On The Principles of Political Economy and Taxation

London: John Murray, Albemarle-Street,
by David Ricardo, 1817
(third edition 1821)

Chapter 23

On Bounties on Production

It may not be uninstructive to consider the effects of a bounty on the production of raw produce and other commodities, with a view to observe the application of the principles which I have been endeavouring to establish, with regard to the profits of stock, the division of the annual produce of the land and labour, and the relative prices of manufactures and raw produce. In the first place let us suppose that a tax was imposed on all commodities for the purpose of raising a fund to be employed by Government, in giving a bounty on the production of corn. As no part of such a tax would be expended by Government, and as all that was received from one class of the people, would be returned to another, the nation collectively would neither be richer nor poorer, from such a tax and bounty. It would be readily allowed, that the tax on commodities by which the fund was created, would raise the price of the commodities taxed; all the consumers of those commodities, therefore, would contribute towards that fund; in other words, their natural or necessary price being raised, so would, too, their market price. But for the same reason that the natural price of those commodities would be raised, the natural price of corn would be lowered; before the bounty was paid on production, the farmers obtained as great a price for their corn as was necessary to repay them their rent and their expenses, and afford them the general rate of profits; after the bounty, they would receive more than that rate, unless the price of corn fell by a sum at least equal to the bounty. The effect then of the tax and bounty, would be to raise the price of commodities in a degree equal to the tax levied on them, and to lower the price of corn by a sum equal to the bounty paid. It will be observed, too, that no permanent alteration could be made in the distribution of capital between agriculture and manufactures, because as there would be no alteration, either in the amount of capital or population, there would be precisely the same demand for bread and manufactures. The profits of the farmer would be no higher than the general level, after the fall in the price of corn; nor would the profits of the manufacturer be lower after the rise of manufactured goods; the bounty then would not occasion any more capital to be employed on the land in the production of corn, nor any less in the manufacture of goods. But how would the interest of the landlord be affected? On the same principles that a tax on raw produce would lower the corn rent of land, leaving the money rent unaltered, a bounty on production, which is directly the contrary of a tax, would raise corn rent, leaving the money rent unaltered.(57*) With the same money rent the landlord would have a greater price to pay for his manufactured goods, and a less price for his corn; he would probably therefore be neither richer nor poorer.

Now, whether such a measure would have any operation on the wages of labour, would depend on the question, whether the labourer, in purchasing commodities, would pay as much towards the tax as he would receive from the effects of the bounty, in the low price of his food. If these two quantities were equal, wages would continue unaltered; but if the commodities taxed were not those consumed by the labourer, his wages would fall, and his employer would be benefited by the difference. But this is no real advantage to his employer; it would indeed operate to increase the rate of his profits, as every fall of wages must do; but in proportion as the labourer contributed less to the fund from which the bounty was paid, and which, let it be remembered, must be raised, his employer must contribute more; in other words, he would contribute as much to the tax by his expenditure, as he would receive in the effects of the bounty and the higher rate of profits together. He obtains a higher rate of profits to requite him for his payment, not only of his own quota of the tax, but of his labourer's also; the remuneration which he receives for his labourer's quota, appears in diminished wages, or, which is the same thing, in increased profits; the remuneration for his own appears in the diminution in the price of the corn which he consumes, arising from the bounty.

Here it will be proper to remark the different effects produced on profits from an alteration in the real labour, or natural, value of corn, and an alteration in the relative value of corn, from taxation and from bounties. If corn is lowered in price by an alteration in its labour price, not only will the rate of the profits of stock be altered, but the condition of the capitalist will be improved. With greater profits, he will have no more to pay for the objects on which those profits are expended; which does not happen, as we have just seen, when the fall is occasioned artificially by a bounty. In the real fall in the value of corn, arising from less labour being required to produce one of the most important objects of man's consumption, labour is rendered more productive. With the same capital the same labour is employed, and an increase of productions is the result; not only then will the rate of profits be increased, but the condition of him who obtains them will be improved; not only will each capitalist have a greater money revenue, if he employs the same money capital, but also when that money is expended, it will procure him a greater sum of commodities; his enjoyments will be augmented. In the case of the bounty, to balance the advantage which he derives from the fall of one commodity, he has the disadvantage of paying a price more than proportionally high for another; he receives an increased rate of profits in order to enable him to pay this higher price; so that his real situation, though not deteriorated, is in no way improved: though he gets a higher rate of profits, he has no greater command of the produce of the land and labour of the country. When the fall in the value of corn is brought about by natural causes, it is not counteracted by the rise of other commodities; on the contrary, they fall from the raw material falling from which they are made: but when the fall in corn is occasioned by artificial means, it is always counteracted by a real rise in the value of some other commodity, so that if corn be bought cheaper, other commodities are bought dearer.

This then is a further proof, that no particular disadvantage arises from taxes on necessaries, on account of their raising wages and lowering the rate of profits. Profits are indeed lowered, but only to the amount of the labourer's portion of the tax, which must at all events be paid either by his employer or by the consumer of the produce of the labourer's work. Whether you deduct £50 per annum from the employer's revenue, or add £50 to the prices of the commodities which he consumes, can be of no other consequence to him or to the community, than as it may equally affect all other classes. If it be added to the prices of the commodity, a miser may avoid the tax by not consuming; if it be indirectly deducted from every man's revenue, he cannot avoid paying his fair proportion of the public burthens.

A bounty on the production of corn then, would produce no real effect on the annual produce of the land and labour of the country, although it would make corn relatively cheap, and manufactures relatively dear. But suppose now that a contrary measure should be adopted, that a tax should be raised on corn for the purpose of affording a fund for a bounty on the production of commodities.

In such case, it is evident that corn would be dear, and commodities cheap; labour would continue at the same price if the labourer were as much benefited by the cheapness of commodities as he was injured by the dearness of corn; but if he were not, wages would rise, and profits would fall, while money rent would continue the same as before; profits would fall, because, as we have just explained, that would be the mode in which the labourer's share of the tax would be paid by the employers of labour. By the increase of wages the labourer would be compensated for the tax which he would pay in the increased price of corn; by not expending any part of his wages on the manufactured commodities, he would receive no part of the bounty; the bounty would be all received by the employers, and the tax would be partly paid by the employed; a remuneration would be made to the labourers, in the shape of wages, for this increased burden laid upon them, and thus the rate of profits would be reduced. In this case too there would be a complicated measure producing no national result whatever.

In considering this question, we have purposely left out of our consideration the effect of such a measure on foreign trade; we have rather been supposing the case of an insulated country, having no commercial connexion with other countries. We have seen that as the demand of the country for corn and commodities would be the same, whatever direction the bounty might take, there would be no temptation to remove capital from one employment to another: but this would no longer be the case if there were foreign commerce, and that commerce were free. By altering the relative value of commodities and corn, by producing so powerful an effect on their natural prices, we should be applying a strong stimulus to the exportation of those commodities whose natural prices were lowered, and an equal stimulus to the importation of those commodities whose natural prices were raised, and thus such a financial measure might entirely alter the natural distribution of employments; to the advantage indeed of the foreign countries, but ruinously to that in which so absurd a policy was adopted.

Chapter 24

Doctrine of Adam smith concerning the Rent of Land

'Such parts only of the produce of land', says Adam Smith, 'can commonly be brought to market, of which the ordinary price is sufficient to replace the stock which must be employed in bringing them thither, together with its ordinary profits. If the ordinary price is more than this, the surplus part of it will naturally go to the rent of land. If it is not more, though the commodity can be brought to market, it can afford no rent to the landlord. Whether the price is, or is not more, depends upon the demand.'

This passage would naturally lead the reader to conclude that its author could not have mistaken the nature of rent, and that he must have seen that the quality of land which the exigencies of society might require to be taken into cultivation, would depend on 'the ordinary price of its produce,' whether it were 'sufficient to replace the stock, which must be employed in cultivating it, together with its ordinary profits.' But he had adopted the notion that 'there were some parts of the produce of land for which the demand must always be such as to afford a greater price than what is sufficient to bring them to market;' and he considered food as one of those parts.

He says, that 'land, in almost any situation, produces a greater quantity of food than what is sufficient to maintain all the labour necessary for bringing it to market, in the most liberal way in which that labour is ever maintained. The surplus, too, is always more than sufficient to replace the stock which employed that labour, together with its profits. Something, therefore, always remains for a rent to the landlord.' But what proof does he give of this? - no other than the assertion that, the most desert moors in Norway and Scotland produce some sort of pasture for cattle, of which the milk and the increase are always more than sufficient, not only to maintain all the labour necessary for tending them, and to pay the ordinary profit to the farmer, or owner of the herd or flock, but to afford some small rent to the landlord.'

Now of this I may be permitted to entertain a doubt; I believe that as yet in every country, from the rudest to the most refined, there is land of such a quality that it cannot yield a produce more than sufficiently valuable to replace the stock employed upon it, together with the profits ordinary and usual in that country. In America we all know that this is the case, and yet no one maintains that the principles which regulate rent, are different in that country and in Europe. But if it were true that England had so far advanced in cultivation, that at this time there were no lands remaining which did not afford a rent, it would be equally true, that there formerly must have been such lands; and that whether there be or not, is of no importance to this question, for it is the same thing if there be any capital employed in Great Britain on land which yields only the return of stock with its ordinary profits, whether it be employed on old or on new land. If a farmer agrees for land on a lease of seven or fourteen years, he may propose to employ on it a capital of £10,000 knowing that at the existing price of grain and raw produce, he can replace that part of his stock which he is obliged to expend, pay his rent, and obtain the general rate of profit. He will not employ £11,000, unless the last £1,000 can be employed so productively as to afford him the usual profits of stock. In his calculation, whether he shall employ it or not, he considers only whether the price of raw produce is sufficient to replace his expenses and profits, for he knows that he shall 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 this additional £1,000 was employed, he would withdraw it; since by employing it, he gets, by the supposition, only the ordinary and usual profits which he may obtain by any other employment of stock; and, therefore, he cannot afford to pay rent for it, unless the price of raw produce should further rise, or, which is the same thing, unless the usual and general rate of profits should fall.

If the comprehensive mind of Adam Smith had been directed to this fact, he would not have maintained that rent forms one of the component parts of the price of raw produce; for price is every where regulated by the return obtained by this last portion of capital, for which no rent whatever is paid. If he had adverted to this principle, he would have made no distinction between the law which regulates the rent of mines and the rent of land.

'Whether a coal mine, for example,' he says, 'can afford any rent, depends partly upon its fertility, and partly upon its situation. A mine of any kind may be said to be either fertile or barren, according as the quantity of mineral which can be brought from it by a certain quantity of labour, is greater or less than what can be brought by an equal quantity from the greater part of other mines of the same kind. Some coal mines, advantageously situated, cannot be wrought on account of their barrenness. The produce does not pay the expense. They can afford neither profit nor rent. There are some, of which the produce is barely sufficient to pay the labour, and replace, together with its ordinary profits, the stock employed in working them. They afford some profit to the undertaker of the work, but no rent to the landlord. They can be wrought advantageously by nobody but the landlord, who being himself the undertaker of the work, gets the ordinary profit of the capital which he employs in it. Many coal mines in Scotland are wrought in this manner, and can be wrought in no other. The landlord will allow nobody else to work them without paying some rent, and nobody can afford to pay any.

'Other coal mines in the same country, sufficiently fertile, cannot be wrought on account of their situation. A quantity of mineral sufficient to defray the expense of working, could be brought from the mine by the ordinary, or even less than the ordinary quantity of labour; but in an inland country, thinly inhabited, and without either good roads or water-carriage, this quantity could not be sold.' The whole principle of rent is here admirably and perspicuously explained, but every word is as applicable to land as it is to mines; yet he affirms that 'it is otherwise in estates above ground. The proportion, both of their produce and of their rent, is in proportion to their absolute, and not to their relative fertility. But, suppose that there were no land which did not afford a rent; then, the amount of rent on the worst land would be in proportion to the excess of the value of the produce above the expenditure of capital and the ordinary profits of stock: the same principle would govern the rent of land of a somewhat better quality, or more favourably situated, and, therefore, the rent of this land would exceed the rent of that inferior to it, by the superior advantages which it possessed; the same might be said of that of the third quality, and so on to the very best. Is it not, then, as certain, that it is the relative fertility of the land, which determines the portion of the produce, which shall be paid for the rent of land, as it is that the relative fertility of mines, determines the portion of their produce, which shall be paid for the rent of mines?

