable as the first. The probability, indeed, or rather, we should say, the certainty is, that the last would be much more serviceable than the first. No possible limit can be assigned to the powers and resources of genius, to the improvement of machinery, and of the skill and industry of the labourer. Future Watts, Arkwrights, and Wedgewoods, will arise ; and the stupendous discoveries of the last and present age will doubtless be equalled, and perhaps surpassed, in those which are to come.* It is, therefore, clear to demonstration, that if equal quantities of capital and labour could always raise *equal quantities of raw produce*, the utmost additions to the capital of the nation could never diminish the capacity to employ that capital with advantage, or sink the rate of profit. But here, and here only, the bounty of Nature is limited, and she deals out her gifts with a frugal and parsimonious hand.

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Wages.

———— Pater ipse colendi
Haud facilem esse viam voluit——†

Equal quantities of capital and labour do not always obtain equal quantities of raw produce. In raising it, man has to contend with constantly increasing difficulties. The soil is of limited extent, and of still more limited fertility. In every advancing country, the most fertile lands are, as we have already seen, speedily brought under cultivation, and recourse must then be had to lands of a less degree of fertility, or which yield *less* produce in return for the same expenditure. It is this limited fertility of the soil that is the real cause of a fall of profits. It is utterly impossible to go on increasing the price of that raw produce, which forms the principal part of the subsistence of the labourer, by taking inferior soils into cultivation, without also

* On the power and influence of machinery, see *Edinburgh Review*, No. 69, art. 6. On its improvements in modern times, see *North American Review*, No. 35. On Rail Roads, by T. Tredgold, London, 1825.

The names of Fulton, Whitney, and Perkins, may be added to those given by our author, to remind the American reader that his countrymen are not behindhand in their contributions to this common stock, and to arouse to emulation, the talent and ingenuity of our country, by recalling to memory the excellence of its first fruits. On this subject, see also a very able and interesting Review on Canals and Rail Roads. *Quarterly*, No. 62, art. 5.—*E*.

† By Jove's decree, man eats in sweat and toil,

The hard earned fruits of nature's churlish soil.

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increasing his wages. A rise of wages is seldom or never exactly coincident with a rise in the price of necessaries, but they can never be very far separated. The price of the necessaries of life is, in fact, the cost of producing labour. The labourer cannot work if he is not supplied with the means of subsistence. And although a certain period of varying extent, according to the circumstances of the country at the time, must always elapse, when necessaries are rising in price, before wages can be proportionably augmented, there can be no question but that, in the end, such an augmentation will be brought about. Now, as rent is nothing but the excess, or the value of the excess, of the produce obtained from the best above that obtained from the very worst soils in cultivation, it is plain it does not enter into the cost of production, and can have no influence whatever on prices. Still better to elucidate this fundamental principle, let us suppose that an individual has two loaves on his table; one raised on very fertile land, the other on the very worst land in cultivation: in the latter, there will be no rent, and it will be wholly divided between wages and profits. We have already shown that it is the cost of producing this loaf which will regulate the price of all other loaves; and although it will be true that the rent which the loaf raised on the best land will afford will be equal to all the difference between the expense of growing the corn of which it is made, and the corn raised on the worst lands of which the standard loaf is made, yet it is only in consequence of this difference that any rent whatever is paid. Twenty different loaves, all selling for the same price, may yield different portions of rent; but it is one only, that which yields no rent, which regulates the value of the rest, and which is to be considered as the standard. It is demonstrable, therefore, that rent does not enter into price. Wages, and profits make up the whole value of every commodity. And, therefore, when wages rise, profits must fall; and when wages fall, profits must rise. But we have shown that there is never any falling off, but a constant increase, in the productiveness of the labour employed in manufacturing and preparing raw produce. And such being the case, it is demonstrably certain, that the subsistence of the labourer could never be increased in price, and consequently that no additions could ever be made to his *necessary* wages, were it not for the diminished power of agricultural labour, originating in the inevitable necessity under which we are placed, of *resorting to poorer soils to obtain raw produce as society advances*. The *constantly decreasing fertility of the soil* is, therefore, at bottom, the great and permanent cause of a fall of profits. Profits would never fall if wages were not increased; and, supposing taxation to continue invariable, wages would never be increased were it not for the decreasing fertility of the soil, and the consequent increase of the labour necessary to obtain corn and other raw products.

“With a permanently high price of corn,” says Mr. Ricardo, “caused by increased labour on the land, wages, would be high; and, as commodities would not rise on account of the rise of wages, profits would necessarily fall. If goods worth L. 1000 require at one time labour which cost L. 800, and, at another

time the price of the same quantity of labour is raised to L. 900, profits will fall from 200 to L. 100. Profits would not fall in one trade only, but in all. High wages equally affect the profits of the farmer, the manufacturer, and the merchant. There is no other way of keeping profits up but by keeping wages down."—(*On Protection to Agriculture*, p. 43.)

It is necessary, however, to observe, that although profits depend on wages, they do not depend on wages estimated in money, in corn, or any other commodity, but on *PROPORTIONAL wages that is, on the share of the commodities produced by the labourer, or of their value, which is given to him.* It is, indeed, easy to see that proportional wages may be increased, at the same time that wages, if estimated in corn, or any other necessary, would be found to be diminished; and, in point of fact, such is almost uniformly found to be the case when recourse is had to poor soils. Suppose that the produce obtained from a given amount of capital applied to the land last taken into cultivation in America yields 100 quarters, the labourer will perhaps receive 60 quarters, or 60 *per cent.* of the produce as his wages. But the same amount of capital, if applied to the land last taken into cultivation in Britain, would not yield more than 50 quarters; and supposing the labourer to get only 40 quarters, or 20 quarters less than in America, still his *proportional* wages, or the wages which determine the rate of profit, would be 80 *per cent.* or 20 *per cent.* higher than in America.* In the early stages of society, and

* This shows the propriety, as already stated in a previous note, of confining the term, "real wages," to the amount of value received by the labourer, since it would be absurd to talk of the real wages of labour in England being higher than in America. What the labourer wants is support for himself and family, that alone to him is "real"—the proportion which such provision takes of the fruits of his labour, is a matter of consideration to his employer, not to him. To him, wages are low when they fail to support him, and high when there is a surplus for accumulation. This consideration tends somewhat to diminish the value of the novel principle laid down by Ricardo, viz., that of the inverse ratio of wages and profits, and to explain further the otherwise anomalous fact of high wages and high profits existing together, as they unquestionably do in this country.

The wages and profits to which Ricardo's principle is confined, are comparative wages and comparative profits, or, in other words, the rate of division between the labourer and the capitalist. This principle, though a sound and valuable one, has not that wide bearing which at first sight it appears to have, for it cannot decide the question of real wages and real profits, upon which alone the comforts of the labourer and the accumulation of the capitalist depend. To illustrate this position, the following cases may be stated as irreconcilable to the language of Ricardo and of our author, if it be interpreted of real wages and real profits.

1. Both wages and profits may be high at the same time and in the same business, as is exemplified in the United States, where the capitalist soon grows wealthy, and the labourer whom he employs soon grows independent.

2. Both wages and profits may be low, the capitalist may be growing poor and the labourer scarce maintain himself. This is the case whenever trade and manufactures are on the decline.

3. Profits may rise and wages not fall, as where new markets, or an increased demand have elevated the market price; the reverse of which circumstances, would produce the opposite result, viz., profits would fall and wages not rise.

4. Wages may rise and profits not fall, for it may be the direct consequence of a previous rise in the price of the commodity; the converse of which proposition is also true, wages may fall and profits not rise, which is the natural consequence of a continued slack market.

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wherever the best lands only are cultivated, proportional wages are always low, and profits high; but these low proportional wages are always the most advantageous to the labourer, because, as labour is, in such circumstances, extremely productive, a small per-centage of its total amount gives a large supply of necessaries and conveniences. In the advanced stages of society, on the other hand, and wherever lands of a very inferior degree of fertility are cultivated, proportional wages are high and profits low; but owing to the increased difficulty of production, these high proportional wages afford only a comparatively small supply of necessaries and conveniences.

It is therefore on *proportional* wages that profits must always depend; and owing to the increasing difficulty of producing corn and other products, such proportional wages always increase as society advances. This natural tendency of profits to fall is occasionally checked by improvements in machinery, and by discoveries in agriculture; but the effects of these improvements are only temporary; for, by stimulating population, they never fail, in the long run, to force recourse to poor soils; and whenever this is the case, *profits must unavoidably fall*.

It has been contended, that both wages and profits are high in America, and that, therefore, the theory which we now have been endeavouring to explain, and which makes profits in every case to depend on wages, must be erroneous. But the remarks we have just made show that this objection is totally unfounded. It is by proportional quantities, and not by absolute quantities, that we are to estimate the effect of wages on profits. The American labourer receives a less proportion of the produce raised by him than the British labourer, and profits are consequently high in America; but as the American labourer cultivates none but the best soils, and which yield a very large produce, his smaller share of this large aggregate produce gives him a great absolute quantity of necessaries and conveniences, and his condition is, therefore, comparatively prosperous.*

An Increase
of Taxation
Reduces
Profit.

We have, throughout this discussion, been supposing taxation to be invariable. It is plain, however, that as soon as it is increased, it must have one or other of two effects—it must either lower the labourer's command over necessaries and luxuries,

All these cases are inconsistent with the general rule of Ricardo, that a rise of wages is equivalent to a fall of profits, and a fall of wages to a rise of profits. The only other case that remains, and in which alone the position is true, is when the price of the commodity continues stationary, while wages vary; a state of things so far from being the common one, as greatly to lessen the value of a principle which is thus limited in its application.—E.

* If by "comparatively," our author here means as placed in comparison with the British labourer, who receives a larger proportion of the fruits of labour, it produces the awkward inconsistency of making superior prosperity the accompaniment of lower wages. Our author does not seem to perceive that the profits, about which he reasons, are "comparative," as well as the wages; real profits being governed, not so much by the proportion paid to labour, as by the means of profitable investment.

Profits are really high when the returns form a high percentage on the capital employed, just as wages are really high when they afford a surplus after supporting the labourer and his family. The capitalist may grow poor upon high proportional profits, and the labourer may starve upon high proportional wages; so that individual comfort and national accumulation,

and degrade his condition, or it must fall on profits. There are limits, however, and those not very difficult to be attained, to the power of the labourers to pay taxes; and whenever these limits have been reached, they must entirely fall on profits. It has, therefore, been most justly and truly observed by Dr. Smith, that a heavy taxation has exactly the same effects as an increased barrenness of the soil, and an increased inclemency of the heavens.*

Profits and Wages.

The great wealth and commercial prosperity of Holland has been confidently appealed to by Sir Josiah Child, and others, as a convincing proof of the superior advantages of low profits and interest; and seems also to have led Dr. Smith to suppose that the mere accumulation of capital could sink the rate of profit. But in this instance, there can be no doubt that Sir Josiah Child mistook the effect of heavy taxation for the cause of wealth, and that Dr. Smith mistook the same effect for the effect of the accumulation of capital. A country, whose average rate of profit is considerably less than the average rate of profit in surrounding countries, may, notwithstanding, abound in wealth, and be possessed of immense capital; but it is the height of error to suppose, that this lowness of profit could have facilitated their accumulation. There is unquestionable evidence to show that the capital of Holland had been chiefly amassed when profits were comparatively high; and that the subsequent fall of profits was almost entirely a consequence of the oppressiveness of taxation,† and the continued increase of the public debt. In 1580, the interest of the public debt of the province of Holland amounted to 117,000 florins, but so rapidly did it increase, that in 1655, during the administration of the famous John de Witt, the states were compelled to reduce the interest of the debt from 5 to 4 per cent.; and yet, notwithstanding this reduction, it amounted, in 1678, to 7,107,128 florins! (Metelerkamp, *Statistique de la Hollande*, p. 203.) It was this enormous increase of the public debt, and the proportionable increase of taxation which it occasioned, and not the accumulation of capital, that was the real and sole cause of the fall of profits in Holland, and ultimately of her decline and ruin. Sir William Temple, in his *Observations on the United Provinces*, mentions that the trade of Holland was on the decline in 1668, the period when Sir Josiah Child's *Trea-*

Errors of Sir J. Child and Dr. Smith with respect to the Low Rate of Profit in Holland.

the two great points of inquiry to an economist, stand, the latter altogether unaffected, and the former but slightly influenced by this proportionate estimate. On the principle, see Malthus, ch. 5, sect. 1 and 2. On the fact or state of the labouring classes in England with these high proportional wages, see Report of Select Committee; Quarterly Review. Vol. XVIII. XXVIII.; Edinburgh Review, Vol. XLI. p 229.—E.

* This strong but just illustration, shows the duty of limiting taxation to the smallest possible amount consistent with the exigencies of government, and of exercising the strictest economy in its disbursement. A needless tax, or one which is the result of needless expenditure, is equivalent, in proportion to its amount, to the natural calamities of a drought or a famine, and should be equally dreaded by a wise and benevolent politician. This subject will, however, come more in place under the next section which treats of public consumption.—E.

† Taxation in Holland had proceeded to its maximum, which may be calculated at about one third of the national income. It was a common saying among the Dutch, that a dish of fish was paid "once to the fishermen and six times to the State."—E.