After Adam Smith has declared that there are some mines which can only be worked by the owners, as they will afford only sufficient to defray the expense of working, together with the ordinary profits of the capital employed, we should expect that he would admit that it was these particular mines which regulated the price of the produce from all mines. If the old mines are insufficient to supply the quantity of coal required, the price of coal will rise, and will continue rising till the owner of a new and inferior mine finds that he can obtain the usual profits of stock by working his mine. If his mine be tolerably fertile, the rise will not be great before it becomes his interest so to employ his capital; but if it be not tolerably fertile, it is evident that the price must continue to rise till it will afford him the means of paying his expenses, and obtaining the ordinary profits of stock. It appears, then, that it is always the least fertile mine which regulates the price of coal. Adam Smith, however, is of a different opinion: he observes, that 'the most fertile coal mine, too, regulates the price of coals at all the other mines in its neighbourhood. Both the proprietor and the undertaker of the work find, the one that he can get a greater rent, the other, that he can get a greater profit, by somewhat underselling all their neighbours. Their neighbours are soon obliged to sell at the same price, though they cannot so well afford it, and though it always diminishes, and sometimes takes away altogether, both their rent and their profit. Some works are abandoned altogether. others can afford no rent, and can be wrought only by the proprietor.' If the demand for coal should be diminished, or if by new processes the quantity should be increased, the price would fall, and some mines would be abandoned; but in every case, the price must be sufficient to pay the expenses and profit of that mine which is worked without being charged with rent. It is, therefore, the least fertile mine which regulates price. Indeed, it is so stated in another place by Adam Smith himself, for he says, 'The lowest price at which coals can be sold for any considerable time, is like that of all other commodities, the price which is barely sufficient to replace, together with its ordinary profits, the stock which must be employed in bringing them to market. At a coal mine for which the landlord can get no rent, but which he must either work himself, or let it alone all together, the price of coals must generally be nearly about this price.'

But the same circumstance, namely, the abundance and consequent cheapness of coals, from whatever cause it may arise, which would make it necessary to abandon those mines on which there was no rent, or a very moderate one, would, if there were the same abundance, and consequent cheapness of raw produce, render it necessary to abandon the cultivation of those lands for which either no rent was paid, or a very moderate one. If, for example, potatoes should become the general and common food of the people, as rice is in some countries, one fourth, or one half of the land now in cultivation, would probably be immediately abandoned; for if, as Adam Smith says, 'an acre of potatoes will produce six thousand weight of solid nourishment, three times the quantity produced by the acre of wheat,' there could not be for a considerable time such a multiplication of people, as to consume the quantity that might be raised on the land before employed for the cultivation of wheat; much land would consequently be abandoned, and rent would fall; and it would not be till the population had been doubled or trebled, that the same quantity of land could be in cultivation, and the rent paid for it as high as before.

Neither would any greater proportion of the gross produce be paid to the landlord, whether it consisted of potatoes, which would feed three hundred people, or of wheat, which would feed only one hundred; because, though the expenses of production would be very much diminished if the labourer's wages were chiefly regulated by the price of potatoes and not by the price of wheat, and though therefore the proportion of the whole gross produce, after paying the labourers, would be greatly increased, yet no part of that additional proportion would go to rent, but the whole invariably to profits, - profits being at all times raised as wages fall, and lowered as wages rise. Whether wheat or potatoes were cultivated, rent would be governed by the same principle - it would be always equal to the difference between the quantities of produce obtained with equal capitals, either on the same land or on land of different qualities; and, therefore, while lands of the same quality were cultivated, and there was no alteration in their relative fertility or advantages, rent would always bear the same proportion to the gross produce.

Adam Smith, however, maintains that the proportion which falls to the landlord would be increased by a diminished cost of production, and, therefore, that he would receive a larger share as well as a larger quantity, from an abundant than from a scanty produce. 'A rice field,' he says, 'produces a much greater quantity of food than the most fertile corn field. Two crops in the year, from thirty to sixty bushels each, are said to be the ordinary produce of an acre. Though its cultivation, therefore, requires more labour, a much greater surplus remains after maintaining all that labour. In those rice countries, therefore, where rice is the common and favourite vegetable food of the people, and where the cultivators are chiefly maintained with it, a greater share of this greater surplus should belong to the landlord than in corn countries.'

Mr. Buchanan also remarks, that 'it is quite clear, that if any other produce which the land yielded more abundantly than corn, were to become the common food of the people, the rent of the landlord would be improved in proportion to its greater abundance.'

If potatoes were to become the common food of the people, there would be a long interval during which the landlords would suffer an enormous deduction of rent. They would not probably receive nearly so much of the sustenance of man as they now receive, while that sustenance would fall to a third of its present value. But all manufactured commodities, on which a part of the landlord's rent is expended, would suffer no other fall than that which proceeded from the fall in the raw material of which they were made, and which would arise only from the greater fertility of the land, which might then be devoted to its production.

When, from the progress of population, land of the same quality as before should be taken into cultivation, the landlord would have not only the same proportion of the produce as before, but that proportion would also be of the same value as before. Rent then would be the same as before; profits, however, would be much higher, because the price of food, and consequently wages, would be much lower. High profits are favourable to the accumulation of capital. The demand for labour would further increase, and landlords would be permanently benefited by the increased demand for land.

Indeed, the very same lands might be cultivated much higher, when such an abundance of food could be produced from them, and consequently they would, in the progress of society, admit of much higher rents, and would sustain a much greater population than before. This could not fail to be highly beneficial to landlords, and is consistent with the principle which this enquiry, I think, will not fail to establish; that all extraordinary profits are in their nature but of limited duration, as the whole surplus produce of the soil, after deducting from it only such moderate profits as are sufficient to encourage accumulation, must finally rest with the landlord.

With so low a price of labour as such an abundant produce would cause, not only would the lands already in cultivation yield a much greater quantity of produce, but they would admit of a great additional capital being employed on them, and a greater value to be drawn from them, and, at the same time, lands of a very inferior quality could be cultivated with high profits, to the great advantage of landlords, as well as to the whole class of consumers. The machine which produced the most important article of consumption would be improved, and would be well paid for according as its services were demanded. All the advantages would, in the first instance, be enjoyed by labourers, capitalists, and consumers; but with the progress of population, they would be gradually transferred to the proprietors of the soil. Independently of these improvements, in which the community have an immediate, and the landlords a remote interest, the interest of the landlord is always opposed to that of the consumer and manufacturer. Corn can be permanently at an advanced price, only because additional labour is necessary to produce it; because its cost of production is increased. The same cause invariably raises rent, it is therefore for the interest of the landlord that the cost attending the production of corn should be increased. This, however, is not the interest of the consumer; to him it is desirable that corn should be low relatively to money and commodities, for it is always with commodities or money that corn is purchased. Neither is it the interest of the manufacturer that corn should be at a high price, for the high price of corn will occasion high wages, but will not raise the price of his commodity. Not only, then, must more of his commodity, or, which comes to the same thing, the value of more of his commodity, be given in exchange for the corn which he himself consumes, but more must be given, or the value of more, for wages to his workmen, for which he will receive no remuneration. All classes, therefore, except the landlords, will be injured by the increase in the price of corn. The dealings between the landlord and the public are not like dealings in trade, whereby both the seller and buyer may equally be said to gain, but the loss is wholly on one side, and the gain wholly on the other; and if corn could by importation be procured cheaper, the loss in consequence of not importing is far greater on one side, than the gain is on the other.

Adam Smith never makes any distinction between a low value of money, and a high value of corn, and therefore infers, that the interest of the landlord is not opposed to that of the rest of the community. In the first case, money is low relatively to all commodities; in the other, corn is high relatively to all. In the first, corn and commodities continue at the same relative values; in the second, corn is higher relatively to commodities as well as money.

The following observation of Adam Smith is applicable to a low value of money, but it is totally inapplicable to a high value of corn. 'If importation (of corn) was at all times free, our farmers and country gentlemen would probably, one year with another, get less money for their corn than they do at present, when importation is at most times in effect prohibited; but the money which they got would be of more value, would buy more goods of.all other kinds, and would employ more labour. Their real wealth, their real revenue, therefore, would be the same as at present, though it might be expressed by a smaller quantity of silver; and they would neither be disabled nor discouraged from cultivating corn as much as they do at present. On the contrary, as the rise in the real value of silver, in consequence of lowering the money price of corn, lowers somewhat the money price of all other commodities, it gives the industry of the country where it takes place, some advantage in all foreign markets, and thereby tends to encourage and increase that industry. But the extent of the home market for corn, must be in proportion to the general industry of the country where it grows, or to the number of those who produce something else, to give in exchange for corn. But in every country the home market, as it is the nearest and most convenient, so is it likewise the greatest and most important market for corn. That rise in the real value of silver, therefore, which is the effect of lowering the average money price of corn, tends to enlarge the greatest and most important market for corn, and thereby to encourage, instead of discouraging, its growth.'

A high or low money price of corn, arising from the abundance and cheapness of gold and silver, is of no importance to the landlord, as every sort of produce would be equally affected, just as Adam Smith describes; but a relatively high price of corn is at all times greatly beneficial to the landlord; for first, it gives him a greater quantity of corn for rent; and, secondly, for every equal measure of corn he will have a command, not only over a greater quantity of money, but over a greater quantity of every commodity which money can purchase.

Chapter 25

On Colonial Trade

Adam Smith, in his observations on colonial trade, has shewn, most satisfactorily, the advantages of a free trade, and the injustice suffered by colonies, in being prevented by their mother countries, from selling their produce at the dearest market, and buying their manufactures and stores at the cheapest. He has shewn, that by permitting every country freely to exchange the produce of its industry when and where it pleases, the best distribution of the labour of the world will be effected, and the greatest abundance of the necessaries and enjoyments of human life will be secured.

He has attempted also to shew, that this freedom of commerce, which undoubtedly promotes the interest of the whole, promotes also that of each particular country; and that the narrow policy adopted in the countries of Europe respecting their colonies, is not less injurious to the mother countries themselves, than to the colonies whose interests are sacrificed.

'The monopoly of the colony trade,' he says, 'like all the other mean and malignant expedients of the mercantile system, depresses the industry of all other countries, but chiefly that of the colonies, without, in the least, increasing, but on the contrary diminishing, that of the country in whose favour it is established.'

This part of his subject, however, is not treated in so clear and convincing a manner as that in which he shews the injustice of this system towards the colony.

It may, I think, be doubted whether a mother country may not sometimes be benefited by the restraints to which she subjects her colonial possessions. Who can doubt, for example, that if England were the colony of France, the latter country would be benefited by a heavy bounty paid by England on the exportation of corn, cloth, or any other commodities? In examining the question of bounties, on the supposition of corn being at £4 per quarter in this country, we saw, that with a bounty of 10s. per quarter, on exportation in England, corn would have been reduced to £3 10s. in France. Now, if corn had previously been at £3 15s. per quarter in France, the French consumers would have been benefited by 5s. per quarter on all imported corn; if the natural price of corn in France were before £4, they would have gained the whole bounty of 10s. per quarter. France would thus be benefited by the loss sustained by England: she would not gain a part only of what England lost, but the whole.

It may, however, be said, that a bounty on exportation is a measure of internal policy, and could not easily be imposed by the mother country. If it would suit the interests of Jamaica and Holland to make an exchange of the commodities which they respectively produce, without the intervention of England, it is quite certain, that by their being prevented from so doing, the interests of Holland and Jamaica would suffer; but if Jamaica is obliged to send her goods to England, and there exchange them for Dutch goods, an English capital, or English agency, will be employed in a trade in which it would not otherwise be engaged. It is allured thither by a bounty, not paid by England, but by Holland and Jamaica.

That the loss sustained, through a disadvantageous distribution of labour in two countries, may be beneficial to one of them, while the other is made to suffer more than the loss actually belonging to such a distribution, has been stated by Adam Smith himself; which, if true, will at once prove that a measure, which may be greatly hurtful to a colony, may be partially beneficial to the mother country.

Speaking of treaties of commerce, he says, 'When a nation binds itself by treaty, either to permit the entry of certain goods from one foreign country which it prohibits from all others, or to exempt the goods of one country from duties to which it subjects those of all others, the country, or at least the merchants and manufacturers of the country, whose commerce is so favoured, must necessarily derive great advantage from the treaty. Those merchants and manufacturers enjoy a sort of monopoly in the country, which is so indulgent to them. That country becomes a market, both more extensive and more advantageous for their goods; more extensive, because the goods of other nations, being either excluded or subjected to heavier duties, it takes off a greater quantity of them; more advantageous, because the merchants of the favoured country, enjoying a sort of monopoly there, will often sell their goods for a better price than if exposed to the free competition of all other nations.'

Let the two nations, between which the commercial treaty is made, be the mother country and her colony, and Adam Smith, it is evident, admits, that a mother country may be benefited by oppressing her colony. It may, however, be again remarked, that unless the monopoly of the foreign market be in the hands of an exclusive company, no more will be paid for commodities by foreign purchasers than by home purchasers; the price which they will both pay will not differ greatly from their natural price in the country where they are produced. England, for example, will, under ordinary circumstances, always be able to buy French goods, at the natural price of those goods in France, and France would have an equal privilege of buying English goods at their natural price in England. But at these prices, goods would be bought without a treaty. Of what advantage or disadvantage then is the treaty to either party?

The disadvantage of the treaty to the importing country would be this: it would bind her to purchase a commodity, from England for example, at the natural price of that commodity in England, when she might perhaps have bought it at the much lower natural price of some other country. It occasions then a disadvantageous distribution of the general capital, which falls chiefly on the country bound by its treaty to buy in the least productive market; but it gives no advantage to the seller on account of any supposed monopoly, for he is prevented by the competition of his own countrymen from selling his goods above their natural price; at which he would sell them, whether he exported them to France, Spain, or the West Indies, or sold them for home consumption.

In what then does the advantage of the stipulation in the treaty consist? It consists in this: these particular goods could not have been made in England for exportation, but for the privilege which she alone had of serving this particular market; for the competition of that country, where the natural price was lower, would have deprived her of all chance of selling those commodities. This, however, would have been of little importance, if England were quite secure that he could sell to the same amount any other goods which she might fabricate, either in the French market, or with equal advantage in any other. The object which England has in view, is, for example, to buy a quantity of French wines of the value of £5,000 - she desires then to sell goods somewhere by which she may get £5,000 for this purpose. If France gives her a monopoly of the cloth market, she will readily export cloth for this purpose; but if the trade is free, the competition of other countries may prevent the natural price of cloth in England from being sufficiently low to enable her to get £5,000 by the sale of cloth, and to obtain the usual profits by such an employment of her stock. The industry of England must be employed, then, on some other commodity; but there may be none of her productions which, at the existing value of money, she can afford to sell at the natural price of other countries. What is the consequence? The wine drinkers of England are still willing to give £5,000 for their wine, and consequently £5,000 in money is exported to France for that purpose. By this exportation of money its value is raised in England, and lowered in other countries; and with it the natural price of all commodities produced by British industry is also lowered. The advance in the value of money is the same thing as the decline in the price of commodities. To obtain £5,000, British commodities may now be exported; for at their reduced natural price they may now enter into competition with the goods of other countries. More goods are sold, however, at the low prices to obtain the £5,000 required, which, when obtained, will not procure the same quantity of wine; because, whilst the diminution of money in England has lowered the natural price of goods there, the increase of money in France has raised the natural price of goods and wine in France. Less wine, then, will be imported into England, in exchange for its commodities, when the trade is perfectly free, than when she is peculiarly favoured by commercial treaties. The rate of profits, however, will not have varied; money will have altered in relative value in the two countries, and the advantage gained by France will be the obtaining a greater quantity of English, in exchange for a given quantity of French, goods, while the loss sustained by England will consist in obtaining a smaller quantity of French goods in exchange for a given quantity of those of England.

Foreign trade, then, whether fettered, encouraged, or free, will always continue, whatever may be the comparative difficulty of production in different countries; but it can only be regulated by altering the natural price, not the natural value, at which commodities can be produced in those countries, and that is effected by altering the distribution of the precious metals. This explanation confirms the opinion which I have elsewhere given, that there is not a tax, a bounty, or a prohibition, on the importation or exportation of commodities, which does not occasion a different distribution of the precious metals, and which does not, therefore, every where alter both the natural and the market price of commodities.

It is evident, then, that the trade with a colony may be so regulated, that it shall at the same time be less beneficial to the colony, and more beneficial to the mother country, than a perfectly free trade. As it is disadvantageous to a single consumer to be restricted in his dealings to one particular shop, so is it disadvantageous for a nation of consumers to be obliged to purchase of one particular country. If the shop or the country afforded the goods required the cheapest, they would be secure of selling them without any such exclusive privilege; and if they did not sell cheaper, the general interest would require that they should not be encouraged to continue a trade which they could not carry on at an equal advantage with others. The shop, or the selling country, might lose by the change of employments, but the general benefit is never so fully secured, as by the most productive distribution of the general capital; that is to say, by an universally free trade.

An increase in the cost of production of a commodity, if it be an article of the first necessity, will not necessarily diminish its consumption; for although the general power of the purchasers to consume, is diminished by the rise of any one commodity, yet they may relinquish the consumption of some other commodity whose cost of production has not risen. In that case, the quantity supplied and the quantity demanded, will be the same as before; the cost of production only will have increased, and yet the price will rise, and must rise, to place the profits of the producer of the enhanced commodity on a level with the profits derived from other trades.

M. Say acknowledges that the cost of production is the foundation of price, and yet in various parts of his book he maintains that price is regulated by the proportion which demand bears to supply. The real and ultimate regulator of the relative value of any two commodities, is the cost of their production, and not the respective quantities which may be produced, nor the competition amongst the purchasers.

According to Adam Smith, the colony trade, by being one in which British capital only can be employed, has raised the rate of profits of all other trades; and as, in his opinion, high profits, as well as high wages, raise the prices of commodities, the monopoly of the colony trade has been, he thinks, injurious to the mother country; as it has diminished her power of selling manufactured commodities as cheap as other countries. He says, that 'in consequence of the monopoly, the increase of the colony trade has not so much occasioned an addition to the trade which Great Britain had before, as a total change in its direction. Secondly, this monopoly has necessarily contributed to keep up the rate of profit in all the different branches of British trade, higher than it naturally would have been, had all nations been allowed a free trade to the British colonies.', But whatever raises in any country the ordinary rate of profit higher than it otherwise would be, necessarily subjects that country both to an absolute, and to a relative disadvantage in every branch of trade of which she has not the monopoly. It subjects her to an absolute disadvantage, because in such branches of trade, her merchants cannot get this greater profit without selling dearer than they otherwise would do, both the goods of foreign countries which they import into their own, and the goods of their own country which they export to foreign countries. Their own country must both buy dearer and sell dearer; must both buy less and sell less; must both enjoy less and produce less than she otherwise would do.'

'Our merchants frequently complain of the high wages of British labour as the cause of their manufactures being undersold in foreign markets; but they are silent about the high profits of stock. They complain of the extravagant gain of other people, but they say nothing of their own. The high profits of British stock, however, may contribute towards raising the price of British manufacture in many cases as much, and in some perhaps more, than the high wages of British labour.'

I allow that the monopoly of the colony trade will change, and often prejudicially, the direction of capital; but from what I have already said on the subject of profits, it will be seen that any change from one foreign trade to another, or from home to foreign trade, cannot, in my opinion, affect the rate of profits. The injury suffered will be what I have just described; there will be a worse distribution of the general capital and industry, and, therefore, less will be produced. The natural price of commodities will be raised, and, therefore, though the consumer will be able to purchase to the same money value, he will obtain a less quantity of commodities. It will be seen too, that if it even had the effect of raising profits, it would not occasion the least alteration in prices; prices being regulated neither by wages nor profits.

And does not Adam Smith agree in this opinion, when he says, that 'the prices of commodities, or the value of gold and silver as compared with commodities, depends upon the proportion between the quantity of labour which is necessary in order to bring a certain quantity of gold and silver to market, and that which is necessary to bring thither a certain quantity of any other sort of goods?' That quantity will not be affected, whether profits be high or low, or wages low or high. How then can prices be raised by high profits?

Chapter 26

On Gross and Net Revenue

Adam Smith constantly magnifies the advantages which a country derives from a large gross, rather than a large net income. 'In proportion as a greater share of the capital of a country is employed in agriculture,' he says, 'the greater will be the quantity of productive labour which it puts into motion within the country; as will likewise be the value which its employment adds to the annual produce of the land and labour of the society. After agriculture, the capital employed in manufactures puts into motion the greatest quantity of productive labour, and adds the greatest value to the annual produce. That which is employed in the trade of exportation has the least effect of any of the three.'(58*)

Granting, for a moment, that this were true; what would be the advantage resulting to a country from the employment of a great quantity of productive labour, if, whether it employed that quantity or a smaller, its net rent and profits together would be the same. The whole produce of the land and labour of every country is divided into three portions: of these, one portion is devoted to wages, another to profits, and the other to rent. It is from the two last portions only, that any deductions can be made for taxes, or for savings; the former, if moderate, constituting always the necessary expenses of production.(59*) To an individual with a capital of £20,000, whose profits were £2,000 per annum, it would be a matter quite indifferent whether his capital would employ a hundred or a thousand men, whether the commodity produced sold for £10,000, or for £20,000, provided, in all cases, his profits were not diminished below £2,000. Is not the real interest of the nation similar? Provided its net real income, its rent and profits be the same, it is of no importance whether the nation consists of ten or of twelve millions of inhabitants. Its power of supporting fleets and armies, and all species of unproductive labour, must be in proportion to its net, and not in proportion to its gross income. If five millions of men could produce as much food and clothing as was necessary for ten millions, food and clothing for five millions would be the net revenue. Would it be of any advantage to the country, that to produce this same net revenue, seven millions of men should be required, that is to say, that seven millions should be employed to produce food and clothing sufficient for twelve millions? The food and clothing of five millions would be still the net revenue. The employing a greater number of men would enable us neither to add a man to our army and navy, nor to contribute one guinea more in taxes.

It is not on the grounds of any supposed advantage accruing from a large population, or of the happiness that may be enjoyed by a greater number of human beings, that Adam Smith supports the preference of that employment of capital, which gives motion to the greatest quantity of industry, but expressly on the ground of its increasing the power of the country(60*) for he says, that 'the riches, and, so far as power depends upon riches, the power of every country must always be in proportion to the value of its annual produce, the fund from which all taxes must ultimately be paid.' It must however be obvious, that the power of paying taxes, is in proportion to the net, and not in proportion to the gross, revenue.

In the distribution of employments amongst all countries, the capital of poorer nations will be naturally employed in those pursuits, wherein a great quantity of labour is supported at home, because in such countries the food and necessaries for an increasing population can be most easily procured. In rich countries, on the contrary, where food is dear, capital will naturally flow, when trade is free, into those occupations wherein the least quantity of labour is required to be maintained at home: such as the carrying trade, the distant foreign trade, and trades where expensive machinery is required; to trades where profits are in proportion to the capital, and not in proportion to the quantity of labour employed.(61*)

Although I admit, that from the nature of rent, a given capital employed in agriculture, on any but the land last cultivated, puts in motion a greater quantity of labour than an equal capital employed in manufactures and trade, yet I cannot admit that there is any difference in the quantity of labour employed by a capital engaged in the home trade, and an equal capital engaged in the foreign trade.