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tise was first published; and he further states, that the vast capitals of the Dutch merchants had been chiefly accumulated previously to the war in which the Republic had been engaged with Cromwell and Charles II., and when, of course, taxation was much lighter, and the rate of profits much higher than at any subsequent period.*

Low Profits
cause the
Transfer of
Capital to
other Coun-
tries.

High *proportional* wages and low profits, for they are inseparably connected, ought never to be made the subject of complaint, if they occur in the natural progress of society, under a parsimonious government, and a system of perfectly free intercourse with other countries. But if they are the result of heavy taxation caused by profuse expenditure, or by restrictions which prevent the importation of cheap foreign corn,† and which, there-

* For an account of the effect of heavy taxes on the industry of Holland, see the second volume of the *Traité de la Richesse de la Hollande*, pp. 39 and 179; and a memoir *On the Means of Redressing and Amending the Trade of the Republic*, drawn up from information communicated by the best informed merchants, and published by order of the Stadtholder, William IV. Prince of Orange, in 1751. This memoir was translated into English, and published in London in the same year.

† The impolicy of the corn laws of England is no longer a disputed question; the only difficulty lies in returning to the free and natural course of things with the least injury to that class of men whose interests have been based upon these injudicious restrictions. How sensibly it is now felt to be the interests of a monopoly and not of the nation which are involved in their support, may be judged from the numerous petitions for their repeal which have recently come before Parliament. For the arguments urged, and the modifications proposed, see the recent speeches of Mr. Huskisson on the question, May, 1825.

The general principles of the science are all in opposition to them. The arguments in favour of corn laws, or rather the objects which they have in view, are two fold.

1. National security, by growing at home the means of subsistence, and encouraging importation when threatened with a scarcity.

2. The security and benefit of the landed interest, by keeping corn at a medium price, encouraging exportation when low, and importation when high, and preventing foreign competition, except when the national interest imperatively requires it, as in the case of a short crop and threatened scarcity—a state of things always marked by a great advance of price.

The first of these arguments may be answered both by fact and reasoning. No countries in Europe have so often suffered by famine as those which have adopted these securities against it, for instance, Italy and Spain. Those who have money are never found to want corn, whether it be raised at home or abroad. The general reasoning which bears against this point, explains clearly why this must be so. The corn laws narrow the calculations of the producer to the supply of the home market; within this he seeks to limit himself, and a scant crop must be the frequent consequence; but give him an unlimited market, and an unlimited supply will be the result—unlimited except by those general laws on which depends the advancement of wealth—the comparative cost of production at home and abroad.

In relation to the second argument advanced in favour of the corn laws, it may be observed that neither have they attained the object proposed, nor if they could attain it, ought partial interests ever to be made the aim of national regulations.

They have secured a limited monopoly, but not steady prices, to the growers of corn, since the range of price from the minimum at which exportation is permitted, to the maximum at which the ports are open, comprehends a greater range than could possibly exist under a free trade. "Open the flood gates," to use the illustration of Adam Smith, "and it will soon come to a level," the permanency of which, will be more to the interest of the agriculturist than the doubtful monopoly which he now enjoys.

fore, force the cultivation of inferior soils at home, they cannot be too strongly condemned. A nation placed in such circumstances must not only advance slowly, when compared with other nations which are enabled to raise their supplies of raw produce from superior soils—the power to accumulate capital must not only be diminished, but a strong temptation must be held out to transfer it to other countries. The love of country—the thousand ties of society and friendship—the ignorance of foreign languages, and the desire to have one's stock employed under their own inspection, will, no doubt, in very many instances, induce capitalists to rest contented with a *less* rate of profit in their own, than they might realize by investing their funds in other countries. But this love of country has its limits. The *love of gain*—the *auri sacra fames*—is a no less powerful and constantly operating principle; and if capitalists are once assured that their stock can be laid out with equal security, and with considerably greater advantage in foreign states, an efflux of capital to a greater or less extent will unquestionably take place.

A manufacturing and commercial country, which has wisely adopted a liberal commercial system, has no reason to be alarmed at the effects of competition in any department of industry. The production of one commodity opens a market for the exchange, that is for the *sale* of some other commodity. What a manufacturing and commercial nation has really to fear is, that its *average rate of profit* should fall lower than the average rate of profit in the neighbouring counties. If this should be the case, its progress will, in consequence, be retarded; and it will ultimately languish and decline. Neither the skill, industry, and perseverance of artizans, nor the most improved and powerful machinery, can permanently withstand the paralyzing and deadening influence of a comparatively low rate of profit. And such a comparative reduction, it must never be forgotten, will be constantly produced by a *comparatively heavy taxation*, and by acting

But even supposing his interests were secured by these provisions, it would be, on the part of the government, a narrow and unwise policy. In the truest sense of the term, he is the grower of corn who furnishes it to the country; and he is the most profitable grower of corn who furnishes it at the cheapest rate. Whether he raise it in the vale of Gloucester, or on the flats of the Genesee, is to the nation a matter of utter indifference; nor do the chances of navigation and foreign wars, to which the one is subjected, constitute a greater risk than the drought, and the frost, and the fly, to which the other is exposed. He who sits at home, therefore, and manufactures wool or iron, is raising corn for the nation as surely, and perhaps more profitably, than he who is labouring in the field.

The difficulties with which the English government now feel themselves involved, in relation to this subject, arise not from principle but expediency, from the whole system of their agriculture and the various interests connected with it being based upon these laws; difficulties which may serve as a warning to our country, how we hastily enter on an artificial and restrictive system which hereafter cannot be abandoned but at the risk of great injustice and a breach of national good faith.

For more detailed views of this subject, let the student consult the article in the supplement to the Encyclopedia Britannica, entitled *Corn Trade and Laws*. To this article Mr. Ricardo before his death, gave the stamp of his approbation; "it shows," said he, "that the author is completely master of the subject." See also Adam Smith, Book IV. ch. 5: Malthus, on the Corn Laws, reviewed in the Edinburgh Review, No. 48, art. 13; also, Vol. XLI. p. 55; also, No. 51, art. 6; also, Quarterly Review, Vol. XXX. p. 486.—E.

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on a *factitious and exclusive commercial system*;* for, by preventing the importation of cheap foreign corn, we necessarily force the cultivation of poor soils, and thus by raising proportional wages sink profits.

PART IV.

CONSUMPTION OF WEALTH.

Having in the previous sections endeavoured to explain the means by which labour is facilitated, and wealth produced, and to investigate the laws regulating its distribution among the various classes of the society, we come now to the *third* and last division of the science of Political Economy, or to that which treats of the CONSUMPTION of Wealth.†

* Among the great moral revolutions of sentiment which the course of the last fifty years has produced; there is none more marked than the open abandonment on the part of English statesmen, of the principles of that narrow exclusive policy by which they have so long been bound. It is one of the victories over prejudice and error, for which we are indebted to Political Economy, and is to be received as an earnest of what that science will one day effect in the regeneration of government, and in advancing the great interests of humanity, by constituting peace and mutual international benefits as the great pillars of national prosperity.

That this change of the language and system of England is a mere political compliance with the peculiar relations in which she now stands to other countries, and that her present greatness has arisen from the opposite course, is an illiberal and false suspicion; for there is no period of her history in which the same arguments in favour of the liberal system would not have been equally conclusive, in which free labour, open capital, unrestricted enterprise, and unshackled commerce, would not have been equally to the credit of her sagacity, and the increase of her national wealth.

Let not us then copy her early errors and late repentance, but strike in at once upon the course of improvement, with all the lights of modern science. In this, indeed, consists the peculiar felicity of our situation as Americans, that we are an old people operating upon the resources of a new country, having in our constitution the wisdom of age and the energy of youth, and rather starting into manhood than growing into it through the slow advances by which the nations of the old world have past, of feebleness, and ignorance, and inexperience.

On this subject see recent speeches in Parliament, by Mr. Canning and Mr. Huskisson, who speak the language of the Cabinet, more especially the latter, whose situation at the head of the Board of Trade gives peculiar weight both to his opinions and his acknowledgments. Yet these are sentiments which less than a century ago, viz. in 1723, when uttered by a Minister in the House of Commons, were cried down as treason against the majesty of England, and a rebellion was the threatened result of their application. The wise, but bold measure, that was thus threatened, was that of making "London a free port, and by consequence the market of the world,"—a proposal due to the sagacity of Sir R. Walpole, a minister, who alike honoured and disgraced the premiership, by his worldly wisdom and his personal vices. See speech on the Introduction of Excise Scheme, Coxe's Life, Vol. I. p. 372. See also M'Culloch's Introduction, where it is quoted.—E.

† In the sentiments contained generally in the following section, the Editor thinks there will be, in this country, little difference of opinion. The arguments, however, in favour of Adam Smith's principle will be fairly stated. On the subject of gluts there will exist some doubt,—it is a question of so intricate a nature, that even in the best writers it is involved in much obscurity. The consumption of government is treated too succinctly

Definition of Consumption—Consumption the end of Production Consumption of Wealth.
—Test of Advantageous and Disadvantageous Consumption—
Error of Dr. Smith's Opinions with respect to Unproductive
Consumption—Error of those who contend, that to facilitate
Production it is necessary to encourage Consumption—Cause of
Gluts—Consumption of Government—Conclusion.

We formerly showed, that, by the production of a commodity was not meant the production of matter, for that is exclusively the prerogative of Omnipotence, but the giving to matter already in existence such a shape as might fit it for ministering to our wants and enjoyments.* In like manner, by consumption is not meant the consumption, or annihilation of matter, for that is equally impossible as its creation, but merely *the consumption or annihilation of those qualities which render commodities useful and desirable.* To consume the products of art or industry is, therefore, really to deprive the matter of which they consist of the utility, and consequently of the exchangeable value communicated to it by labour. And hence we are not to measure consumption by the magnitude, the weight, or the number of the products consumed, but exclusively *by their value.* Large consumption is the destruction of large value, however small the bulk in which that value may happen to be compressed.

Consumption, in the sense in which the word is used by Political Economists, is synonymous with *use.* We produce commodities only that we may be able to use or consume them.† Consumption the end of Production.

for its importance,—a few further hints will open the subject to the reader in some of its many bearings, and lay down the principles that should govern the practical legislator as well as the theoretical economist in deciding upon them.—*E.*

* This definition extended a step further, so as to embrace that accumulation of products which we term capital, will throw light on that important subject. It is a common prejudice to regard capital as existing in certain definite forms,—such as money, houses, or lands. This definition, however, extends our notion of it to all that possesses value. The material form is something incidental and unimportant, the real capital is immaterial, and, as it were, spiritual, existing in value and use, in its relation to the wants of man and the needs of society. Thus a man's capital may be doubled or diminished to one half its amount, without the alteration of one particle of the matter of that in which it consisted, a position which is illustrated in every rise and fall of property—as, for instance, city lots and houses doubling in value by increase of inhabitants,—farms, by facility of intercourse,—or, on the other hand, houses without chance of tenants, or ships of freight.—*E.*

† As an exception to this assertion might be started by an unpractised reader, the case of articles produced for sale. The answer is, that the language of our author is general and scientific,—having reference, not to individuals, but to man in general. To him, consumption is the sole object of production and the sole application of products.

In regard of the foreign exchanges which one country makes with another, there may appear some doubt as to the true method of stating them, in estimating its production and consumption. The clearest and simplest light in which they can be placed is to rank all exportation as consumption, and all importation as reproduction. The merchant consumes his exports and reproduces his imports. Among the just and striking analogies which arise on viewing the subject in this light, are the following:—

1. Commerce appears under a new character, it becomes a species of manufacture, which consuming reproductively the surplus of the annual yield of the country, reproduces it under a new and more valuable form,—by a

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Consumption is the great end and object of all human industry. Production is merely a means to attain an end. No one would produce were it not that he might afterward consume. All the products of art and industry are destined to be consumed, or made use of; and when a commodity is brought into a state fit to be used, if its consumption be deferred a loss is incurred. All products are intended either to satisfy the immediate wants, or to add to the enjoyment of their producers; or they are intended to be employed as capital, and made to reproduce a greater value than themselves. In the *first* case, by delaying to use them, it is plain we either refuse to satisfy a want, or deny ourselves a gratification it is in our power to obtain;—and in the *second*,

new kind of alchemy it converts wheat into gold and cotton into silk, or into whatsoever other metal, or material, or form, the dealers at this new manufacturing mill may choose to require. If we could suppose this transformation thus effected by art and skill, what limit could we set to the national value of an engine of such superhuman powers, and what difference does it make to the nation, while it receives the benefit, as to the particular process by which the conversion is effected.

2. In estimating the benefits of commerce, it teaches us that we need look no further than the warehouse of the merchant; that which goes in is to be compared with that which comes out; what passes in the interval is nothing more than the process of the manufacture,—the merchant scatters his wheat upon the waters as the farmer does his upon the land, and “after many days he finds it,”—to judge of the national benefit, there is no more necessity of tracing the changes it undergoes on the bosom of the one than in the dark recesses of the other. In the case of the farmer, we learn the quantity sown and the crop that he has reaped, and are satisfied that in the proportion which exists between them lies all which is material to himself or the nation. The subdivision of his farm, the rotation of his crops, and the nature of his fences, we leave confidently to the operation of self-interest and private judgment. So is it with the merchant, he sows cotton and reaps silk; what is it to the public whether it be upon land or water; that it brings a good crop is all that concerns the public to know, and that is known by it continuing to be cultivated. As to the various processes through which that which is consumed passes before it issues again in its new form, that is, as to all the detail of commercial balances, markets, and exchanges,—it is an analysis as foreign to the determination of the result, as an examination into the progress of vegetation would be, previous to deciding on the profits of the farmer.

3. This analogy serves to set in a still stronger light, the absurdity of resting the benefits of commerce upon the balance of trade,—or rather it shows that the rule is to be reversed, so far as any conclusion can be drawn from it. In a good crop, whether from land or sea, the returns must exceed the outlay—and the farmer, and the merchant, and the country alike grow rich, just in proportion as they do so.

These observations may serve also to show the identity of interest that prevails throughout all the classes of the community, and the fallacy of dividing them into separate interests. Who is the farmer, and who is the manufacturer? Or rather, what merchant is there who is not either the one or the other. If he furnish to the country of the produce of the ground he is the former, if the results of after labour he is the latter,—no matter what materials he makes them out of, or with what machines he works, or by what name he may be popularly distinguished, to the eye of the political economist, and in so far as he is connected with national interests, the merchant is a woollen, or cotton, or iron manufacturer, the proprietor of a vineyard, or the manager of a sugar plantation, just according to the varying nature of the products which are the result of his labour. The community, as such, has but one interest, viz. the cheapness and goodness of the commodities it consumes. The science knows no such interest as that of the producer,—that interest is always a monopoly. Production is but the means to an end,—and the producer is, in all cases, but the servant of the public.—*E.*

by delaying to use them, it is equally plain we allow the instruments of production to lie idle, and lose the profit that might be derived from their employment.

Consumption of Wealth.

Test of advantageous Consumption.

But, although all commodities are produced only to be consumed, we must not fall into the error of supposing, that all consumption is equally advantageous to the individual, or the society. If an individual employs a set of labourers to build him a house the one summer, and to pull it down the next, their labour, or rather the capital he gave them in exchange for their labour, and which they have consumed during the time they were engaged in this futile employment, is evidently destroyed for ever, and absolutely lost both to himself and the public; whereas, had he employed them in the raising of corn, or in the production of any species of valuable produce, he would have obtained commodities of equal, or more than equal, value to the capital he gave them. *The value of the return, or the advantage obtained from the consumption, is, therefore, the true and only test of advantageous and disadvantageous, or, as it is more commonly termed, of productive and unproductive consumption. Commodities are consumed productively when the advantage or benefit accruing in consequence to their possessors, or when the value of the products obtained in their stead exceeds their value; and they are consumed unproductively when the value of the advantage or benefit, or the value of the new commodities, is less than their value.* It is on this balance of consumption and reproduction, and not, as was so long supposed, on the balance of trade, that the prosperity or decay of every nation depends. If, in given periods, the commodities produced in a country exceed those consumed in it, the means of increasing its capital will be provided, and its population will either increase, or the actual numbers will be better accommodated, or both. If the consumption in such periods fully equals the reproduction, no means will be afforded of increasing the stock or capital of the nation, and society will be at a stand. And if the consumption exceeds the reproduction, every succeeding period will see the society worse supplied; its prosperity and population will evidently decline; and pauperism will gradually and progressively spread itself over the whole country.

It is impossible, however, to fix on any standard by a comparison with which we may be able to obtain even a tolerable approximation to the comparative value or advantage of different kinds of consumption. This is a point on which the sentiments of no two individuals can ever exactly coincide. The opinions of each will always depend more or less on the situation in which he is placed. The rich man will naturally be inclined to give a greater extension to the limits of advantageous consumption than the man of middling fortune; and the latter than the man who is poor. And it is undoubtedly true that a man's expenses ought always to bear some proportion to the magnitude of his fortune, and his condition in society; and that what might be proper and advantageous expenditure in one case, might be exceedingly improper and disadvantageous in another. It is, therefore, quite impossible to frame any system of rules on the subject of expenditure, which shall be applicable to the case of every individual; and even if it were practicable, there is no ground to think that

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the formation of such rules would be of the smallest utility. The state has no right whatever to control individual expenditure ; nor, even if it had such a right, could it exercise it without occasioning serious injury. The public interest requires that the national capital should, if possible, be constantly kept on the increase ; or, which is the same thing, that the consumption of any given period should be made the means of reproducing a greater value. But we have sufficiently proved that this cannot, in any case, or under any circumstances, be the result of a system of *surveillance* and restriction. Industry and frugality never have been, and never can be, promoted by such means. To render a man industrious, secure him the peaceable enjoyment of the fruits of his industry ;—to wean him from extravagance, and to render him frugal and parsimonious, allow him to reap all the disadvantage of the one line of conduct, and all the advantage of the other. The poverty and loss of station which is the necessary and inevitable result of improvident and prodigal consumption, is a sufficient security against its ever becoming injuriously prevalent ; and wherever the public burdens are moderate, property protected, and the perfect and uncontrolled freedom of industry secured, the constant efforts of the great body of the people to rise in the world and improve their condition, will ensure the continued increase of national wealth. It is idle to expect that all unproductive and unprofitable expenditure can ever be avoided ; but the experience of all tolerably well governed states proves, that the amount of the produce of industry productively expended, is always infinitely greater than that which is expended unproductively.

Luxury not disadvantageous.

It was long a prevalent opinion among moralists, that the labour bestowed on the production of luxuries, and consequently their consumption, was unproductive. But this opinion is now almost universally abandoned. Unless, indeed, all comforts and enjoyments are to be proscribed, it is impossible to say where necessaries end, and luxuries begin. But if we are to understand by necessaries such products only as are absolutely required for the support of human life, every thing but wild fruits, roots, and water, must be deemed superfluous ; and in this view of the matter, the peasantry of Ireland, who live only on potatoes and butter-milk, must be considered as contributing much more to the national wealth than the peasantry of Britain ! The mere statement of such a doctrine is sufficient for its refutation. Every thing that stimulates exertion is advantageous. The mere necessaries of life may be obtained with comparatively little labour ; and those savage and uncivilized hordes, who have no desire to possess its comforts, are proverbially and notoriously indolent and dissipated. To make men industrious—to make them shake off that lethargy which is natural to them, they must be inspired with a taste for the luxuries and enjoyments of civilized life. When this is done, their artificial wants will become equally clamorous with those that are strictly necessary, and they will increase exactly as the means of gratifying them increase. Wherever a taste for comforts and conveniencies has been generally diffused, the wants and desires of man become altogether unlimited. The gratification of one leads directly to the formation of another. In highly civilized societies, new

products and new modes of enjoyment are constantly presenting themselves as motives to exertion, and as means of rewarding it. Perseverance is, in consequence, given to all the operations of industry; and idleness, and its attendant train of evils, almost entirely disappear. "What," asks Dr. Paley, "can be less necessary, or less connected with the sustentation of human life, than the whole produce of the silk, lace, and plate manufactory? Yet what multitudes labour in the different branches of these arts! What can be imagined more capricious than the fondness for tobacco and snuff? Yet how many various occupations, and how many thousands in each, are set at work in administering to this frivolous gratification!" It is the *stimulus* which the desire to possess these articles of luxury gives to industry that renders their introduction advantageous. The earth is capable of furnishing food adequate for the support of a much greater portion of human beings than can be employed in its cultivation. But those who are in possession of the soil will not part with their produce for nothing; or rather, they will not raise at all what they can neither use themselves nor exchange for what they want. As soon, however, as a taste for conveniencies and luxuries has been introduced, the occupiers of the ground raise from it the utmost that it can be made to produce, and exchange the surplus for such conveniencies and gratifications as they are desirous of obtaining; and, in consequence, the producers of these articles, though they have neither property in the soil, nor any concern in its cultivation, are regularly and liberally supplied with its produce. In this way, the quantity of *necessaries*, as well as of useful and agreeable products, is vastly increased by the introduction of a taste for luxuries; and the population are, in consequence, not only better provided for, but their numbers are proportionably and greatly augmented.

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It is plain, therefore, that the consumption of luxuries cannot, provided it be confined within proper limits, be justly considered as either disadvantageous or unproductive. If, indeed, a man were to consume more luxuries than his labour or his fortune enabled him to command, his consumption would be disadvantageous. But it is plain, the same thing would equally have happened had he consumed a greater quantity of *necessaries* than he could afford. The mischief does not consist in the *species* of articles consumed, but in the *excess of their value* over the means of purchasing them possessed by the consumers. This, however, is a fault which ought always to be left to be corrected by the *self-interest* of those concerned. The poverty and degradation caused by indulging in unproductive consumption is a natural and sufficient guarantee against its ever being carried to an injurious extent. To attempt to lessen unproductive consumption by proscribing luxury, is really the same thing as to attempt to enrich a country by taking away some of the most powerful motives to production.*

* That sumptuary laws are unwise may be judged from their general abandonment; once they were common throughout Europe, now they are confined almost to the mountains of Switzerland. At an early period, they formed a prominent feature of the colonial laws of our country, but as their old annalist observes, survived not its "golden age." They were found here, as elsewhere, to be inconsistent with the progress of

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Dr. Smith's Criterion of Productive and Unproductive Consumption.

Dr. Smith has given another criterion of productive and unproductive consumption ; but his opinions on this subject, though exceedingly ingenious, and supported with his usual ability, appear to rest on no solid foundation. He divides society into two great classes. The *first* consist of those who fix, or, as he terms it, "realize their labour in some particular subject, or vendible commodity, which lasts for some time at least after that labour is past ;" the *second* of those whose labour leaves nothing in existence after the moment of exertion, but perishes in the act of performance. The former are said by Dr. Smith to be *productive*, the latter *unproductive* labourers. Not that, in making this distinction, Dr. Smith means to undervalue the services performed by the unproductive class, or to deny that they are often of the highest utility ; for he admits that such is frequently the case : but he contends, that these services, however useful, do not augment the *wealth* of the country ; and, consequently, that the commodities consumed by this class are unproductively consumed, and have a tendency to impoverish, not to enrich the society. But to avoid the chance of misrepresentation, we shall give Dr. Smith's opinions in his own words.

"There is one sort of labour," says he, "which adds to the value of the subject upon which it is bestowed ; there is another which has no such effect. The former, as it produces a value, may be called productive ; the latter unproductive labour. Thus the labour of a manufacturer adds, generally, to the value of the materials which he works upon, that of his own maintenance,

wealth. Franklin in his homely way illustrates the principle by the effect produced by "a fine bonnet" from Philadelphia, upon the habits of a retired village in Pennsylvania ; it turned all the idle young women into industrious knitters and spinners, in order to procure the means of similar display.

It has been often questioned whether Political Economy be a moral science ; the decision of Adam Smith and his followers is against it ; the production of material wealth is the only question they admit. National prosperity as it rests upon the higher sources of talent, learning, science, and virtue, is altogether excluded, together with all reference to individual enjoyment. According to the policy of this system, every man would labour like a slave, hoard like a miser, and live like an anchorite ; and if this is not to be the result, it is because reason and propriety and prudence are overruling considerations, and these are moral motives. We may, therefore, regard Political Economy to be what all science must be, which has reference to the conduct and wellbeing of man, a moral science, governed by those limitations which are imposed by virtue and prudence, and including all those operating causes which influence his character and happiness. To this view of it, there lies indeed the objection, that it introduces many considerations of a general and moral nature, and therefore not easily estimated. But in answer, let it be observed, that it also gives to the science the greater advantage of truth of application, and forms the politician, not upon the rashness of theory, but upon the calm confidence of practical investigation. He alone who studies Political Economy as a moral science, brings into calculation all the elements upon which national prosperity depends ; hence, the results at which he arrives are most likely to be found in accordance with fact, and the principles he deduces to be true, and practical, and operative, since they are derived from a joint examination of the nature of wealth and the nature of man who estimates it. The ground of this decision is a universal axiom. Every rule and law which is intended to be operative upon man, must be based upon the knowledge of that compound nature which it proposes to regulate, for otherwise it will in practice be found to be either inapplicable, inefficient, or injurious.—*F.*

and of his master's profit. The labour of a menial servant, on the contrary, adds to the value of nothing. Though the manufacturer has his wages advanced to him by his master, he, in reality, costs him no expense, the value of those wages being generally restored, together with a profit, in the improved value of the subject upon which his labour is bestowed. But the maintenance of a menial servant never is restored. A man grows rich by employing a multitude of manufacturers; he grows poor by maintaining a multitude of menial servants. The labour of the latter, however, has its value and deserves its reward as well as that of the former. But the labour of the manufacturers fixes and realizes itself in some particular subject, or vendible commodity, which lasts for some time at least after that labour is past. It is, as it were, a certain quantity of labour stocked and stored up to be employed, if necessary, upon some other occasion. That subject, or, what is the same thing, the price of that subject, can afterward, if necessary, put into motion a quantity of labour equal to that which had originally produced it. The labour of the menial servant, on the contrary, does not fix or realize itself in any particular subject or vendible commodity. His services generally perish in the very instant of their performance, and seldom leave any trace or value behind them for which an equal quantity of service could afterward be procured.