'The capital which sends Scots manufactures to London, and brings back English corn and manufactures to Edinburgh,' says Adam Smith, 'necessarily replaces, by every such operation, two British capitals which had both been employed in the agriculture or manufactures of Great Britain.

'The capital employed in purchasing foreign goods for home consumption, when this purchase is made with the produce of domestic industry, replaces, too, by every such operation, two distinct capitals; but one of them only is employed in supporting domestic industry. The capital which sends British goods to Portugal, and brings back Portuguese goods to Great Britain, replaces, by every such operation, only one British capital, the other is a Portuguese one. Though the returns, therefore, of the foreign trade of consumption should be as quick as the home trade, the capital employed in it will give but one half the encouragement to the industry or productive labour of the country.'

This argument appears to me to be fallacious; for though two capitals, one Portuguese and one English, be employed, as Dr. Smith supposes, still a capital will be employed in the foreign trade, double of what would be employed in the home trade. Suppose that Scotland employs a capital of a thousand pounds in making linen, which she exchanges for the produce of a similar capital employed in making silks in England, two thousand pounds, and a proportional quantity of labour will be employed by the two countries. Suppose now, that England discovers, that she can import more linen from Germany, for the silks which she before exported to Scotland, and that Scotland discovers that she can obtain more silks from France in return for her linen, than she before obtained from England, - will not England and Scotland immediately cease trading with each other, and will not the home trade of consumption be changed for a foreign trade of consumption? But although two additional capitals will enter into this trade, the capital of Germany and that of France, will not the same amount of Scotch and of English capital continue to be employed, and will it not give motion to the same quantity of industry as when it was engaged in the home trade?

Chapter 27

On Currency and Banks

So much has already been written on currency, that of those who give their attention to such subjects, none but the prejudiced are ignorant of its true principles. I shall, therefore, take only a brief survey of some of the general laws which regulate its quantity and value.

Gold and silver, like all other commodities, are valuable only in proportion to the quantity of labour necessary to produce them, and bring them to market. Gold is about fifteen times dearer than silver, not because there is a greater demand for it, nor because the supply of silver is fifteen times greater than that of gold, but solely because fifteen times the quantity of labour is necessary to procure a given quantity of it.

The quantity of money that can be employed in a country must depend on its value: if gold alone were employed for the circulation of commodities, a quantity would be required, one fifteenth only of what would be necessary, if silver were made use of for the same purpose.

A circulation can never be so abundant as to overflow; for by diminishing its value, in the same proportion you will increase its quantity, and by increasing its value, diminish its quantity.

While the State coins money, and charges no seignorage, money will be of the same value as any other piece of the same metal of equal weight and fineness; but if the State charges a seignorage for coinage, the coined piece of money will generally exceed the value of the uncoined piece of metal by the whole seignorage charged, because it will require a greater quantity of labour, or, which is the same thing, the value of the produce of a greater quantity of labour, to procure it.

While the State alone coins, there can be no limit to this charge of seignorage; for by limiting the quantity of coin, it can be raised to any conceivable value.

It is on this principle that paper money circulates: the whole charge for paper money may be considered as seignorage. Though it has no intrinsic value, yet, by limiting its quantity, its value in exchange is as great as an equal denomination of coin, or of bullion in that coin. On the same principle, too, namely, by a limitation of its quantity, a debased coin would circulate at the value it should bear, if it were of the legal weight and fineness, and not at the value of the quantity of metal which it actually contained. In the history of the British coinage, we find, accordingly, that the currency was never depreciated in the same proportion that it was debased; the reason of which was, that it never was increased in quantity, in proportion to its diminished intrinsic value.(62*)

There is no point more important in issuing paper money, than to be fully impressed with the effects which follow from the principle of limitation of quantity. It will scarcely be believed fifty years hence, that Bank directors and ministers gravely contended in our times, both in parliament, and before committees of parliament, that the issues of notes by the Bank of England, unchecked by any power in the holders of such notes, to demand in exchange either specie, or bullion, had not, nor could have any effect on the prices of commodities, bullion, or foreign exchanges.

After the establishment of Banks, the State has not the sole power of coining or issuing money. The currency may as effectually be increased by paper as by coin; so that if a State were to debase its money, and limit its quantity, it could not support its value, because the Banks would have an equal power of adding to the whole quantity of circulation.

On these principles, it will be seen that it is not necessary that paper money should be payable in specie to secure its value; it is only necessary that its quantity should be regulated according to the value of the metal which is declared to be the standard. If the standard were gold of a given weight and fineness, paper might be increased with every fall in the value of gold, or, which is the same thing in its effect, with every rise in the price of goods.

'By issuing too great a quantity of paper,' says Dr. Smith, 'of which the excess was continually returning, in or der to be exchanged for gold and silver, the Bank of England was, for many years together, obliged to coin gold to the extent of between eight hundred thousand pounds and a million a year, or at an average, about eight hundred and fifty thousand pounds. For this great coinage, the Bank, in consequence of the worn and degraded state into which the gold coin had fallen a few years ago, was frequently obliged to purchase bullion, at the high price of four pounds an ounce, which it soon after issued in coin at £3 17s. 10 1/2d. an ounce, losing in this manner between two and a half and three per cent upon the coinage of so very large a sum. Though the Bank, therefore, paid no seignorage, though the Government was properly at the expense of the coinage, this liberality of Government did not prevent altogether the expense of the Bank.'

On the principle above stated, it appears to me most clear, that by not re-issuing the paper thus brought in, the value of the whole currency, of the degraded as well as the new gold coin, would have been raised, when all demands on the Bank would have ceased.

Mr Buchanan, however, is not of this opinion, for he says, 'that the great expense to which the Bank was at this time exposed, was occasioned, not, as Dr Smith seems to imagine, by any imprudent issue of paper, but by the debased state of the currency, and the consequent high price of bullion. The Bank, it will be observed, having no other way of procuring guineas but by sending bullion to the Mint to be coined, was always forced to issue new coined guineas, in exchange for its returned notes; and when the currency was generally deficient in weight, and the price of bullion high in proportion, it became profitable to draw these heavy guineas from the Bank in exchange for its paper; to convert them into bullion, and to sell them with a profit for Bank paper, to be again returned to the Bank for a new supply of guineas, which were again melted and sold. To this drain of specie, the Bank must always be exposed while the currency is deficient in weight, as both an easy and a certain profit then arises from the constant interchange of paper for specie. It may be remarked, however, that to whatever inconvenience and expense the Bank was then exposed by the drain of its specie, it never was imagined necessary to rescind the obligation to pay money for its notes.'

Mr Buchanan evidently thinks that the whole currency must, necessarily, be brought down to the level of the value of the debased pieces; but, surely, by a diminution of the quantity of the currency, the whole that remains can be elevated to the value of the best pieces.

Dr Smith appears to have forgotten his own principle, in his argument on colony currency. Instead of ascribing the depreciation of that paper to its too great abundance, he asks whether, allowing the colony security to be perfectly good, a hundred pounds, payable fifteen years hence, would be equally valuable with a hundred pounds to be paid immediately? I answer yes, if it be not too abundant.

Experience, however, shews, that neither a State nor a Bank ever have had the unrestricted power of issuing paper money, without abusing that power: in all States, therefore, the issue of paper money ought to be under some check and control; and none seems so proper for that purpose, as that of subjecting the issuers of paper money to the obligation of paying their notes, either in gold coin or bullion.

['To secure the public(63*) against any other variations in the value of currency than those to which the standard itself is subject, and, at the same time, to carry on the circulation with a medium the least expensive, is to attain the most perfect state to which a currency can be brought, and we should possess all these advantages by subjecting the Bank to the delivery of uncoined gold or silver at the Mint standard and price, in exchange for their notes, instead of the delivery of guineas; by which means paper would never fall below the value of bullion, without being followed by a reduction of its quantity. To prevent the rise of paper above the value of bullion, the Bank should be also obliged to give their paper in exchange for standard gold at the price of £3 17s. per ounce. Not to give too much trouble to the Bank, the quantity of gold to be demanded in exchange for paper at the Mint price of £3 17s. 10 1/2d., or the quantity to be sold to the Bank at £3 17s., should never be less than twenty ounces. In other words, the Bank should be obliged to purchase any quantity of gold that was offered them, not less than twenty ounces, at £3 17s. (64*) per ounce, and to sell any quantity that might be demanded at £3 17s. 10 1/2d. While they have the power of regulating the quantity of their paper, there is no possible inconvenience that could result to them from such a regulation.

'The most perfect liberty should be given, at the same time to export or import every description of bullion. These transactions in bullion would be very few in number, if the Bank regulated their loans and issues of paper by the criterion which I have so often mentioned, namely, the price of standard bullion, without attending to the absolute quantity of paper in circulation.

'The object which I have in view would be in a great measure attained, if the Bank were obliged to deliver uncoined bullion, in exchange for their notes, at the Mint price and standard; though they were not under the necessity of purchasing any quantity of bullion offered them at the prices to be fixed, particularly if the Mint were to continue open to the public for the coinage of money: for that regulation is merely suggested, to prevent the value of money from varying from the value of bullion more than the trifling difference between the prices at which the Bank should buy and sell, and which would be an approximation to that uniformity in its value, which is acknowledged to be so desirable.

'If the Bank capriciously limited the quantity of their paper, they would raise its value; and gold might appear to fall below the limits at which I propose the Bank should purchase. Gold, in that case, might be carried to the Mint, and the money returned from thence, being added to the circulation, would have the effect of lowering its value, and making it again conform to the standard; but it would neither be done so safely, so economically, nor so expeditiously, as by the means which I have proposed; against which the Bank can have no objection to offer, as it is for their interest to furnish the circulation with paper, rather than oblige others to furnish it with coin.

'Under such a system, and with a currency so regulated, the Bank would never be liable to any embarrassments whatever, excepting on those extraordinary occasions, when a general panic seizes the country, and when every one is desirous of possessing the precious metals as the most convenient mode of realizing or concealing his property. Against such panics, Banks have no security, on any system; from their very nature they are subject to them, as at no time can there be in a Bank, or in a country, so much specie or bullion as the monied individuals of such country have a right to demand. Should every man withdraw his balance from his banker on the same day, many times the quantity of Bank notes now in circulation would be insufficient to answer such a demand. A panic of this kind was the cause of the crisis in 1797; and not, as has been supposed, the large advances which the Bank had then made to Government. Neither the Bank nor Government were at that time to blame; it was the contagion of the unfounded fears of the timid part of the community, which occasioned the run on the Bank, and it would equally have taken place if they had not made any advances to Government, and had possessed twice their present capital. If the Bank had continued paying in cash, probably the panic would have subsided before their coin had been exhausted.

'With the known opinion of the Bank directors, as to the rule for issuing paper money, they may be said to have exercised their powers without any great indiscretion. It is evident that they have followed their own principle with extreme caution. In the present state of the law, they have the power, without any control whatever, of increasing or reducing the circulation in any degree they may think proper: a power which should neither be intrusted to the State itself, nor to any body in it; as there can be no security for the uniformity in the value of the currency, when its augmentation or diminution depends solely on the will of the issuers. That the Bank have the power of reducing the circulation to the very narrowest limits will not be denied, even by those who agree in opinion with the directors, that they have not the power of adding indefinitely to its quantity. Though I am fully assured, that it is both against the interest and the wish of the Bank to exercise this power to the detriment of the public, yet, when I contemplate the evil consequences which might ensue from a sudden and great reduction of the circulation, as well as from a great addition to it, I cannot but deprecate the facility with which the State has armed the Bank with so formidable a prerogative.