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“The labour of some of the most respectable orders in the society is like that of menial servants, *unproductive of any value*, and does not fix or realize itself in any permanent subject or vendible commodity, which endures after that labour is past, and for which an equal quantity of labour could afterward be procured. The sovereign, for example, with all the officers both of justice and war who serve under him, the whole army and navy, are unproductive labourers. They are the servants of the public, and are maintained by a part of the annual produce of the industry of other people. Their service, how honourable, how necessary, or how useful soever, produces nothing for which an equal quantity of service can afterward be procured. The protection, security, and defence of the commonwealth, the effect of their labour this year, will not purchase its protection, security, and defence for the year to come. In the same class must be ranked some both of the greatest and most important, and some of the most frivolous professions: churchmen, lawyers, physicians, men of letters of all kinds; players, buffoons, musicians, opera-singers, opera-dancers, &c. The labour of the meanest of these has a certain value, regulated by the very same principles which regulate that of every other sort of labour; and that of the noblest and most useful produces nothing which could afterward purchase or procure an equal quantity of labour. Like the declamation of the actor, the harangue of the orator, or the tune of the musician, the work of all of them perishes in the very instant of its production.” (*Wealth of Nations*, II. p. 1.)*

* The invidious distinction here drawn between the various classes of the community by arranging them as productive or unproductive labourers, is one of the narrow and imperfect views which is justly discarded in the liberal system of Political Economy.

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Dr. Smith's Distinction between the Different Classes of Society shown to be ill-founded.

Such are the opinions of Dr. Smith, and it will not, we think, be very difficult to show the fallacy of the distinction he has endeavoured to establish between the labour, and consequently also the consumption, of the different classes of society. To begin with the case of the menial servant :—Dr. Smith says, that his labour is *unproductive*, because it is not realized in a vendible commodity, while the labour of the manufacturer is *productive*, because it is so realized. But of what, may we ask, is the la-

It is an early and natural prejudice, that some portions of society are idle, contribute nothing to public prosperity, and live solely upon the labour of others. This error meets us under different forms.

1. The vulgar prejudice against the rich as if they were supported by the poor, and themselves contributed nothing to the common sustenance of the whole. Science has put down this language of ignorance and envy, and shown that the capital of the rich man is as effective in the support of society, as the manual labour of the poor. Indeed if any distinction is to be drawn between them it is in favour of capital as the higher agent, which sets in motion, and so far supports all the productive industry of the country, that if it should be diminished one half, one half the labourers would immediately be driven away by starvation.

2. A more scientific, but not better founded opinion, is that of the French economists, who stigmatized as unproductive labourers all those who contributed not to the products of agriculture. This alone, according to them, furnished a surplus return to labour, which appeared in the form of rent paid to the landholder for the productive services of the soil. This prejudice is also exploded by advancing science, which shows—First, that rent is the result, not of the higher, but of the more stinted energies of nature in the processes of agriculture—Secondly, that all other classes are equally with the farmer raisers of grain, provided their labours enable him to devote himself unreservedly to its cultivation—and lastly, that raw produce is without value till manufacturing labour brings it into a form subservient to the use of man, and commercial labour has, by a series of exchanges, brought it to the hands of the consumer.

3. The most liberal form under which this prejudice exists, is that maintained by Adam Smith, as quoted in the text, excluding all from the productive class whose labour is not realized in a material form. This distinction arose necessarily from his definition of wealth, which he confined to material products.

The result of these views, was the division of society, by Adam Smith, into the four following classes :—

1. Labourers, who perform the work, and who live on wages.
2. Capitalists, i. e. holders of land or money, who furnish to the former the means of labour, and who live on rent.
3. Traders, who facilitate the exchanges necessary to society, and who live on profits.
4. Servants or drones of society, comprising the discordant assemblage of king, magistrates, professional men, players, house servants, and vagabonds.

The question lies, not with regard to the correctness of his conclusions which are incontrovertible upon the principles on which he sets out, but to the expediency of the premises themselves. For a defence of the views of Adam Smith, see the Review of this article in the Quarterly, Vol. XXX. p. 299.

The frequent anomalies which arise out of this limitation of wealth, would seem to show that there is something erroneous in the principle upon which it rests. As for instance, a musical instrument is a portion of wealth, and he who made it is a productive labourer, while he whose skill applies it to the only use for which it was made, and thereby prevents it from being wholly useless, *he* is an unproductive labourer. He who polishes boots to be sold is a productive labourer—he who performs the same office in a family is an unproductive labourer. Indeed this inconsistency may be made to appear in a thousand instances, and is very well exemplified by our author in the text.

bour of the manufacturer really productive? Does it not consist exclusively of comforts and conveniencies required for the use and accommodation of society? The manufacturer is *not* a producer of matter, but of *utility* only. And is it not obvious that the labour of the menial servant is also productive of utility? If, for example, the labour expended in converting the wool of the sheep into a coat be, as it unquestionably is, productive, then surely the labour expended in cleaning and brushing the coat, and rendering it fit to be worn, must be so too. It is universally allowed, that the labour of the husbandman in raising corn, beef, and other articles of provision, is productive; but if so, why is the labour of the menial servant who performs the *necessary* and *indispensable* task of preparing and dressing these articles, and fitting them to be used, to be stigmatized as unproductive? It is clear to demonstration, that there is no difference whatever between the two species of industry—that they are either both productive, or both unproductive. To produce a fire, is it not

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In opposition to these exclusive views, appears the liberal system of Ganihi, Say, Malthus, &c. According to this system every man is a productive labourer, if neither thief nor beggar. If he maintain himself, he must do it by producing either the direct means of subsistence, or what society considers as an equivalent, he exchanges equal values with those around him—he gives either labour, or capital, or land, or skill, or talent of some kind or other, but of equal value in the eyes of the community, with that which he receives in exchange. But to this wide principle there are two exceptions—political and moral.

1. *Political*.—When left to the voluntary support of society, no order of men can become too numerous—arbitrarily supported, they may, and often do—as ecclesiastics in Romish countries, and officers of state under monarchical governments.

2. *Moral*.—This exception is twofold.—1. Exclusive. 2. Limiting.

1. Excluding those who live by preying upon the vices of men and the corruptions of society. The kidnapper, the gambler, the provider of the means of gaming, intemperance, and vice, all fall under this head. They are self supported, but at the same time ruinous members of the community. Among these specifications as a prominent evil of our country, and more especially of the city of New-York, may be mentioned the facilities given to intemperance by a needless multiplication of licensed retailers of spirituous liquors. It is an evil great and manifold, moral, political, and economical, striking at the root of national prosperity, and filling society with poverty and crime.

2. Limiting by the rules of moderation and prudence those who furnish the means of public amusement. This is a check, however, which lies not in the laws but in the manners of society, and is a further proof of the moral character of the science which requires it.

The division which Say makes of the various classes of society is as follows. He brings into the rank of productive labourers, all who fall within the following classification:

1. Holders of land or of any other natural agent.
2. Capitalists who furnish the means of supporting the labourer. And,
3. The industrious class which includes all who live upon labour, mental or corporeal. This class comprehends the excluded labourers of Adam Smith, and is subdivided as follows:—

1. Those who obtain the raw materials, or agriculturists.
2. Who give to it utility by change of form, or manufacturing labourers.
3. Who bring it to the hands of the consumer, or commercial labourers.
4. Who increase the power of the preceding labourers, direct their efforts, or secure the fruits of their labour. This includes,

1. Government in all its branches, who preserve the peace, safety, and good order of society.

2. Education in all its forms, intellectual, moral, and religious.

3. Science in all its modifications.—E.

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just as necessary that coals should be carried from the cellar to the grate, as that they should be carried from the bottom of the mine to the surface of the earth? And if it is said, that the miner is a productive labourer, must we not also say the same of the servant, who is employed to make and mend the fire? The whole of Dr. Smith's reasoning proceeds on a false hypothesis. He has made a distinction where there is none, and where *there can be none*.* The end of all human exertion is the same—that is, to increase the sum of necessaries, comforts, and enjoyments; and it must be left to the judgment of every man to determine what proportion of these comforts he will have in the shape of menial services, and what in the shape of material products. It is an error to suppose that a man is impoverished by maintaining menial servants, any more than by indulging in any other species of expense. It is true he will be ruined if he keeps more servants than he has occasion for, or than he can afford to pay; but his ruin would be equally certain were he to purchase an excess of food or clothes, or to employ more workmen in any branch of manufacture than are required to carry it on, or than his capital could employ. To keep two ploughmen when one only might suffice, is just as improvident and wasteful expenditure as it is to keep two footmen to do the business of one. *It is in the extravagant quantity of the commodities we consume or of the labour we employ, and not in the particular species of commodities or labour, that we must seek for the causes of impoverishment.*†

* For an able defence of Smith against this heavy charge, see the Review of this article, already quoted, in the Quarterly, No. 60; where the reviewer has the accidental advantage of pressing upon our author the inconsistency of these sentiments, with the definition with which he commences, viz., that Political Economy is “the science of the laws which regulate the production, distribution, and consumption of *material products*.” This, however, is foreign to the merits of the decision. The real question turns upon this single consideration—whether the science relates to exchangeable value in general, or solely to that value which exists in material products. It is, in short, a question of consistency of definition, rather than of truth of reasoning. The conclusions of Adam Smith are equally logical with those of Ricardo. The choice is to be made in the premises from which they set out, and that choice is to be determined by comparing them, and the results which flow from them, with the truth and nature of things. If there be such a portion of national wealth as skill, science, and learning, then is the definition to be rejected which excludes the consideration of them. If from certain premises we arrive at the conclusion that such men as Watt, and Whitney, and Fulton, were unproductive labourers, then are the premises to be denied from which follows so unjust a conclusion.—*E.*

† The principle here laid down, is not only true in theory, but highly valuable in practice. It affords a solution of the anomalous case of ill success combined with economy,—poverty resulting, not from extravagance, but from want of good management. Such persons are economical, perhaps penurious in their habits; live miserably and yet succeed ill,—while others, with no greater advantages, afford themselves all reasonable comforts, and yet go on and prosper. The reason may be stated in the words of our author, “they keep two ploughmen to do the work of one;” whatever be their business, there is a wastefulness of time, of labour, or of capital, in all their arrangements, which increases to them the cost of production, and renders the natural price of the commodity which they furnish, an insufficient return for that which it costs them. The natural price of the commodity, whether it be the result of mental or manual labour, is always regulated by the cost at which the industrious and skilful can fur-

The same reasoning applies to all the other cases mentioned by Dr. Smith. Take, for example, the case of the physician. Dr. Smith tells us that he is an unproductive labourer, because he does not directly produce something that has exchangeable value. But if he does the same thing *indirectly*, what is the difference? If the exertions of the physician are conducive to health, and if, as is undoubtedly the case, he enables others to produce more than they could do without his assistance, then it is plain he is *indirectly*, at least, if not directly, a productive labourer. Dr. Smith makes no scruple about admitting the just title of the workman employed to repair a steam-engine to be enrolled in the productive class; and yet he would place a physician, who had been instrumental in saving the life of an Arkwright or a Watt, among those that are unproductive! It is impossible that these inconsistencies and contradictions could have occurred to Dr. Smith; and the errors into which he has fallen in treating this important branch of the science, shows in the strongest manner the absolute necessity of advancing with extreme caution, and of subjecting every theory, how plausible and ingenious soever it may appear when first stated, to a severe and patient examination.

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—
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The amusements furnished by players, singers, and so forth, come under the description of luxuries, and have precisely the same effect on the public wealth as the introduction of a taste for tobacco, tea, or other superfluities. They create new wants, and by so doing, stimulate our industry to procure the means of gratifying them. They are really, therefore, a means of production; and while they furnish us with elegant and amusing recreation, they certainly add to the mass of useful material products.