'The inconvenience to which country banks were subjected before the restriction on cash payments, must, at times, have been very great. At all periods of alarm, or of expected alarm, they must have been under the necessity of providing themselves with guineas, that they might be prepared for every exigency which might occur. Guineas, on these occasions, were obtained at the Bank in exchange for the larger notes, and were conveyed by some confidential agent, at expense and risk, to the country bank. After performing the offices to which they were destined, they found their way again to London, and in all probability were again lodged in the Bank, provided they had not suffered such a loss of weight, as to reduce them below the legal standard.

'If the plan now proposed, of paying Bank notes in bullion, be adopted, it would be necessary either to extend the same privilege to country banks, or to make Bank notes a legal tender, in which latter case, there would be no alteration in the law respecting country banks, as they would be required, precisely as they now are, to pay their notes, when demanded, in Bank of England notes.

'The saving which would take place, from not submitting the guineas to the loss of weight, from the friction which they must undergo in their repeated journeys, as well as of the expences of conveyance, would be considerable; but by far the greatest advantage would result from the permanent supply of the country, as well as of the London circulation, as far as the smaller payments are concerned, being provided in the very cheap medium, paper, instead of the very valuable medium, gold; thereby enabling the country to derive all the profit which may be obtained by the productive employment of a capital to that amount. We should surely not be justified in rejecting so decided a benefit, unless some specific inconvenience could be pointed out as likely to follow from adopting the cheaper medium.']

A currency is in its most perfect state when it consists wholly of paper money, but of paper money of an equal value with the gold which it professes to represent. The use of paper instead of gold, substitutes the cheapest in place of the most expensive medium, and enables the country, without loss to any individual, to exchange all the gold which it before used for this purpose, for raw materials, utensils, and food; by the use of which, both its wealth and its enjoyments are increased.

In a national point of view, it is of no importance whether the issuers of this well regulated paper money be the Government or a bank, it will, on the whole, be equally productive of riches, whether it be issued by one or by the other; but it is not so with respect to the interest of individuals. In a country where the market rate of interest is 7 per cent, and where the State requires for a particular expense £70,000 per annum, it is a question of importance to the individuals of that country, whether they must be taxed to pay this £70,000 per annum, or whether they could raise it without taxes. Suppose that a million of money should be required to fit out an expedition. If the State issued a million of paper, and displaced a million of coin, the expedition would be fitted out without any charge to the people; but if a Bank issued a million of paper, and lent it to Government at 7 per cent, thereby displacing a million of coin, the country would be charged with a continual tax of £70,000 per annum: the people would pay the tax, the Bank would receive it, and the society would in either case be as wealthy as before; the expedition would have been really fitted out by the improvement of our system, by rendering capital of the value of a million productive in the form of commodities, instead of letting it remain unproductive in the form of coin; but the advantage would always be in favour of the issuers of paper; and as the State represents the people, the people would have saved the tax, if they, and not the Bank, had issued this million.

I have already observed, that if there were perfect security that the power of issuing paper money would not be abused, it would be of no importance with respect to the riches of the country collectively, by whom it was issued; and I have now shewn that the public would have a direct interest that the issuers should be the State, and not a company of merchants or bankers. The danger, however, is, that this power would be more likely to be abused, if in the hands of Government, than if in the hands of a banking company. A company would, it is said, be more under the control of law, and although it might be their interest to extend their issues beyond the bounds of discretion, they would be limited and checked by the power which individuals would have of calling for bullion or specie. It is argued that the same check would not be long respected, if Government had the privilege of issuing money; that they would be too apt to consider present convenience, rather than future security, and might, therefore, on the alleged grounds of expediency, be too much inclined to remove the checks, by which the amount of their issues was controlled.

Under an arbitrary Government, this objection would have great force; but, in a free country, with an enlightened legislature, the power of issuing paper money, under the requisite checks of convertibility at the will of the holder, might be safely lodged in the hands of commissioners appointed for that special purpose, and they might be made totally independent of the control of ministers.

The sinking fund is managed by commissioners, responsible only to parliament, and the investment of the money entrusted to their charge, proceeds with the utmost regularity; what reason can there be to doubt that the issues of paper money might be regulated with equal fidelity, if placed under similar management?

It may be said, that although the advantage accruing to the State, and, therefore, to the public, from issuing paper money, is sufficiently manifest, as it would exchange a portion of the national debt, on which interest is paid by the public, into a debt bearing no interest; yet it would be disadvantageous to commerce, as it would preclude the merchants from borrowing money, and getting their bills discounted, the method in which Bank paper is partly issued.

This, however, is to suppose that money could not be borrowed, if the Bank did not lend it, and that the market rate of interest and profit depends on the amount of the issues of money, and on the channel through which it is issued. But as a country would have no deficiency of cloth, of wine, or any other commodity, if they had the means of paying for it, in the same manner neither would there be any deficiency of money to be lent, if the borrowers offered good security, and were willing to pay the market rate of interest for it.

In another part of this work, I have endeavoured to shew, that the real value of a commodity is regulated, not by the accidental advantages which may be enjoyed by some of its producers, but by the real difficulties encountered by that producer who is least favoured. It is so with respect to the interest for money; it is not regulated by the rate at which the Bank will lend, whether it be 5, 4, or 3 per cent, but by the rate of profits which can be made by the employment of capital, and which is totally independent of the quantity, or of the value of money. Whether a Bank lent one million, ten millions, or a hundred millions, they would not permanently alter the market rate of interest; they would alter only the value of the money which they thus issued. In one case, 10 or 20 times more money might be required to carry on the same business, than what might be required in the other. The applications to the Bank for money, then, depend on the comparison between the rate of profits that may be made by the employment of it, and the rate at which they are willing to lend it. If they charge less than the market rate of interest, there is no amount of money which they might not lend, - if they charge more than that rate, none but spendthrifts and prodigals would be found to borrow of them. We accordingly find, that when the market rate of interest exceeds the rate of 5 per cent at which the Bank uniformly lend, the discount office is besieged with applicants for money; and, on the contrary, when the market rate is even temporarily under 5 per cent, the clerks of that office have no employment.

The reason, then, why for the last twenty years, the Bank is said to have given so much aid to commerce, by assisting the merchants with money, is, because they have, during that whole period, lent money below the market rate of interest; below that rate at which the merchants could have borrowed elsewhere; but, I confess, that to me this seems rather an objection to their establishment, than an argument in favour of it.

What should we say of an establishment which should regularly supply half the clothiers with wool under the market price? Of what benefit would it be to the community? It would not extend our trade, because the wool would equally have been bought if they had charged the market price for it. It would not lower the price of cloth to the consumer, because the price, as I have said before, would be regulated by the cost of its production to those who were the least favoured. Its sole effect, then, would be, to swell the profits of a part of the clothiers beyond the general and common rates of profits. The establishment would be deprived of its fair profits, and another part of the community would be in the same degree benefited. Now this is precisely the effect of our banking establishments; a rate of interest is fixed by the law below that at which it can be borrowed in the market, and at this rate the Bank are required to lend, or not to lend at all. From the nature of their establishment, they have large funds which they can only dispose of in this way; and a part of the traders of the country are unfairly, and, for the country, unprofitably benefited, by being enabled to supply themselves with an instrument of trade, at a less charge than those who must be influenced only by market price.

The whole business, which the whole community can carry on, depends on the quantity of its capital, that is, of its raw material, machinery, food, vessels, &c. employed in production. After a well regulated paper money is established, these can neither be increased nor diminished by the operations of banking. If, then, the State were to issue the paper money of the country, although it should never discount a bill, or lend one shilling to the public, there would be no alteration in the amount of trade; for we should have the same quantity of raw materials, of machinery, food, and ships; and it is probable, too, that the same amount of money might be lent, not always at 5 per cent indeed, a rate fixed by law, when that might be under the market rate, but at 6, 7, or 8 per cent, the result of the fair competition in the market between the lenders and the borrowers.

Adam Smith speaks of the advantages derived by merchants from the superiority of the Scotch mode of affording accommodation to trade, over the English mode, by means of cash accounts. These cash accounts are credits given by the Scotch banker to his customers, in addition to the bills which he discounts for them; but, as the banker, in proportion as he advances money, and sends it into circulation in one way, is debarred from issuing so much in the other, it is difficult to perceive in what the advantage consists. If the whole circulation will bear only one million of paper, one million only will be circulated; and it can be of no real importance either to the banker or merchant, whether the whole be issued in discounting bills, or a part be so issued, and the remainder be issued by means of these cash accounts.

It may perhaps be necessary to say a few words on the subject of the two metals, gold and silver, which are employed in currency, particularly as this question appears to perplex, in many people's minds, the plain and simple principles of currency. 'In England,' says Dr Smith, 'gold was not considered as a legal tender for a long time after it was coined into money. The proportion between the values of gold and silver money was not fixed by any public law or proclamation, but was left to be settled by the market. If a debtor offered payment in gold, the creditor might either reject such payment altogether, or accept of it at such a valuation of the gold, as he and his debtor could agree upon.'

In this state of things it is evident that a guinea might sometimes pass for 22s. or more, and sometimes for 18s. or less, depending entirely on the alteration in the relative market value of gold and silver. All the variations, too, in the value of gold, as well as in the value of silver, would be rated in the gold coin, - it would appear as if silver was invariable, and as if gold only was subject to rise and fall. Thus, although a guinea passed for 22s. instead of 18s., gold might not have varied in value; the variation might have been wholly confined to the silver, and therefore 22s. might have been of no more value than 18s. were before. And, on the contrary, the whole variation might have been in the gold: a guinea, which was worth 18s., might have risen to the value of 22s.

If now we suppose this silver currency to be debased by clipping, and also increased in quantity, a guinea might pass for 30s.; for the silver in 30s. of such debased money might be of no more value than the gold in one guinea. By restoring the silver currency to its Mint value, silver money would rise: but it would appear as if gold fell, for a guinea would probably be of no more value than 21 of such good shillings.

If now gold be also made a legal tender, and every debtor be at liberty to discharge a debt by the payment of 420 shillings, or twenty guineas for every £21 that he owes, he will pay in one or the other according as he can most cheaply discharge his debt. If with five quarters of wheat he can procure as much gold bullion as the Mint will coin into twenty guineas, and for the same wheat as much silver bullion as the Mint will coin for him into 430 shillings, he will prefer paying in silver, because he would be a gainer of ten shillings by so paying his debt. But if, on the contrary, he could obtain with this wheat as much gold as would be coined into twenty guineas and a half, and as much silver only as would coin into 420 shillings, he would naturally prefer paying his debt in gold. If the quantity of gold which he could procure could be coined only into twenty guineas, and the quantity of silver into 420 shillings, it would be a matter of perfect indifference to him in which money, silver or gold, it was that he paid his debt. It is not then a matter of chance; it is not because gold is better fitted for carrying on the circulation of a rich country, that gold is ever preferred for the purpose of paying debts; but, simply, because it is the interest of the debtor so to pay them.

During a long period previous to 1797, the year of the restriction on the Bank payments in coin, gold was so cheap, compared with silver, that it suited the Bank of England, and all other debtors, to purchase gold in the market, and not silver, for the purpose of carrying it to the Mint to be coined, as they could in that coined metal more cheaply discharge their debts. The silver currency was, during a great part of this period, very much debased; but it existed in a degree of scarcity, and, therefore, on the principle which I have before explained, it never sunk in its current value. Though so debased, it was still the interest of debtors to pay in the gold coin. If, indeed, the quantity of this debased silver coin had been enormously great, or if the Mint had issued such debased pieces, it might have been the interest of debtors to pay in this debased money; but its quantity was limited, and it sustained its value, and, therefore, gold was in practice the real standard of currency.

That it was so, is nowhere denied; but it has been contended, that it was made so by the law, which declared that silver should not be a legal tender for any debt exceeding £25, unless by weight, according to the Mint standard.

But this law did not prevent any debtor from paying his debt, however large its amount, in silver currency fresh from the Mint; that the debtor did not pay in this metal, was not a matter of chance, nor a matter of compulsion, but wholly the effect of choice; it did not suit him to take silver to the Mint, it did suit him to take gold thither. It is probable, that if the quantity of this debased silver in circulation had been enormously great, and also a legal tender, that a guinea would have been again worth thirty shillings; but it would have been the debased shilling that would have fallen in value, and not the guinea that had risen.

It appears, then, that whilst each of the two metals was equally a legal tender for debts of any amount, we were subject to a constant change in the principal standard measure of value. It would sometimes be gold, sometimes silver, depending entirely on the variations in the relative value of the two metals; and at such times the metal, which was not the standard, would be melted, and withdrawn from circulation, as its value would be greater in bullion than in coin. This was an inconvenience, which it was highly desirable should be remedied; but so slow is the progress of improvement, that although it had been unanswerably demonstrated by Mr Locke, and had been noticed by all writers on the subject of money since his day, a better system was never adopted till the session of Parliament, 1816, when it was enacted that gold only should be a legal tender for any sum exceeding forty shillings.

Dr Smith does not appear to have been quite aware of the effect of employing two metals as currency, and both a legal tender for debts of any amount; for he says, that, in reality, during the continuance of any one regulated proportion between the respective values of the different metals in coin, the value of the most precious metal regulates the value of the whole coin.' Because gold was in his day the medium in which it suited debtors to pay their debts, he thought that it had some inherent quality by which it did then, and always would regulate the value of silver coin.

On the reformation of the gold coin in 1774, a new guinea fresh from the Mint, would exchange for only twenty-one debased shillings; but in the reign of King William, when the silver coin was in precisely the same condition, a guinea also new and fresh from the Mint would exchange for thirty shillings. On this Mr Buchanan observes, 'here, then, is a most singular fact, of which the common theories of currency offer no account; the guinea exchanging at one time for thirty shillings, its intrinsic worth in a debased silver currency, and afterwards the same guinea exchanged for only twenty-one of those debased shillings. It is clear that some great change must have intervened in the state of the currency between these two different periods, of which Dr Smith's hypothesis offers no explanation.'

It appears to me, that the difficulty may be very simply solved, by referring this different state of the value of the guinea at the two periods mentioned, to the different quantities of debased silver currency in circulation. In King William's reign gold was not a legal tender; it passed only at a conventional value. All the large payments were probably made in silver, particularly as paper currency, and the operations of banking, were then little understood. The quantity of this debased silver money exceeded the quantity of silver money, which would have been maintained in circulation, if nothing but undebased money had been in use; and, consequently, it was depreciated as well as debased. But in the succeeding period when gold was a legal tender, when Bank notes also were used in effecting payments, the quantity of debased silver money did not exceed the quantity of silver coin fresh from the Mint, which would have circulated if there had been no debased silver money; hence, though the money was debased, it was not depreciated. Mr Buchanan's explanation is somewhat different; he thinks that a subsidiary currency is not liable to depreciation, but that the main currency is. In King William's reign silver was the main currency, and hence was liable to depreciation. In 1774 it was a subsidiary currency, and, therefore, maintained its value. Depreciation, however, does not depend on a currency being the subsidiary of the main currency, it depends wholly on its being in excess of quantity (65*)

To a moderate seignorage on the coinage of money there cannot be much objection, particularly on that currency which is to effect the smaller payments. Money is generally enhanced in value to the full amount of the seignorage, and, therefore, it is a tax which in no way affects those who pay it, while the quantity of money is not in excess. It must, however, be remarked, that in a country where a paper currency is established, although the issuers of such paper should be liable to pay it in specie on the demand of the holder, still, both their notes and the coin might be depreciated to the full amount of the seignorage on that coin, which is alone the legal tender, before the check, which limits the circulation of paper, would operate. If the seignorage of gold coin were 5 per cent for instance, the currency, by an abundant issue of Bank-notes, might be really depreciated 5 per cent before it would be the interest of the holders to demand coin for the purpose of melting it into bullion; a depreciation to which we should never be exposed, if either there was no seignorage on the gold coin; or, if a seignorage were allowed, the holders of Bank-notes might demand bullion, and not coin, in exchange for them, at the Mint price of £3 17s. 10 1/2d. Unless, then, the Bank should be obliged to pay their notes in bullion or coin, at the will of the holder, the late law which allows a seignorage of 6 per cent, or fourpence per oz., on the silver coin, but which directs that gold shall be coined by the Mint without any charge whatever, is perhaps the most proper, as it will most effectually prevent any unnecessary variation of the currency.

Chapter 28

On the Comparative Value of gold, Corn, and Labour, in Rich and Poor Countries

'Gold and silver, like all other commodities,' says Adam Smith, 'naturally seek the market where the best price is given for them; and the best price is commonly given for every thing in the country which can best afford it. Labour, it must be remembered, is the ultimate price which is paid for every thing; and in countries where labour is equally well rewarded, the money price of labour will be in proportion to that of the subsistence of the labourer. But gold and silver will naturally exchange for a greater quantity of substance in a rich than in a poor country; in a country which abounds with subsistence, than in one which is but indifferently supplied with it.'

But corn is a commodity, as well as gold, silver, and other things; if all commodities, therefore, have a high exchangeable value in a rich country, corn must not be excepted; and hence we might correctly say, that corn exchanged for a great deal of money, because it was dear, and that money, too, exchanged for a great deal of corn, because that also was dear; which is to assert that corn is dear and cheap at the same time. No point in political economy can be better established, than that a rich country is prevented from increasing in population, in the same ratio as a poor country, by the progressive difficulty of providing food. That difficulty must necessarily raise the relative price of food, and give encouragement to its importation. How then can money, or gold and silver, exchange for more corn in rich, than in poor countries? It is only in rich countries, where corn is dear, that landholders induce the legislature to prohibit the importation of corn. Who ever heard of a law to prevent the importation of raw produce in America or Poland? - Nature has effectually precluded its importation by the comparative facility of its production in those countries.

How, then, can it be true, that 'if you except corn, and such other vegetables, as are raised altogether by human industry, all other sorts of rude produce - cattle, poultry, game of all kinds, the useful fossils and minerals of the earth, &c., naturally grow dearer as the society advances.' Why should corn and vegetables alone be excepted? Dr Smith's error throughout his whole work, lies in supposing that the value of corn is constant; that though the value of all other things may, the value of corn never can be raised. Corn, according to him, is always of the same value because it will always feed the same number of people. In the same manner it might be said, that cloth is always of the same value, because it will always make the same number of coats. What can value have to do with the power of feeding and clothing?

Corn, like every other commodity, has in every country its natural price, viz. that price which is necessary to its production, and without which it could not be cultivated: it is this price which governs its market price, and which determines the expediency of exporting it to foreign countries. If the importation of corn were prohibited in England, its natural price might rise to £6 per quarter in England, whilst it was only at half that price in France. If at this time, the prohibition of importation were removed, corn would fall in the English market, not to a price between £6 and £3, but ultimately and permanently to the natural price of France, the price at which it could be furnished to the English market, and afford the usual and ordinary profits of stock in France; and it would remain at this price, whether England consumed a hundred thousand, or a million of quarters. If the demand of England were for the latter quantity, it is probable that, owing to the necessity under which France would be, of having recourse to land of a worse quality, to furnish this large supply, the natural price would rise in France; and this would of course affect also the price of corn in England. All that I contend for is, that it is the natural price of commodities in the exporting country, which ultimately regulates the prices at which they shall be sold, if they are not the objects of monopoly, in the importing country.

But Dr Smith, who has so ably supported the doctrine of the natural price of commodities ultimately regulating their market price, has supposed a case in which he thinks that the market price would not be regulated either by the natural price of the exporting or of the importing country. 'Diminish the real opulence either of Holland, or the territory of Genoa,' he says, 'while the number of their inhabitants remains the same; diminish their power of supplying themselves from distant countries, and the price of corn, instead of sinking with that diminution in the quantity of their silver which must necessarily accompany this declension, either as its cause or as its effect, will rise to the price of a famine.'

To me it appears, that the very reverse would take place: the diminished power of the Dutch or Genoese to purchase generally, might depress the price of corn for a time below its natural price in the country from which it was exported, as well as in the countries in which it was imported; but it is quite impossible that it could ever raise it above that price. It is only by increasing the opulence of the Dutch or Genoese, that you could increase the demand, and raise the price of corn above its former price; and that would take place only for a very limited time, unless new difficulties should arise in obtaining the supply.

Dr Smith further observes on this subject: 'When we are in want of necessaries, we must part with all superfluities, of which the value, as it rises in times of opulence and prosperity, so it sinks in times of poverty and distress.' This is undoubtedly true; but he continues, 'it is otherwise with necessaries. Their real price, the quantity of labour which they can purchase or command, rises in times of poverty and distress, and sinks in times of opulence and prosperity, which are always times of great abundance, for they could not otherwise be times of opulence and prosperity. Corn is a necessary, silver is only a superfluity.'

Two propositions are here advanced, which have no connexion with each other; one, that under the circumstances supposed, corn would command more labour, which is not disputed; the other, that corn would sell at a higher money price, that it would exchange for more silver; this I contend to be erroneous. It might be true, if corn were at the same time scarce - if the usual supply had not been furnished. But in this case it is abundant; it is not pretended that a less quantity than usual is imported, or that more is required. To purchase corn, the Dutch or Genoese want money, and to obtain this money, they are obliged to sell their superfluities. It is the market value and price of these superfluities which falls, and money appears to rise as compared with them. But this will not tend to increase the demand for corn, nor to lower the value of money, the only two causes which can raise the price of corn. Money, from a want of credit, and from other causes, may be in great demand, and consequently dear, comparatively with corn; but on no just principle can it be maintained, that under such circumstances money would be cheap, and therefore, that the price of corn would rise.

When we speak of the high or low value of gold, silver, or any other commodity in different countries, we should always mention some medium in which we are estimating them, or no idea can be attached to the proposition. Thus, when gold is said to be dearer in England than in Spain, if no commodity is mentioned, what notion does the assertion convey? If corn, olives, oil, wine, and wool, be at a cheaper price in Spain than in England; estimated in those commodities, gold is dearer in Spain. If, again, hardware, sugar, cloth, &c. be at a lower price in England than in Spain, then, estimated in those commodities, gold is dearer in England. Thus gold appears dearer or cheaper in Spain, as the fancy of the observer may fix on the medium by which he estimates its value. Adam Smith, having stamped corn and labour as an universal measure of value, would naturally estimate the comparative value of gold by the quantity of those two objects for which it would exchange: and, accordingly, when he speaks of the comparative value of gold in two countries, I understand him to mean its value estimated in corn and labour.

But we have seen, that, estimated in corn, gold may be of very different value in two countries. I have endeavoured to shew that it will be low in rich countries, and high in poor countries; Adam Smith is of a different opinion: he thinks that the value of gold, estimated in corn, is highest in rich countries. But without further examining which of these opinions is correct, either of them is sufficient to shew, that gold will not necessarily be lower in those countries which are in possession of the mines, though this is a proposition maintained by Adam Smith. Suppose England to be possessed of the mines, and Adam Smith's opinion, that gold is of the greatest value in rich countries, to be correct: although gold would naturally flow from England to all other countries in exchange for their goods, it would not follow that gold was necessarily lower in England, as compared with corn and labour, than in those countries. In anOther place, however, Adam Smith speaks of the precious metals being necessarily lower in Spain and Portugal, than in other parts of Europe, because those countries happen to be almost the exclusive possessors of the mines which produce them. 'Poland, where the feudal system still continues to take place, is at this day as beggarly a country as it was before the discovery of America. The money price of corn, however, has risen; THE REAL VALUE OF THE PRECIOUS METALS HAS FALLEN in Poland, in the same manner as in other parts of Europe. Their quantity, therefore, must have increased there as in other places, and nearly in the same proportion to the annual produce of the land and labour. This increase of the quantity of those metals, however, has not, it seems, increased that annual produce; has neither improved the manufactures and agriculture of the country, nor mended the circumstances of its inhabitants. Spain and Portugal, the countries which possess the mines, are, after Poland, perhaps, the two most beggarly countries in Europe. The value of the precious metals, however, must be lower in Spain and Portugal than in any other parts of Europe, loaded, not only with a freight and insurance, but with the expense of smuggling, their exportation being either prohibited, or subjected to a duty. In proportion to the annual produce of the land and labour, therefore, their quantity must be greater in those countries than in any other part of Europe.. those countries, however, are poorer than the greater part of Europe. Though the feudal system has been abolished in Spain and Portugal, it has not been succeeded by a much better.'