The productiveness of the higher class of functionaries mentioned by Dr. Smith is still more obvious. So far, indeed, from being unproductive, they are, when they discharge properly the duties of their high station, the most productive labourers in a state. Dr. Smith says, that the results of their service, that is, to use his own words, "the protection, security, and defence of the commonwealth any one year, will not purchase its protection, security, and defence for the year to come." But this is plainly an error. We do not say that the protection and security afforded by good government is directly a cause of wealth; but it is plain that without this security and protection, the productive powers of industry could not have been called into action. Dr. Smith would allow that the material products produced by the society one year, were to form the means of producing its supplies of necessaries, conveniences, and enjoyments during the

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year; and hence it is, that comparative indolence and comparative ignorance never can succeed in any business or profession. The unskilful farmer, the negligent lawyer, and the indolent merchant, are soon distanced in the race of competition,—they are undersold in the market, by the skilful, the attentive, and the diligent. They complain of fortune or favour, but the cause lies within themselves. They are parsimonious without being economical, and busy without being industrious,—they are extravagant in that which is of more value in business than money, of time, order, and punctuality,—thus it is that fortune and favour, the servants of merit, desert them, business declines, friends fall away, debts increase, and ruin ensues.—*F.*

following year. But without the security and protection afforded by government, these products would either have not existed at all, or their quantity would have been very greatly diminished. How, then, is it possible to deny that those whose labour is necessary to afford this security are productively employed? Take the case of the labourers employed to construct fences; no one ever presumed to doubt that their labour is productive; and yet they do not contribute *directly* to the production of corn or of any other valuable product. The object of their industry is to give protection and security; to guard the fields that have been fertilized and planted by the husbandman from depredation; and to enable him to prosecute his employments without having his attention distracted by the care of watching. But if the security and protection afforded by the hedger and ditcher justly entitle them to be classed among those who contribute to enrich their country, on what principle can we reckon those public servants whose exertions protect property in the mass, and render every portion of it secure against hostile aggression, and the attacks of thieves and plunderers, be said to be unproductive? If the labourers who protect a single corn field from the neighbouring crows and cattle be productive, then surely the judges and magistrates, the soldiers and sailors, who protect every field in the empire, and to whom it is owing that every class of inhabitants feel secure in the enjoyment of their property, rights, and privileges, have a right to be classed among those whose services are supereminently productive.*

* There is a force and precision in this illustration of our author's which goes beyond direct argument, and may almost be regarded as settling the question: it breaks down the barrier line of distinction on which the followers of Adam Smith mainly depended, namely, the distinction between labour *directly* and *indirectly* productive.

If any distinction be drawn between the labour of the different classes of the community, it should be founded, not on the accidental and temporary union with matter of the utility in which alone the real wealth consists, but in the consideration of the object that is aimed at. The labour which society sets in motion is with a double object,—with a view either to accumulation, or to enjoyment. To the former portion will belong, not merely that labour which is occupied upon material production, but also all that which has reference to the means of accumulation, of whatsoever kind or nature it may be. To the latter will be referred all of which individual enjoyment is the object and motive.

A house servant (to take the case so often quoted) may fall under either of these divisions. If hired to enable his master to give more time to his business, he is to be ranked in the first division,—hired to give his master leisure for indolent enjoyment, he falls under the second.

Still, however, these divisions are not to be distinguished as productive or unproductive, since the desire of enjoyment is the only final end for which accumulation is sought: they admit, however, of a well founded distinction in being regarded, the former as *directly*, the latter as *indirectly*, productive. This determines their nature but not their comparative importance: that is to be settled by the free demand of a well organized community. *So far, however, in this they differ, that the former never can become unproductive except from ignorance or error, the latter is always liable to become so if not regulated by prudence and a sense of duty.

Here then lies the great distinction between the two classes of labour,—an over consumption of either is equally injurious to a man's fortune; he may be ruined by a needless number of workmen as surely as by a needless number of servants; but against the former self-interest, directed by skill, is a sufficient security; while against the latter error he is obliged to keep up all those checks of reason and prudence, by which alone men are prevented from falling into indolence and luxurious enjoyment.—E.

That much wealth has been unproductively consumed by the servants of the public, both in this and other countries, it is impossible to doubt. But we are not to argue from the abuses extrinsic to a beneficial institution against the institution itself. If the public pay their servants excessive salaries, or employ a greater number than is required for the purposes of good government and security, it is their own fault. Their conduct is quite the same as that of a manufacturer who should pay his labourers comparatively high wages, and employ more of them than he had occasion for. But, although a state or an individual may act in this foolish and extravagant manner, it would obviously be the extreme of folly and absurdity to conclude, from thence that *all* public servants and *all* manufacturing labourers are unproductive! If the establishments which provide security and protection be formed on an extravagant scale, if we have more judges or magistrates, more soldiers or sailors, than are necessary, or if we pay them larger salaries than would suffice to procure the services of others, let their numbers and their salaries be reduced. The excess, if there be any, is not a fault inherent in the nature of such establishments, but results entirely from the extravagant scale on which they have been arranged.*

But, in showing that Dr. Smith was mistaken in considering the consumption of menial servants, and of lawyers, physicians, and public functionaries unproductive, we must beware of falling into the opposite extreme, and of countenancing the erroneous and infinitely more dangerous doctrine of those who contend that consumption, even when most unproductive, ought to be encouraged as a means of stimulating production, and of increasing the demand for labour! The consumption of the classes mentioned by Dr. Smith is advantageous, because they render services in return, which those who employ them, and who are the only proper judges in such a case, consider to be of greater value than the wages they pay them. But the case would be totally different, if the Government and those who employ labourers were to do so, not in order to profit by their services, but to stimulate production by their consumption? It is a fallacy and an absurdity to suppose that production can ever be encouraged by a wasteful consumption of the products of industry. A man is stimulated to produce when he finds a ready market for the produce of his labour, that is, when he can readily exchange them for other products. *And hence the true and only encouragement of industry consists, not in the increase of wasteful and im-*

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Consumption ought not to be encouraged for the sake of stimulating Production.

* In the expenditure of government as in that of individuals, there may be a false economy as well as a direct extravagance. Salaries may be too low as well as too high for the public good. If a manufacturer should select his materials, his machines, and his workmen, for their cheapness, and not for their goodness and skill, the imperfections of the work would soon prove him to have mistaken his real interest, and the path of true economy. In like manner a government is to be esteemed prodigal instead of saving, if it buys in public stations a grade of talent, of professional learning, or of character, inferior to the services that are demanded. The true principle is, *that only is cheap which is well done*:—a principle equally applicable to personal services as to material products, and showing the economy of a nation in its government, like that of a manufacturer in his establishment, or of an individual in his family expenditure, to consist, not

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*provident consumption, but in the increase of production.** Every new product necessarily forms a new equivalent, or a new means of purchasing some other product. It must always be remembered, that the mere existence of a *demand*, how intense soever it may be, cannot of itself be a means of encouraging production. To become a real demander, a man must not only have the *will*, but he must also have the *power*, to purchase the commodity he wishes to possess; or, in other words, he must be able to offer an equivalent for it. There never has been, nor is it in the nature of things that there ever can be, any limits to our wish to possess the products of art and industry. It is the *power* to give effect to our wishes, or to furnish other products in exchange for those we are desirous of obtaining, that is the real and only desideratum. The more, therefore, that this power is increased, that is, the more industrious every individual becomes, his means of offering equivalents for the products of others will be so much the more increased, and the market will be rendered so much the more extensive.

Unproductive Consumption not necessary to prevent Gluts.

Mr. Sismondi and Mr. Malthus have, indeed, contended, in opposition to this doctrine, that the productiveness of industry may really be carried to excess; and that, in a country where there are great facilities of production, a large unproductive consumption is necessary to stimulate industry, and prevent the overloading of the market.† But if we attend to the motives

in the cheapness, but in the goodness of that which it consumes,—in cutting off expenditure, not so much in the payment of the services of integrity and talent,—as in the consequences of ignorance, error, and abuse of trust.

In illustration of this principle may be mentioned, the corrupt state of the French judiciary before the Revolution. The places of the judges being bought from the government, the salary became little more than an interest on an invested capital. This left them without other return for their personal services than the corrupt influence of their judicial station; society thus being made to pay in the perversion of justice, a thousand-fold for the pitiful savings of the government. See Say, Book III. ch. 6.—*E.*

* From the error opposed to this principle, individuals are saved by the all-powerful operation of self-interest; but with governments there is no such check, and their expenditure is very apt to be regarded as a public benefit; as exciting industry by the demand it creates for products, and thus circulating money throughout the community. On these principles Voltaire defended the enormous expenditure of Louis XIV. in the erection of royal palaces; and Frederick II. with equal truth, congratulated the nation upon his expensive and fruitless wars. Sounder principles enable us now to perceive that public expenditure is to be tested, like private, solely by the utility of the result.—*E.*

† Whatever may be thought of this principle, in relation to such a country as England, it is altogether inapplicable to us. So long as we in America have forests to subdue and canals to open, there can be no injurious surplus of capital, labour, or commodities. The gradual improvement of the country will absorb, for centuries to come, all that is redundant, and population increasing in the same ratio as the means of support, be constantly affording a wider market and more varied consumption.

With what rapidity the domestic market of the United States is increasing, will be best seen by an abstract from the decennial returns of its population, beginning with the year 1790:—

Total population of the United States in 1790,	3,929,323	inhabitants.
do do do	1800,	5,306,035 do
do do do	1810,	7,239,903 do
do do do	1820,	9,625,734 do

which cause men to engage in any branch of industry, we shall be satisfied that the apprehensions of these writers are unfounded, and that the utmost facility of production can never be productive of a permanent glut of the market, or require to be counteracted by means of unproductive expenditure. In exerting his productive powers, every man's object is either directly to consume the produce of his labour himself, or to exchange it for such commodities as he wishes to obtain from others: If he does the first—if he directly consumes the produce of his industry, there is an end of the matter, and it is evident that the multiplication of such produce to infinity could never occasion a glut: If he does the second—if he brings the produce of his industry to market, and offers it in exchange for other commodities, then, and then only, there may be glut; but why? Not certainly because there has been any excess of production, but because the producers have not properly adapted their means to their ends. They wanted, for example, to obtain silks, and they offered cottons in exchange for them; the proprietors of the silks were, however, already sufficiently supplied with cottons, and they wanted broad cloths. The cause of the glut is, therefore, obvious. It consists not in over-production, but in the production of cottons, which were not wanted, instead of broad cloths, which were wanted. Let this error be rectified, and the glut will disappear. Even supposing the proprietors of silks to be not only supplied with cottons, but with cloth, and every other commodity that the demanders can produce, it would not invalidate the principle for which we are contending. If those who want silks cannot obtain them from those who have them, by means of an exchange, they have an obvious resource at hand—let them cease to produce the commodities which they do not want, and *directly produce the silks which they do want, or substitutes for them.** It is plain, therefore, that the utmost facility

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Giving a rate of increase during the intervening periods of ten years.

From 1790 to 1800 of	35.1 per cent.
1800 to 1810 of	34.6
1810 to 1820 of	32.9

In the period of twenty years,

From 1790 to 1810 of	85 per cent. nearly
1800 to 1820 of	82

In the whole period of thirty years,

From 1790 to 1820 of	145 per cent.
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It is this rapidly increasing population which gives life to the productive industry of our country, and will long avert from us the evils of a permanently overloaded market.—E.

* This doctrine of our author appears to the Editor untenable, if confined, as he appears to confine it, to the products of labour. The remedy he here lays down relates, not to a general, but a partial glut; and is, besides, a very impracticable one. Against partial gluts there is, in the nature of things, an obvious remedy. No man will be contented with low profits while his neighbour is realizing higher; and the competition of capitalists will thus adjust the applications of it, so as to correct in the speediest manner possible, all deviations from the average rate of profit.

But the question now is, whether there cannot be a surplus of all products so as to cause a universal glut; reducing at once rent of land, wages of labour, and profits of capital. The answer to this question depends on the extent given to the universality asserted. If it exclude labour, there certainly may be a glut of all products in relation to it, and the rise of wages will necessarily produce a general and equivalent fall of profits. But

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of production can never be a means of overloading the market. Too much of one commodity may occasionally be produced; but it is quite impossible that there can be too great a supply of every species of commodities. For every excess there must be a corresponding deficiency. The fault is not in producing too much, but in producing commodities which do not suit the tastes of those with whom we wish to exchange them, or which we cannot ourselves consume. If we attend to these two grand requisites, we may increase the power of production a thousand or a million of times, and we shall be as free of all excess as if we diminished it in the same proportion. Unproductive consumption is not, therefore, necessary to prevent the overloading of the market; and to maintain that it contributes to increase national wealth in any other way, is really just the same thing as to maintain that wealth would be increased by throwing a portion of it into the sea or the fire.*

if it include population, so that wages and profits continue to bear to each other the same ratio, there cannot, in the natural course of things, be such a state as a general glut; for if all the elements of which society consist, continue to bear to each other the same proportion, no derangement can take place.

But in this, as in other cases, the wise provisions of nature are defeated by the being for whose benefit they are intended: a state of war is a state contrary to nature, and hostile to national prosperity; it disturbs the natural proportions that subsist between the production and consumption of society. War, by turning citizens into soldiers, turns producers into consumers, and hence its temporary stimulus upon markets and prices. After a time, however, this excitement ceases, and production is, by degrees, accommodated to the demand of these surplus consumers. A return to peace reverses this order of things; by converting soldiers into labourers it turns consumers into producers, and brings on, consequently, a general glut and stagnation of trade. That such a state is possible, of a general stagnation in which all are the sufferers, and that it is consequent upon the change from war to peace, no one will deny who has attended to the general state both of Europe and America, since the late war. Years of languishment and wild speculation have been found to be an after tax, which a country must pay for "that game, which, if subjects were wise, kings should not play at." War is in itself a state so hostile to the best interests of society as to leave, as it were, an entail of curses behind it. A general glut, therefore, while it may be considered as inconsistent with the principles of the science, which presupposes a state of peace, is yet liable to exist wherever a sudden and general change takes place in the ratio of production and consumption, increasing the former and diminishing the latter, which is always the case on a return from war to peace.

As to the remedy for such a state of distress, it must be found, not in legislative provisions or unproductive consumption, but in individual industry and economy; which will restore to a healthy state in the shortest time possible, consistent with the nature of the disease, the deranged functions of the body politic.—E.