Dr Smith's argument appears to me to be this: Gold, when estimated in corn, is cheaper in Spain than in other countries, and the proof of this is, not that corn is given by other countries to Spain for gold, but that cloth, sugar, hardware, are by those countries given in exchange for that metal.

Chapter 29

Taxes Paid by the Producer

Mons. Say greatly magnifies the inconveniences which result if a tax on a manufactured commodity is levied at an early, rather than at a late period of its manufacture. The manufacturers, he observes, through whose hands the commodity may successively pass, must employ greater funds in consequence of having to advance the tax, which is often attended with considerable difficulty to a manufacturer of very limited capital and credit. To this observation no objection can be made.

Another inconvenience on which he dwells is, that in consequence of the advance of the tax, the profits on the advance also must be charged to the consumer, and that this additional tax is one from which the treasury derives no advantage.

In this latter objection I cannot agree with M. Say. The State, we will suppose, wants to raise immediately £1,000 and levies it on a manufacturer, who will not, for a twelvemonth, be able to charge it to the consumer on his finished commodity. In consequence of such delay, he is obliged to charge for his commodity an additional price, not only of £1,000, the amount of the tax, but probably of £1,100, £100 being for interest on the £1,000 advanced. But in return for this additional £100 paid by the Consumer, he has a real benefit, inasmuch as his payment of the tax which Government required immediately, and which he must finally pay, has been postponed for a year; an opportunity, therefore, has been afforded to him of lending to the manufacturer, who had occasion for it, the £1,000 at 10 per cent, or at any other rate of interest which might be agreed upon. Eleven hundred pounds payable at the end of one year, when money is at 10 per cent interest, is of no more value than £1,000 to be paid immediately. If Government delayed receiving the tax for one year till the manufacture of the commodity was completed, it would, perhaps, be obliged to issue an Exchequer bill bearing interest, and it would pay as much for interest as the consumer would save in price, excepting, indeed, that portion of the price which the manufacturer might be enabled in consequence of the tax, to add to his own real gains. If for the interest of the

Exchequer bill, Government would have paid 5 per cent, a tax of £50 is saved by not issuing it. If the manufacturer borrowed the additional capital at 5 per cent, and charged the cOnsumer 10 per cent, he also will have gained 5 per cent on his advance over and above his usual profits, so that the manufacturer and Government together gain, or save, precisely the sum which the consumer pays.

M. Simonde, in his excellent work, De la Richesse Commerciale, following the same line of argument as M. Say, has calculated that a tax of 4,000 francs, paid originally by a manufacturer, whose profits were at the moderate rate of 10 per cent, would, if the commodity manufactured, only passed through the hands of five different persons, be raised to the consumer to the sum of 6,734 francs. This calculation proceeds on the supposition, that he who first advanced the tax, would receive from the next manufacturer 4,400 francs, and he again from the next, 4,840 francs; so that at each step 10 per cent on its value would be added to it. This is to suppose that the value of the tax would be accumulating at compound interest; not at the rate of 10 per cent per annum, but at an absolute rate of 10 per cent at every step of its progress. This opinion of M. de Simonde would be correct, if five years elapsed between the first advance of the tax, and the sale of the taxed commodity to the consumer; but if one year only elapsed, a remuneration of 400 francs, instead of 2,734, would give a profit at the rate of 10 per cent per annum, to all who had contributed to the advance of the tax, whether the commodity had passed through the hands of five manufacturers or fifty.

Chapter 30

On the Influence of Demand and Supply on Prices

It is the cost of production which must ultimately regulate the price of commodities, and not, as has been often said, the proportion between the supply and demand: the proportion between supply and demand may, indeed,for a time, affect the market value of a commodity, until it is supplied in greater or less abundance, according as the demand may have increased or diminished; but this effect will be only of temporary duration.

Diminish the cost of production of hats, and their price will ultimately fall to their new natural price, although the demand should be doubled, trebled, or quadrupled. Diminish the cost of subsistence of men, by diminishing the natural price of the food and clothing, by which life is sustained, and wages will ultimately fall, notwithstanding that the demand for labourers may very greatly increase.

The opinion that the price of commodities depends solely on the proportion of supply to demand, or demand to supply, has become almost an axiom in political economy, and has been the source of much error in that science. It is this opinion which has made Mr Buchanan maintain that wages are not influenced by a rise or fall in the price of provisions, but solely by the demand and supply of labour; and that a tax on the wages of labour would not raise wages, because it would not alter the proportion of the demand of labourers to the supply.

The demand for a commodity cannot be said to increase, if no additional quantity of it be purchased or consumed; and yet, under such circumstances, its money value may rise. Thus, if the value of money were to fall, the price of every commodity would rise, for each of the competitors would be willing to spend more money than before on its purchase; but though its price rose 10 or 20 per cent if no more were bought than before, it would not, I apprehend, be admissible to say, that the variation in the price of the commodity was caused by the increased demand for it. Its natural price, its money cost of production, would be really altered by the altered value of money; and without any increase of demand, the price of the commodity would be naturally adjusted to that new value.

'We have seen,' says M. Say, 'that the cost of production determines the lowest price to which things can fall: the price below which they cannot remain for any length of time, because production would then be either entirely stopped or diminished.' Vol. ii. p. 26.

He afterwards says, that the demand for gold having increased in a still greater proportion than the supply, since the discovery of the mines, 'its price in goods, instead of falling in the proportion of ten to one, fell only in the proportion of four to one;' that is to say, instead of falling in proportion as its natural price had fallen, fell in proportion as the supply exceeded the demand.(66*) - 'The value of every commodity rises always in a direct ratio to the demand, and in an inverse ratio to the supply.'

The same opinion is expressed by the Earl of Lauderdale.

'With respect to the variations in value, of which every thing valuable is susceptible, if we could for a moment suppose that any substance possessed intrinsic and fixed value, so as to render an assumed quantity of it constantly, under all circumstances, of an equal value, then the degree of value of all things, ascertained by such a fixed standard, would vary according to the proportion betwixt the quantity of them, and the demand for them, and every commodity would, of course, be subject to a variation in its value, from four different circumstances:

1. 'It would be subject to an increase of its value, from a diminution of its quantity.

2. 'To a diminution of its value, from an augmentation of its quantity.

3. 'It might suffer an augmentation in its value, from the circumstance of an increased demand.

4. 'Its value might be diminished by a failure of demand.

'As it will, however, clearly appear that no commodity can possess fixed and intrinsic value, so as to qualify it for a measure of the value of other commodities, mankind are induced to select, as a practical measure of value, that which appears the least liable to any of these four sources of variations, which are the sole causes of alteration of value.

'When, in common language, therefore, we express the value of any commodity, it may vary at one period from what it is at another, in consequence of eight different contingencies:

1. 'From the four circumstances above stated, in relation to the commodity of which we mean to express the value.

2. 'From the same four circumstances, in relation to the commodity we have adopted as a measure of value.'(67*)

This is true of monopolized commodities, and indeed of the market price of all other commodities for a limited period. If the demand for hats should be doubled, the price would immediately rise, but that rise would be only temporary, unless the cost of production of hats, or their natural price, were raised. If the natural price of bread should fall 50 per cent from some great discovery in the science of agriculture, the demand would not greatly increase, for no man would desire more than would satisfy his wants, and as the demand would not increase, neither would the supply; for a commodity is not supplied merely because it can be produced, but because there is a demand for it. Here, then, we have a case where the supply and demand have scarcely varied, or if they have increased, they have increased in the same proportion; and yet the price of bread will have fallen 50 per cent at a time, too, when the value of money had continued invariable.

Commodities which are monopolized, either by an individual, or by a company, vary according to the law which Lord Lauderdale has laid down: they fall in proportion as the sellers augment their quantity, and rise in proportion to the eagerness of the buyers to purchase them; their price has no necessary connexion with their natural value: but the prices of commodities, which are subject to competition, and whose quantity may be increased in any moderate degree, will ultimately depend, not on the state of demand and supply, but on the increased or diminished cost of their production.

Chapter 31

On Machinery

In the present chapter I shall enter into some enquiry respecting the influence of machinery on the interests of the different classes of society, a subject of great importance, and one which appears never to have been investigated in a manner to lead to any certain or satisfactory results. It is more incumbent on me to declare my opinion on this question, because they have, on further reflection, undergone a considerable change; and although I am not aware that I have ever published any thing respecting machinery which it is necessary for me to retract, yet I have in other ways given my support to doctrines which I now think erroneous; it, therefore, becomes a duty in me to submit my present views to examination, with my reasons for entertaining them.

Ever since I first turned my attention to questions of political economy, I have been of opinion, that such an application of machinery to any branch of production, as should have the effect of saving labour, was a general good, accompanied only with that portion of inconvenience which in most cases attends the removal of capital and labour from one employment to another. It appeared to me, that provided the landlords had the same money rents, they would be benefited by the reduction in the prices of some of the commodities on which those rents were expanded, and which reduction of price could not fail to be the consequence of the employment of machinery. The capitalist, I thought, was eventually benefited precisely in the same manner. He, indeed, who made the discovery of the machine, or who first usefully applied it, would enjoy an additional advantage, by making great profits for a time; but, in proportion as the machine came into general use, the price of the commodity produced, would, from the effects of competition, sink to its cost of production, when the capitalist would get the same money profits as before, and he would only participate in the general advantage, as a consumer, by being enabled, with the same money revenue, to command an additional quantity of comforts and enjoyments. The class of labourers also, I thought, was equally benefited by the use of machinery, as they would have the means of buying more commodities with the same money wages, and I thought that no reduction of wages would take place, because the capitalist would have the power of demanding and employing the same quantity of labour as before, although he might be under the necessity of employing it in the production of a new, or at any rate of a different commodity. If, by improved machinery, with the employment of the same quantity of labour, the quantity of stockings could be quadrupled, and the demand for stockings were only doubled, some labourers would necessarily be discharged from the stocking trade; but as the capital which employed them was still in being, and as it was the interest of those who had it to employ it productively, it appeared to me that it would be employed on the production of some other commodity, useful to the society, for which there could not fail to be a demand; for I was, and am, deeply impressed with the truth of the observation of Adam Smith, that 'the desire for food is limited in every man, by the narrow capacity of the human stomach, but the desire of the conveniences, and ornaments of building, dress, equipage and household furniture, seems to have no limit or certain boundary.' As, then, it appeared to me that there would be the same demand for labour as before, and that wages would be no lower, I thought that the labouring class would, equally with the other classes, participate in the advantage, from the general cheapness of commodities arising from the use of machinery.

These were my opinions, and they continue unaltered, as far as regards the landlord and the capitalist; but I am convinced, that the substitution of machinery for human labour, is often very injurious to the interests of the class of labourers.

My mistake arose from the supposition, that whenever the net income of a society increased, its gross income would also increase; I now, however, see reason to be satisfied that the one fund, from which landlords and capitalists derive their revenue, may increase, while the other, that upon which the labouring class mainly depend, may diminish, and therefore it follows, if I am right, that the same cause which may increase the net revenue of the country, may at the same time render the population redundant, and deteriorate the condition of the labourer.