* M. Say was the first who showed, in a satisfactory manner, that effective demand depends upon production. (See his chapter *De Debouchés*.) But the principles from which his conclusions are drawn had been stated so early as 1752, in a tract of Dean Tucker's, entitled *Queries on the late Naturalization Bill*. As this tract is now become of rare occurrence, we shall subjoin the queries referred to.

"Whether it is possible, in the nature of things, for ALL trades and professions to be *overstocked*? And whether, if you were to remove any proportional number from each calling, the remainder would not have the same grounds of complaint they had before?"

"Whether, in fact, any tradesman thinks there are too many of *other occupations* to become his customers; though narrow selfish views lead him to wish there were fewer of his own trade?"

Montesquieu has said, and the same sentiment has been expressed in a thousand different shapes, "*Si les riches ne dependent pas beaucoup les pauvres mourront de faim.*"* (Liv. VII. chap. 4.) Montesquieu was betrayed into this error, from his being unacquainted with the nature and functions of capital. The profusion of the rich, far from being of any advantage to the poor, is really one of the greatest calamities that can befall them. It is impossible that the demand for labour can be increased without an increase of capital. When the parsimonious principle predominates, capital increases, and as capital increases, the demand for labour is increased, the existing inhabitants are better provided for, and their numbers are increased; on the contrary, wherever profusion and wasteful expenditure predominates, capital is diminished, the inhabitants are daily worse and worse provided for, and idleness, pauperism, and disease prevail. Besides, it must be remembered, that what is annually saved, is as regularly consumed as what is annually spent. The only difference is, that it is consumed in a *different* manner—consumed by those who render a greater value in return, instead of being consumed by such as render no real value whatever.†

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Error of Montesquieu.

"By what a frugal man annually saves," says Dr. Smith, "he not only affords maintenance to an additional number of labourers for that or the ensuing year, but, like the founder of a public workhouse, he establishes, as it were, a perpetual fund for the maintenance of an equal number in all time to come. The perpetual allotment and destination of this fund, indeed, is not always guarded by any positive law, by any trust-right, or deed of mortmain. It is always guarded, however, by a very powerful principle, the plain and evident interest of every individual to whom any share of it shall ever belong. No part of it can afterward be employed to maintain any but productive hands, without an evident loss to the person who thus perverts it from its proper destination." (*Wealth of Nations*, II. p. 14.)

We have already stated the impossibility of laying down any general rules on the subject of individual consumption. What the public is really interested in is, that it should never be carried on for the absurd purpose of occasioning a demand for the products of industry, and that it should be *less* than the reproduction; or, in other words, that the capital of the country should be kept constantly on the increase. But there is no instance of any people having ever missed an opportunity to save and accumulate. And in all tolerably well governed countries

"If a particular trade be at any time overstocked, will not the disease cure itself? That is, will not some persons take to other trades, and fewer young people be bred up to that which is least profitable? And whether any other remedy but this is not, in fact, curing *one transient disorder by bringing on many which are dangerous, and will grow inveterate?*"

"WHETHER IT IS NOT AN INFALLIBLE MAXIM, THAT ONE MAN'S LABOUR CREATES EMPLOYMENT FOR ANOTHER?" (p. 13.)

For a further demonstration of the same principle, see Mr. Mills's *Commerce Defended*, p. 80.

* "The economy of the rich starves the poor."—E.

† For a further and very able discussion of the opinion of Montesquieu, see the 7th chapter of the *Commentaire sur l'Esprit des Loix* of M. Destutt-Tracy, and Tom. IV. p. 383, of the *Elemens d'Adeologie* of the same author.

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the principle of accumulation in individuals has always had a marked ascendancy over the principle of expense, and the national capital, and, consequently, the riches of the country, have been constantly augmented.

Consumption of Government.

But this is seldom the case with the consumption carried on by governments and their servants.* Individuals are fully sensible

* With the sound principles maintained by our author, it is to be regretted that he had not somewhat enlarged on the subject of the consumption of government, which forms one of the most ample and practically important divisions of the science, embracing all questions relating to the nature and influence of government expenditure, and the sources whence it is derived with the least injury to the interests of the community. An outline of these may serve to excite inquiry on the part of the student and direct him to further sources of information.

The fundamental principle upon which this subject rests is that the expenditure of government is unproductive, except in so far as the security and happiness of society is the result.

What government really consumes, is not the money which it takes from the community, for that is returned—nor the provisions and equipments it demands, for they are paid for—but it consists in the time, talents, and personal services of those whom it employs, and who otherwise would furnish to society an equivalent for their support.

The means by which governments have met this expenditure, have varied with the progress of society.

1. In ancient times by the accumulation of treasure. This mode was doubly injurious. First, by withdrawing from society a portion of its productive capital—and secondly, in rendering government tyrannical, by making them independent of the public purse.

2. By taxes. In this improved mode of supplying the needs of government, money is taken only when needed, and consequently has this advantage of leaving capital productively employed until it is wanted.

The definition of a tax, is the portion of income which a man pays in return for the protection of government. If it goes beyond income and trenches upon principal, it is fatal to accumulation, and reacts to its own diminution. If levied upon capital, it is unjust—a case exemplified in taxes upon wild lands—a capital unproductive, not through the will of the holder, but of necessity.

The nature of a tax, is, that it is withdrawn from society without equivalent. The money returns, but it is in exchange for a second value. See Hamilton on *The National Debt of Great Britain*. Say, Vol. II. Note, p. 201.

The object of a tax, is solely the support of government, its influence on national property being always injurious.

The subject of taxation is, however disguised, the income of individuals, the commodity on which it is imposed, being but an equitable mode of assessing them.

The form of a tax, may be either direct or indirect—direct when imposed on the individual—indirect when levied on the commodity. A direct tax is more certain in its returns, but more invidious in its operation. An indirect tax is comparatively voluntary, but doubtful in its returns. Say, Vol. II. p. 265. Ricardo, ch. 8, 9, &c.

The effect of taxation, when light, is a drawback—when heavy, is a curse, being equivalent to a sterile soil, or a bad harvest, or any other calamity which adds to the costs of production. For the definite influence it exerts, according as it is imposed on raw produce, rent, profits, or wages, see Ricardo as above; Mills, ch. 4, sect. 5, 6, &c.; Adam Smith, Book IV. ch. 2, part 2.

Among the *criteria* which may be adopted for testing the comparative preference that should be given in a choice among various taxes, the following may be mentioned.

1. The lowest in amount is to be preferred—this arises from its very nature, which is unproductive expenditure.

2. The cheapest in collecting, for what is so spent, is utterly lost, both to individuals and to the public. As an illustration of a tax unfavourable

of the value of the articles they expend. In the vast majority of instances, they are the direct result of their industry, perseverance, and economy; and they will not consume them, unless to obtain an equivalent advantage. But such is not the situation

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upon this principle, may be mentioned, the ordinary road tax of our state as worked out by the individuals assessed. What society pays, is the value of so many good day's labour—what society receives, is the loitering work of unpaid workmen; the difference between them is, in this tax, the cost of levying.

3. Which falls on luxuries rather than on necessaries—the former raises the price of the article alone, on which it is laid—the latter, operating through the wages of labour, either raises the price of all commodities, or lowers the profits of all capital.

4. Which are most favourable to good morals.

Among the instances of the reverse, may be mentioned lotteries; a tax which, although voluntarily paid, is yet most injurious in its results. Under the new constitution of our state, they are for ever excluded, and justly, since they offend against every principle of a wise tax. Their continuance, however, in other parts of our country, justifies a few words in explanation of their nature and influence. A lottery is a tax which is expensive in collecting—of what society pays, not one fiftieth goes into the treasury. All the time that is wasted, and money that is squandered, and vicious habits that are formed, by the deluded adventurers in this licenced gambling, is to be added as part of the expense of collecting in addition to the direct costs.

It is a tax which falls principally on the poor and necessitous. This class of society is most allured by the prospect of gain without labour, and least able to judge of the delusiveness of the scheme. They, therefore, are the largest contributors.

It is a tax which is based upon the passions and vices of man—is a direct bounty upon gambling—an indirect one upon idleness, and teaches to all a lesson most fatal to individual success, and most injurious to national wealth—that of looking to fortune for bettering the condition, instead of industry and economy.

On this subject, see Say, Book III. ch. 3. Ricardo, for a modified defence of the influence of taxation, *Principles*, &c. ch. 3. *Wealth of Nations*, Book V. ch. 2.

The third and latest method of supplying the exigencies of government, is by means of voluntary loans. In which government is the borrower, monied men the lenders, and society the payers.

The advantages attending this mode of meeting public exigencies, arise from the facility, rapidity, and certainty with which large sums can be raised in a moment of exigency.

The disadvantages, or rather the dangers to be dreaded from them, flow from these same causes. A loan is an operation in which no man feels his rights invaded; hence it removes from the expenditure of government that wholesome check of public feeling, which operates upon it when its means are drawn from taxation.

The nature, history, and operation of government loans, constitute a large and important branch of this science.

A public loan, in its nature, is a tax, like all other revenue of government. It is not recognized as such, because it is not presently paid; third persons, that is, the capitalists of society coming forward in the mean time to advance the amount, until it shall be convenient for the community to pay it, and receiving in the mean time a certain interest, which in the form of a tax, is immediately levied upon society.

The operation of a loan, is for a time, to diffuse that air of wealth and prosperity which always arises from increased expenditure; its permanent effect is to cripple the energies of the nation. A certain portion of its capital hitherto productive in the hands of individuals, has been unproductively consumed by the government, and posterity is burthened with the repayment of it to those who originally advanced it, or to those who have chosen to stand in their places.

In the older governments of Europe, the repayment of the principal is generally abandoned, and the interest payable forms a permanent annual

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of governments. They consume the produce of the labour of others, not of their own; and this circumstance prevents them from being so much interested in its profitable expenditure, and so much alive to the injurious consequences of extravagant and wasteful expenditure as their subjects. But economy on the part of government, though more difficult to be obtained, is of infinitely greater importance than economy on the part of any individual. Should a private gentleman think of acting on the principle that profusion is a virtue, and that industry may be encouraged by increasing unprofitable consumption, he will most certainly be ruined; his ruin, however, will only be *directly* injurious to the individuals in his own employment, and will have but a very slight *indirect* effect on others. But similar conduct on the part of government would most probably be productive either of revolution, or of national poverty and degradation. If, then, it is most desirable that individuals should have a correct knowledge of their real interest in the consumption of commodities; how much more so must it be that government should possess that knowledge? Economy and frugality are virtues in a private station; but in a public station their influence upon national happiness is so vast, that they are not only the first of virtues, but the most pressing of duties.

addition to the ordinary taxes. It would seem at first sight to make a very material difference whether the loan is to be repaid or not, but in truth, so far as regards the general progress of national wealth, it is a matter of perfect indifference. The original capital that government expended, has been altogether consumed, and can never by any process be replaced; future economy may provide a substitute, but the original values, like food consumed, have been utterly destroyed.

If it is ever paid, society pays it out of the capital or income of individuals, and the only change it produces is this—while it remains unpaid, the community at large hold and employ the principal, the stockholders receive and employ the interest—when paid, the principal itself is transferred to the stockholders, and seeks a new investment.

According to this view of the subject, the various provisions adopted for the purpose of repayment, under the title of sinking funds are nugatory, or rather injurious, since they burthen society with the further expenses incidental on this mock form of payment. These views will be found in Hamilton on "*The National Debt of Great Britain.*" *Lowe's Present State of England.* See also, Review of Hamilton in the *Edinburgh Review*, No. 48, art. 3; of Boyd on Finance, No. 50, art. 13, No. 78, art. 1; and in the *Quarterly Review*, National Debt, Vol. XI. p. 431, No. 53, art. 11, No. 62, art. 2; Ravenstone on the Funding System.

Of our own country, the public debt though the same in principle with that of England, is yet so different both in amount and in proportion to our means of repayment, as to remove from it much of the reasoning of the writers referred to. For its detailed history, see Seybert's *Statistics*, chapter *Public Debt*. The outline of it is as follows:

Originating in the debts contracted by Congress during the

Revolutionary war, the Public Debt of the United States amounted in 1791, to	- - - - -	\$75,169,974
Expenses of the war of 1812, raised it in 1816, to	- - - - -	123,016,375
Reduced in 1821, to	- - - - -	91,294,416

This debt, though larger in amount, is much lighter in reality, that is, in proportion to the population and resources of the country now, than it was in 1791.

In 1791, it gave to every inhabitant the sum of	- - - - -	\$23 25
1821,	- - - - -	11 23

Being reduced, compared with our means, to less than one half.

The debt of Great Britain gives to each individual of the kingdom as his share of the debt, about \$175, and to each family more than \$1000.—E.

“ Si les dépenses publiques,” M. Say observes, “ affectent la somme des richesses précisément de la même manière que les dépenses privées, les mêmes principes d’économie doivent presider aux unes et aux autres. *Il n’y a pas plus deux sortes d’économie, qu’il n’y a deux sortes de probité, deux sortes de morale.* Si un gouvernement comme un particulier font des consommations desquelles il doit résulter une production de valeur supérieure à la valeur consommée, ils exercent une industrie productive ; si la valeur consommée n’a laissé aucun produit, c’est une valeur perdue pour l’une comme pour l’autre, mais qui en se dissipant, a fort bien pu rendre le service qu’on en attendait. Les munitions de guerre et de bouche, le tems et les travaux de fonctionnaires civils et militaires qui ont servi à la défense de l’état, n’existent plus, quoiqu’ayant été parfaitement bien employés, il en est des ces choses, comme des denrées et des services qu’une famille a consommés pour son usage. Cet emploi n’a présentée aucun avantage autre que la satisfaction d’un besoin ; si le besoin n’existoit pas, la consommation, la dépense, n’ont plus été qu’un mal sans compensation. Il en est de même des consommations de l’état ;—consommer pour consommer, dépenser par système, réclamer une service pour l’avantage de lui accorder une salaire, anéantir une chose pour avoir occasion de la payer est une extravagance de la part d’un gouvernement comme de la part d’un particulier, dans un petit état comme dans un grand, dans une république comme dans un monarchie. Un gouvernement dissipateur est même bien plus coupable qu’un particulier : celui ci consomme les produits qui lui appartiennent tandis qu’un gouvernement n’est pas propriétaire : il n’est qu’administrateur de la fortune publique.”* (Tome II. p. 268.)

Consumption of Wealth.
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Opinion of M. Say.

We have now shown how labour may be rendered most productive of wealth—how that wealth is distributed among the various classes of the society—and how it may be most advantageously consumed. We have shown the close and indissoluble

Conclusion.

* If public expenditure affect the sum of national riches precisely in the same manner as private expenditure, the same principles of economy should preside over both. *There are no more two sorts of economy than there are two sorts of honesty or morality.* If from the consumption of government there arise, as from that of an individual, the production of a superior value to that which is consumed, then government exercises productive industry ; if the value consumed has left no product, it is a value destroyed in the one case as in the other ; the consumption of which, however, may have perfectly answered the ends proposed by it. The military stores and provisions, the time and labours of public functionaries, civil and military, which, after serving for the defence of the nation, no longer exist, yet having been perfectly well applied, is an expense that stands on the same footing as that by which a family is supported. This is an expenditure that presents no other advantage than the supply of a certain want ; if the want existed not, the consumption and expense is an evil without compensation. It is precisely the same with the consumption of the state—to consume for consumption’s sake—to spend upon system—to invent an office, for the purpose of giving a salary—to destroy a value, in order to have occasion to pay for it, is the same extravagance and folly on the part of a government as of an individual, in a small state as in a great one, in a republic as in a monarchy. A government in its waste, is even more culpable than an individual ; he but consumes the products that belong to him, while government is only the administrator ; not the owner of the public fortune.”—E.

Conclusion. connexion subsisting between private and public opulence, and that whatever has any tendency to increase the former, must, to the same extent, increase the latter ;—and we have shown that SECURITY OF PROPERTY, FREEDOM OF INDUSTRY, AND MODERATION IN THE PUBLIC EXPENDITURE, are the only, as they are the certain, means by which the various powers and resources of human talent and ingenuity can be called into action, and society made continually to advance in the career of wealth and civilization. Every increase of security or of freedom is a benefit, as every diminution, whether of the one or the other, is an evil. It is by the spontaneous and unconstrained efforts of individuals to improve their condition and to rise in the world, and by these efforts only, that nations become rich and powerful. The labour and the savings of individuals are at once the source and the measure of national opulence and public prosperity. They may be compared to the drops of dew which invigorate and mature all vegetable nature. None of them has singly any perceptible influence ; but we owe the foliage of summer and the fruits of autumn to their combined action. (s. s.)

The foregoing notes, having been prepared for the printer as the work progressed, the Editor is conscious, on now reviewing them, that they lie open to the charge of occasional obscurity from want of detail, and tediousness from unnecessary repetition.

He believes, however, that they will be found to be sound in principle and correct in statement, and trusts that the references they contain to further sources of information may tend to lessen the labour of the student, and favour the formation of liberal and independent opinions.

Among the omitted references which may add interest or clearness to the subjects discussed, may be added the following:

In connexion with note p. 44, on Economical Science in America, the early American pamphlets, will be found noticed in the first five volumes of the North American Review. Two early tracts on Banking, published in Boston in 1714 and 1720, are particularly worthy of being consulted. A notice of Pownall's administratoin, will also be found, Vol. V. At a later period, Mr. Jefferson's Reports and Essays deserve a fuller reference ; they contain the principles of the liberal system of national practice, though often symbolizing in theory with the narrow views of the French economists. Raymond's recent work on Political Economy, Baltimore, 1820, demands notice, as strongly marked by sound and good feeling, but diametrically opposed to the principles of Adam Smith and Ricardo. This work is ably reviewed in the North American Review, No. 31.

To the note on Banking, p. 75, may be added the following :

The article Banking in the supplement to the Encyclopedia Britannica, Ricardo on Bullion ; Reviewed, in the Quarterly, Vol. XXV. Huskisson on Depreciation of Currency, Edinburgh Review Vol. XVII. p. 339, Vol. XVIII. p. 470 ; Reviewed in the Quarterly, Vol. IV. p. 414, Vol. XVI. p. 225. On Bank Restriction, Quarterly Review, Vol. III. p. 158, Vol. XII. p. 429 ; and an able review of Tracts on Money, Edinburgh Review, No. 70, art. 11.

To the note relative to Farming in America, p. 123, see North American Review, Skinner's *American Farmer*, No. 14. art. 4.

In order to show the relative bearing and connexion of the various subjects comprehended within this science, the Editor has thought well to add the following analytic arrangement of them.

SUMMARY.

POLITICAL ECONOMY is the science that relates to the nature and causes of the wealth of nations:

DEFINITIONS.

1. *Wealth*—Utility which is the result of labour, or whatever possesses exchangeable value.
2. *National Wealth*—the sum of the wealth of the individuals that compose the nation.
3. *The Nature of the Wealth of Nations*—is, therefore, the same with that of individuals,—governed by the same laws: and to be increased from the same sources, viz. Industry and Economy.
4. *The Causes of National Wealth*—are to be found in the facilities given to individual acquisition. These are greatest where industry, enterprise, and capital, are left free, with two exceptions:
 1. Where the public safety or interest is jeopardized by the individual.
 2. Where the public morals are the sacrifice at which his gains are made,

The science of Political Economy consists in analyzing the phenomena which wealth exhibits.

1. In its PRODUCTION,
2. ——— DISTRIBUTION,
3. ——— EXCHANGES,
4. ——— CONSUMPTION.

Of these Production and Consumption are in their nature the most important,—Production forming the immediate and Consumption the final end of all human labour. Distribution and Exchanges are but intermediate means, and valuable only in reference to the former two,—Distribution having reference to Production and being governed by the law of equity, Exchanges having reference to Consumption and being governed by the law of convenience.

I. PRODUCTION.—Under this first head the leading considerations are,—

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|---|---|----------------|
| <ol style="list-style-type: none"> 1. The nature 2. The variety 3. The agents 4. The stimulants | } | of Production. |
|---|---|----------------|

1. NATURE.—Production has reference to utility, not to matter,—utility given or increased by means of human labour, either bodily or mental, constitutes a product.

2. **VARIETY.**—This exists in form, not in nature. The nature of Production in all its forms is, labour creating utility. Its forms are indefinitely varied, but may be arranged under the three following classes:
1. The obtaining of raw produce.—This includes labour on land, and in fisheries, and mines, and using the term in a wide sense, may be styled *Agricultural*.
 2. The giving to raw produce thus obtained a new value by some change of form,—this is *Manufacturing*.
 3. The adding a further value to the values thus given by change of place, or more correctly, by bringing the product from the producer to the hands of the consumer,—this form of production bears the name of *Commercial*.

This classification is convenient for reference but dangerous in reasoning, as tending to lead the economist to the false inference, of divided or opposite interests among the different classes of the community.

3. **AGENTS.**—The agents of Production may be reduced to three.
1. Labour, or the primary agent,
 2. Capital,
 3. Natural Agents, } secondary agents, or aids to labour.
1. *Labour* the original and primary agent of all Production.
 - In nature,
 1. Manual, yielding material products, as grain, cloth, &c.
 2. Mental, yielding immaterial products, as skill, science, &c.
 - In subdivision,
 1. Territorial, or that subdivision of labour on which national exchanges rest, and which adds to the common mass of wealth, by consulting the facilities of national Production.
 2. Individual, or that subdivision of labour on which the internal exchanges of a community are founded, and which adds to the wealth of society by the increased skill and economy of time which result from such division.
 2. *Capital*, second in point of time to labour, but equally efficient with it, as an agent of Production.
 - In nature,—it is the accumulated products of anterior labour.
 - In form,—it is indefinitely varied. While the real capital is invariable, consisting always in the utility or exchangeable value of that which is employed, the form under which it appears, as that of money, materials, &c. is a matter, incidental, variable, and unimportant.
 - In its services,—it increases the power of unaided labour:

1. By supporting its subdivisions through the means of surplus food, materials, &c. in which state it is termed *circulating* capital.
2. By providing buildings and introducing machinery, and thus appropriated it is termed *fixed* capital.
3. *Natural agents* or the elements of nature which through the agency of capital are made to work for man. This they do :
 1. By performing services peculiar, and otherwise unattainable, as land in producing, fire in melting, &c.
 2. By performing attainable services but at a cheaper rate, being used merely as a substitute for animal or human power, as water, wind, or steam, used as moving powers, and exemplified in canals, mills, and steam engines.

The means by which the natural agent is applied to Production and controlled in its operation constitutes a machine. Machines are :

1. Simple,—as mechanical tools, the saw, plough, &c.
2. Complex,—as mills and steam engines.

The influence of labour-saving machinery upon the working class is,—

1. Temporary embarrassment by the numbers thrown out of employ.
2. Eventual benefit by the diminished cost of the product.

4. **STIMULANTS.**—The stimulants to Production are two :—

1. The desire of accumulation.
2. The desire of enjoyment.

The conditions under which these operate most effectually are,—

1. Secure possession to the individual of the fruits of his industry.
2. Perfect freedom in the direction of it.

Beyond these all stimulants on the part of the government are partial, unjust, and injurious.

II. DISTRIBUTION.—The second great division of the science, embraces the laws which regulate the Distribution of that common mass of products which arise from the union of labour, capital, and natural agents.

The law of Distribution is this,—products are divided among the productive classes of the community in proportion to the productive services they have respectively contributed.

From the three agents of Production arises, consequently, a threefold division of those products which are the result of their combination, viz :

1. The share of Labour, which is termed Wages,
2. ————— Capital, ————— Interest,
3. ————— Natural Agents, ————— Rent.

All who live in society self-supported, derive their income from one or other of these sources, which therefore divides the community into the three great classes of,

1. The industrious class who live on wages, and exercise an industry either bodily or mental.
2. The capitalists who live on interest. This supposes them to loan out their capital, otherwise their returns will also include the wages of personal service.
3. Landholders, &c. who live on rent.

Of these each is governed by its own laws, and dependant as to its numbers and increase, on the age, state, and progress, of society.

1. **WAGES**—OR the share of labour. Those who receive it constitute the *industrious* class,—it is an equivalent for *personal* services, whether mental or corporeal. This class, consequently, comprehends all magistrates, professional and scientific men, artists, men of skill, and the whole body of ordinary labourers.

Of these, the laws which regulate the last, or the body of ordinary labourers, are the most complex and important.

Under the term “wages of labour” things essentially different may be meant,—it may mean,

1. *Money Wages*,—this is merely nominal:
2. *Proportional Wages*,—this determines proportional profits, or the comparative situation of the labourer and the capitalist.
3. *Real Wages*,—or the values received. This alone regulates the comforts of the poor, and the general prosperity of society.

Wages are equitably equal to all classes of workmen.

The causes of apparent inequality are the considerations of comparative ease, skill, danger, certainty, reputation; &c.

The principle is, that men are to be paid for that which they sacrifice, whether it be time, health, comfort, money, or reputation.

2. **INTEREST**,—OR the share of capital. This is received from money lent,—when employed by the owner himself, the returns of capital, under the name of profits, include two things,—
 1. Interest on the capital employed, which is always at an average rate throughout a country.
 2. Wages for the personal services required in the business,—these vary according to the laws which regulate wages.

Interest of money lent is divisible into two portions.

1. That portion which represents the value of the capital, or the real use of the money lent. This portion rises and falls with the profits to be made from it,—varying,
 1. Temporarily, with the demand and supply of disposable capital.
 2. Permanently, sinking with a gradual fall in the progress of society, arising from the diminished returns of capital invested in agriculture.

2. That portion which represents the chance of loss, and which may therefore be termed a premium of risk. This risk is threefold :
1. Of character in the borrower,
 2. Of business in which it is employed,
 3. Of interference of government.

This last, in regular governments, appears in the shape of laws regulating interest, which form a perfectly gratuitous, artificial impediment, and one which the good sense of society will soon discard.

3. RENT,—or the share corresponding to the services of the natural agents employed.

Rent appertains to those natural agents only which possess locality, and which, consequently, vary in power and are limited in quantity. It arises from the power of appropriation, and is the measure of the surplus production of the superior qualities over those last brought into use.

In all other natural agents, viz. such as are equal and unlimited, no rent is paid, the application of them to the purposes of production, being simply a matter of capital,—their cost is the interest of the machinery requisite.

Rent has in no case any influence on the price of commodities, being the effect and not the cause of its elevation.

The natural price of raw produce is the cost of its production from land that pays no rent.

III. EXCHANGES.—The third great division of the science relates to the law of Exchanges. The distribution of products is a matter of right,—their Exchange is a matter of convenience. In extent—it comprehends a large class of society, viz. all who stand between the producer and the consumer. In mode—it is twofold :

1. By barter, which was the original mode, and still forms the essential principle of exchanges.
2. By a medium of exchange, or money.

Under this head are to be considered,—

1. The nature of money,
2. Its services.

1. NATURE.—The money of society is of a double nature ;
1. Metallic, or that which has its value within itself, and appears as coin.
 2. Paper, or that which is representative of value, and appears under the form of promissory notes and other varieties of credit.

These two agree in the services which they perform, but differ in the laws by which they are regulated.

1. Metallic money, from its having intrinsic value, is a commodity of commerce as well as a medium of exchange,—it consequently regulates itself, and requires no legal provisions as to its quantity,

emission, or exportation. Under a free trade, a nation will have what it wants, and will retain no more.

2. Paper money, or that which is but representative of value. This is a cheaper machine than metallic coin, answering the same end but more liable to derangement.

Having no value in itself it is not a commodity of commerce. An artificial market must, therefore, be kept open at home, to absorb a surplus whenever such takes place.

That market is the government or bank that issues it, while this is open, freely exchanging paper for real value, paper like metallic money will regulate itself as to quantity, by the demands of society, and can never be greater than its needs.

2. The SERVICES of money.—The costs of production, or the values for which articles are exchanged when estimated in money, are termed price.

Price is of two kinds,—

1. Regulating, or natural price,—this is determined by the costs of production, and rises or falls with their increase or diminution.
2. Actual, or market price,—this is governed by demand and supply, being directly as the former and inversely as the latter.

Market price may be again considered as,—

1. Nominal, as estimated in money: from the changes of this we learn only the comparative plenty or scarcity of the medium of exchange.
2. Real, as estimated in other commodities,—from the changes of this we learn the comparative plenty or scarcity of the article itself.

Rent being excluded from price it is divisible into two portions.

1. Wages, which repays the labourer. This portion is always advanced by the capitalist, and the residue of price after this is abstracted constitutes,
2. Profits, which remains to the capitalist, a return for his capital and personal services.

Hence, a rise of wages is equivalent to a fall of profits, and a fall of wages to a rise of profits.

IV. CONSUMPTION.—The last division of the science comprehends an examination into the laws which regulate the consumption of products; under this head are to be considered—

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|--|---|-----------------|
| <ol style="list-style-type: none"> 1. The nature 2. The extent 3. The object 4. The agents | } | of Consumption. |
|--|---|-----------------|

1. NATURE.—Consumption is the reverse of production, being the destruction of that value, the giving of which constituted production.

2. **EXTENT.**—Consumption is coextensive with production. Exportation being the mode by which a country consumes whatever is surplus over its domestic demands.
3. **OBJECT.**—The object of consumption is twofold.
1. Reproductive with a view to a greater return.
 2. Unproductive for the convenience or gratification bestowed.

On the proportion which these two bear to each other depends the progress or decline of wealth, whether individual or national; if equal, capital remains stationary—if *unproductive* exceeds, it is diminished—if *reproductive*, it is increased.

4. **AGENTS.**—The agents of consumption are likewise twofold.
1. *Individuals.*—These consume products both material as food, clothes, &c., and immaterial as personal services, skill, &c.

2. *Government.*—This consumes products solely immaterial, as the time and services of those it employs. The consumption of government is that by which the body politic is supported, and like the sustentation of the natural body is unproductive in its nature, and redeemed only by the value of its results. Hence a wise economy is the true policy of all governments.

The interference of government with individual rights and freedom is an evil which is to be limited by the necessity on which it is founded—it relates to,

1. *Individual gains.*—As in taxation, which is unjust and tyrannical except in so far as it is necessary to the great ends for which government is established, viz. the peace and good order of the community. Taxation, therefore, is to be limited by that necessity. It is justifiable only with a view to revenue.
2. *Individual enterprise.*—The interference of government with the industry and capital of individuals may be ranked under the following heads.

1. *Production.*—Government seeks to regulate production by,
 1. *Monopolies*—the effect of these is invariably to elevate and sustain market price above the natural price of the article which forms the subject of the monopoly, and thus to burthen society with needless expenses.

These are reducible to,

1. *Private monopolies or patent rights*—justifiable only when they are an equivalent or purchase on the part of the public of the natural and equitable rights of the discoverer or inventor of that which is patented.
2. *Trading companies*—these, however justifiable in early times, are altogether injurious where capital, knowledge, and enterprise abound.

3. Colonial monopolies—a narrow and unwise policy, equally unfavourable to the advancement of the colony and of the mother country.

4. Banking companies—as these are generally constituted, they are doubly prejudicial to the interests of society.

1. In adding to the cost of that which is to be effected, the premium of a monopoly price.

2. In opening a door to fraud and collusion, by limiting the responsibility of those concerned, and thus striking at the root of public prosperity by impairing the validity of contracts.

The objects proposed by these chartered companies, would be more safely and cheaply attained by voluntary associations of capitalists individually responsible.

2. *Regulating Duties.*—These are imposed by government, with a view to direct the enterprise and capital of the nation into certain channels, into which they would not otherwise run.

Except in reference to public morals or national defence, these are unwise and impolitic; for if no individual in the nation be a gainer by being thus controlled, it is evident that neither can the public be a gainer, for it consists of none other than those very individuals; a sum total of private loss, can never constitute a public gain.

These regulating laws appear in the form of,

1. Bounties to encourage production and exportation; the bounty, though paid by the government to its own subjects, is eventually transferred to the nation that consumes; it there appears in the shape of reduced prices.

2. Prohibitory duties to restrain importation: these operate primarily on the foreign producer, but eventually, on the domestic consumer—being equivalent to a tax levied on the community, to the amount of the difference of the cost of production at home or abroad, and paid as a bounty to the domestic producer, to enable him to support the competition.

These regulating laws when intended to meet the acts of foreign governments, are entitled countervailing duties; but even these are politic only as an offensive measure directed against the nation that imposes the restraint, and as intended to drive them from it. While they continue, they double the evils felt by both nations.

3. *Distribution.*—Government interferes with the national distribution of products, by the compulsory support of certain classes of the community.

1. Of the officers of government.—The very nature of government requires an establishment—known functionaries with fixed salaries.

The rule of wise economy prescribes such amount of salary as may purchase the grade of talent, of learning, and of character, which the duties of the station demand.

2. Of ministers of religion, as supported by tythes or other certain revenues.—This goes upon the principle that the natural sense of religion is insufficient to justify their being left to the voluntary support of society.

On this point, the experiment made by the United States may be considered as conclusive; it has settled principles never before satisfactorily tried. Religion needs no state patronage—the state needs no church establishment.

3. Of the poor.—That poverty will ever be banished from society, is one of the dreams of enthusiasm; that it may be indefinitely diminished, is the rule and the motive of the benevolent economist. To relieve poverty by legal provisions, is a remedy that has always been found to scatter more widely the seeds of pauperism.

The only true policy is to seek to diminish poverty by removing the causes of it, which are ignorance and vice. The best poor laws are to be found in,

1. Provisions for the education of the poor; as charity schools, common schools, education societies, &c.
2. Restraints upon vice, by houses of refuge, well regulated penitentiaries, and a strict police in relation to all the resorts of intemperance.
4. *Exchanges.*—The interference of government in the exchanges of society, is always impolitic. It appears in the control of markets and the regulation of prices, and is intended to guard the interests of certain portions of the community against the extortion of others. It may be instanced in the regulation of,
 1. Wages—intended to guard against combinations of workmen.
 2. Profits—against the exorbitant demands of traders.
 3. Interest—against the extortion of money lenders.

The limitation of these by law, is either nugatory or unjust. When the labourer is free in his person and in his trade, and the capitalist is unrestrained in his investments, competition will always reduce wages, profits, and interest to their lowest equitable rate.

To these is also to be added,

4. The control of the corn market by laws regulating the opening and shutting of the ports for its importation and exportation.

The object of corn laws is to guard against a scarcity; their effect is rather to produce one, and at all times to burthen corn with increased costs of production.

5. *Consumption.*—The interference of government in the consumption of products, except upon moral grounds,

is both arbitrary and unfavourable to the advancement of wealth—it appears in,

1. Sumptuary laws, regulating individual expenditure—this is unfavourable, as it robs society of the great stimulus to production.
2. Laws of moral police—regulating licences and imposing penalties in relation to the consumption of spirituous liquors, and here we have only to regret the backwardness of government in using so sparingly, a power which constitutes no small portion of the moral responsibility that is attached to official station.

CONCLUDING REMARKS.

IN concluding the notes on the foregoing Essay, the Editor would indulge the hope, that the present publication may be the means of exciting others to the task of elucidating the principles of this science, whose leisure may enable them to give to the subject, that fulness and correctness unattainable amid the daily labours of academical duty, and whose station may add weight to opinions sound, but not popular.

They are opinions, however, which are destined eventually to triumph, and to form the prosperity and pride of the nation that first models itself upon them. The language of Political Economy is the language of reason and of enlarged experience, blinded by no prejudices, drawn aside by no private motives, coloured by no sectional feelings, but holding singly and steadily the course of true patriotism, the common good of our common country.

Without incurring the charge of enthusiasm, it may be maintained to be the redeeming science of modern times—the regenerating principle that in connexion with the spirit of Christianity, is at work in the civilized governments of the world, not to revolutionize, but to reform. The policy which it prescribes is a safe as well as a sound one. Upon the older nations of Europe it imposes the obligation of removing, but with a caution proportioned to the extent and duration of the evil, all those barriers which an unwise policy may have heretofore established among them, against the progress of knowledge and the advancement of wealth. To the rising governments of America, it teaches wisdom by European experience; and to all nations it facilitates their approach to that undefinable limit of the perfectibility of man, which in every age has furnished the brightest visions to the patriot and philanthropist, and the strongest motives as well as the highest reward to the exertions of the wise, the benevolent, and the good.

The high principles which this science teaches, entitle it to be regarded as the moral instructor of nations. To them that will give ear, it demonstrates the necessary connexion that sub-

sists between national virtue, national interest, and national happiness.

It is to states what religion is to individuals, the "preacher of righteousness"—what religion reproves as wrong, Political Economy rejects as inexpedient—what religion condemns as contrary to duty and virtue, Political Economy proves to be equally opposed to the peace, good order, and permanent prosperity of the community. Thus slave labour is exploded for its expensiveness—non-intercourse is condemned for its extravagance—privateering for its waste of wealth—and war for the injury sustained even by the victor; and thus freedom of person, friendly intercourse between nations, kindness even in hostilities, and if possible universal peace, which are the highest blessings as well as the greatest virtues, are supported by the all powerful considerations of self-interest.

That these principles will ever be universally reduced to practice, is a hope which seems to be forbidden by that corruption of nature, which renders necessary the restraints of government; but there is nothing either in nature or experience, that forbids the expectation of an indefinite approximation to them. Principles once sown propagate themselves, and become rooted in the mind in proportion as they harmonize with the common sense of mankind. Sound principles of national policy, adopted by individuals, will gradually operate upon government, and more especially upon a government that emanates from the people; government again will react upon individual opinion, until in time these principles will be received as part of that accumulating inheritance of settled truth to which successive generations are born, and upon which they seem to enter with intuitive sagacity, without any of those doubts which perplexed the minds of their forefathers who first received them. Such knowledge too, is in its nature cumulative, and so is the power that results from it; each successive step renders that which follows more sure and easy—error is more clearly discerned, and truth has greater power; and thus, under the guidance of sound and settled principles, must ensue to society a course of unremitting improvement, unbroken but by human infirmity, and unlimited but by the duration of the human race.

This picture, however, presupposes virtue in the people. Political Economy is a science which guards against involuntary not voluntary error. It enters into harmonious alliance with religion, but cannot supply its place. It must find public men true to their trust, otherwise it renders them but more ingenious in their abuse of power.

Hitherto, however, want of science, rather than of virtue, has stamped the errors of our policy.

But ignorance is a reproach that should now no longer rest upon us. We have the wealth, the talent, and the institutions that are needful to disperse it. Let them then be definitely directed to that object—let professorships of Political Economy be established in our colleges, and open lectureships encouraged in our cities—let the elements of the science be embodied into the books of primary instruction which are used in our academies

and schools, and such is the consonance of the truths it teaches with the first dictates of reason and common sense, that the youthful mind will imbibe them with the avidity of its natural food, and the rising generation grow up with a patrimony of political wisdom that will make them wiser than their teachers—that will require only the guidance of conscientious minds to secure to themselves and to their country, all the blessings which temporal prosperity can bestow—liberty, peace, and abundance.

COL. COLL. JULY 15, 1825.





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