A capitalist we will suppose employs a capital of the value of £20,000 and that he carries on the joint business of a farmer, and a manufacturer of necessities. We will further suppose, that £7,000 of this capital is invested in fixed capital, viz. in buildings, implements, &c. &c. and that the remaining £13,000 is employed as circulating capital in the support of labour. Let us suppose, too, that profits are 10 per cent, and consequently that the capitalist's capital is every year put into its original state of efficiency, and yields a profit of £2,000.

Each year the capitalist begins his operations, by having food and necessaries in his possession of the value of £13,000, all of which he sells in the course of the year to his own workmen for that sum of money, and, during the same period, he pays them the like amount of money for wages: at the end of the year they replace in his possession food and necessaries of the value of £15,000, £2,000 of which he consumes himself, or disposes of as may best suit his pleasure and gratification. As far as these products are concerned, the gross produce for that year is £15,000, and the net produce £2,000. Suppose now, that the following year the capitalist employs half his men in constructing a machine, and the other half in producing food and necessaries as usual. During that year he would pay the sum of £13,000 in wages as usual, and would sell food and necessaries to the same amount to his workmen; but what would be the case the following year?

While the machine was being made, only one-half of the usual quantity of food and necessaries would be obtained, and they would be only one-half the value of the quantity which was produced before. The machine would be worth £7,500, and the food and necessaries £7,500, and, therefore, the capital of the capitalist would be as great as before; for he would have besides these two values, his fixed capital worth £7,000, making in the whole £20,000 capital, and £2,000 profit. After deducting this latter sum for his own expenses, he would have a no greater circulating capital than £5,500 with which to carry on his subsequent operations; and, therefore, his means of employing labour, would be reduced in the proportion of £13,000 to £5,500, and, consequently, all the labour which was before employed by £7,500, would become redundant.

The reduced quantity of labour which the capitalist can employ, must, indeed, with the assistance of the machine, and after deductions for its repairs, produce a value equal to £7,500, it must replace the circulating capital with a profit of £2,000 on the whole capital; but if this be done, if the net income be not diminished, of what importance is it to the capitalist, whether the gross income be of the value of £3,000, of £10,000, or of £15,000?

In this case, then, although the net produce will not be diminished in value, although its power of purchasing commodities may be greatly increased, the gross produce will have fallen from a value of £15,000 to a value of £7,500, and as the power of supporting a population, and employing labour, depends always on the gross produce of a nation, and not on its net produce, there will necessarily be a diminution in the demand for labour, population will become redundant, and the situation of the labouring classes will be that of distress and poverty.

As, however, the power of saving from revenue to add to capital, must depend on the efficiency of the net revenue, to satisfy the wants of the capitalist, it could not fail to follow from the reduction in the price of commodities consequent on the introduction of machinery, that with the same wants he would have increased means of saving - increased facility of transferring revenue into capital. But with every increase of capital he would employ more labourers; and, therefore, a portion of the people thrown out of work in the first instance, would be subsequently employed; and if the increased production, in consequence of the employment of the machine, was so great as to afford, in the shape of net produce, as great a quantity of food and necessaries as existed before in the form of gross produce, there would be the same ability to employ the whole population, and, therefore, there would not necessarily be any redundancy of people.

All I wish to prove, is, that the discovery and use of machinery may be attended with a diminution of gross produce; and whenever that is the case, it will be injurious to the labouring class, as some of their number will be thrown out of employment, and population will become redundant, compared with the funds which are to employ it.

The case which I have supposed, is the most simple that I could select; but it would make no difference in the result, if we supposed that the machinery was applied to the trade of any manufacturer, - that of a clothier, for example, or of a cotton manufacturer. If in the trade of a clothier, less cloth would be produced after the introduction of machinery; for a part of that quantity which is disposed of for the purpose of paying a large body of workmen, would not be required by their employer. In consequence of using the machine, it would be necessary for him to reproduce a value, only equal to the value consumed, together with the profits on the whole capital. £7,500 might do this as effectually as £15,000 did before, the case differing in no respect from the former instance. It may be said, however, that the demand for cloth would be as great as before, and it may be asked from whence would this supply come? But by whom would the cloth be demanded? By the farmers and the other producers of necessaries, who employed their capitals in producing these necessaries as a means of obtaining cloth: they gave corn and necessaries to the clothier for cloth, and he bestow ed them on his workmen for the cloth which their work afforded him.

This trade would now cease; the clothier would not want the food and clothing, having fewer men to employ and having less cloth to dispose of. The farmers and others, who only produced necessaries as means to an end, could no longer obtain cloth by such an application of their capitals, and, therefore, they would either themselves employ their capitals in producing cloth, or would lend them to others, in order that the commodity really wanted might be furnished; and that for which no one had the means of paying, or for which there was no demand, might cease to be produced. This, then, leads us to the same result; the demand for labour would diminish, and the commodities necessary to the support of labour would not be produced in the same abundance.

If these views be correct, it follows, 1st: That the discovery, and useful application of machinery, always leads to the increase of the net produce of the country, although it may not, and will not, after an inconsiderable interval, increase the value of that net produce.

2dly. That an increase of the net produce of a country is compatible with a diminution of the gross produce, and that the motives for employing machinery are always sufficient to insure its employment, if it will increase the net produce, although it may, and frequently must, diminish both the quantity of the gross produce, and its value.

3dly. That the opinion entertained by the labouring class, that the employment of machinery is frequently detrimental to their interests, is not founded on prejudice and error, but is conformable to the correct principles of political economy.

4thly. That if the improved means of production, in consequence of the use of machinery, should increase the net produce of a country in a degree so great as not to diminish the gross produce, (I mean always quantity of commodities and not value,) then the situation of all classes will be improved. The landlord and capitalist will benefit, not by an increase of rent and profit, but by the advantages resulting from the expenditure of the same rent, and profit, on commodities, very considerably reduced in value, while the situation of the labouring classes will also be considerably improved; 1st, from the increased demand for menial servants; 2dly, from the stimulus to savings from revenue, which such an abundant net produce will afford; and 3dly, from the low price of all articles of consumption on which their wages will be expended.

Independently of the consideration of the discovery and use of machinery, to which our attention has been just directed, the labouring class have no small interest in the manner in which the net income of the country is expended, although it should, in all cases, be expended for the gratification and enjoyments of those who are fairly entitled to it.

If a landlord, or a capitalist, expends his revenue in the manner of an ancient baron, in the support of a great number of retainers, or menial servants, he will give employment to much more labour, than if he expended it on fine clothes, or costly furniture; on carriages, on horses, or in the purchase of any other luxuries.

In both cases the net revenue would be the same, and so would be the gross revenue, but the former would be realised in different commodities. If my revenue were £10,000, the same quantity nearly of productive labour would be employed, whether I realised it in fine clothes and costly furniture, &c. &c. or in a quantity of food and clothing of the same value. If, however, I realised my revenue in the first set of commodities, no more labour would be consequently employed: - I should enjoy my furniture and my clothes, and there would be an end of them; but if I realised my revenue in food and clothing, and my desire was to employ menial servants, all those whom I could so employ with my revenue of £10,000, or with the food and clothing which it would purchase, would be to be added to the former demand for labourers, and this addition would take place only because I chose this mode of expending my revenue. As the labourers, then, are interested in the demand for labour, they must naturally desire that as much of the revenue as possible should be diverted from expenditure on luxuries, to be expended in the support of menial servants.

In the same manner, a country engaged in war, and which is under the necessity of maintaining large fleets and armies, employs a great many more men than will be employed when the war terminates, and the annual expenses which it brings with it, cease.

If I were not called upon for a tax of £500 during the war, and which is expended on men in the situations of soldiers and sailors, I might probably expend that portion of my income on furniture, clothes, books, &c. &c. and whether it was expended in the one way or in the other, there would be the same quantity of labour employed in production; for the food and clothing of the soldier and sailor would require the same amount of industry to produce it as the more luxurious commodities; but in the case of the war, there would be the additional demand for men as soldiers and sailors; and, consequently, a war which is supported out of the revenue, and not from the capital of a country, is favourable to the increase of population.

At the termination of the war, when part of my revenue reverts to me, and is employed as before in the purchase of wine, furniture, or other luxuries, the population which it before supported, and which the war called into existence, will become redundant, and by its effect on the rest of the population, and its competition with it for employment, will sink the value of wages, and very materially deteriorate the condition of the labouring classes.

There is one other case that should be noticed of the possibility of an increase in the amount of the net revenue of a country, and even of its gross revenue, with a diminution of demand for labour, and that is, when the labour of horses is substituted for that of man. If I employed one hundred men on my farm, and if I found that the food bestowed on fifty of those men, could be diverted to the support of horses, and afford me a greater return of raw produce, after allowing for the interest of the capital which the purchase of the horses would absorb, it would be advantageous to me to substitute the horses for the men, and I should accordingly do so; but this would not be for the interest of the men, and unless the income I obtained, was so much increased as to enable me to employ the men as well as the horses, it is evident that the population would become redundant, and the labourers' condition would sink in the general scale. It is evident he could not, under any circumstances, be employed in agriculture; but if the produce of the land were increased by the substitution of horses for men, he might be employed in manufactures, or as a menial servant.

The statements which I have made will not, I hope, lead to the inference that machinery should not be encouraged. To elucidate the principle, I have been supposing, that improved machinery is suddenly discovered, and extensively used; but the truth is, that these discoveries are gradual, and rather operate in determining the employment of the capital which is saved and accumulated, than in diverting capital from its actual employment.

With every increase of capital and population, food will generally rise, on account of its being more difficult to produce. The consequence of a rise of food will be a rise of wages, and every rise of wages will have a tendency to determine the saved capital in a greater proportion than before to the employment of machinery. Machinery and labour are in constant competition, and the former can frequently not be employed until labour rises.

In America and many other countries, where the food of man is easily provided, there is not nearly such great temptation to employ machinery as in England, where food is high, and costs much labour for its production. The same cause that raises labour, does not raise the value of machines, and, therefore, with every augmentation of capital, a greater proportion of it is employed on machinery. The demand for labour will continue to increase with an increase of capital, but not in proportion to its increase; the ratio will necessarily be a diminishing ratio.(68*)

I have before observed, too, that the increase of net incomes, estimated in commodities, which is always the consequence of improved machinery, will lead to new savings and accumulations. These savings, it must be remembered are annual, and must soon create a fund, much greater than the gross revenue, originally lost by the discovery of the machine, when the demand for labour will be as great as before, and the situation of the people will be still further improved by the increased savings which the increased net revenue will still enable them to make.

The employment of machinery could never be safely discouraged in a State, for if a capital is not allowed to get the greatest net revenue that the use of machinery will afford here, it will be carried abroad, and this must be a much more serious discouragement to the demand for labour, than the most extensive employment of machinery; for, while a capital is employed in this country, it must create a demand for some labour; machinery cannot be worked without the assistance of men, it cannot be made but with the contribution of their labour. By investing part of a capital in improved machinery, there will be a diminution in the progressive demand for labour; by exporting it to another country, the demand will be wholly annihilated.

The prices of commodities, too, are regulated by their cost of production. By employing improved machinery, the cost of production of commodities is reduced, and, consequently, you can afford to sell them in foreign markets at a cheaper price. If, however, you were to reject the use of machinery, while all other countries encouraged it, you would be obliged to export your money, in exchange for foreign goods, till you sunk the natural prices of your goods to the prices of other countries. In making your exchanges with those countries, you might give a commodity which cost two days labour, here, for a commodity which cost one, abroad, and this disadvantageous exchange would be the consequence of your own act, for the commodity which you export, and which cost you two days labour, would have cost you only one if you had not rejected the use of machinery, the services of which your neighbours had more wisely appropriated to themselves.

Chapter 32

Mr Malthus's Opinion on Rent

Although the nature of rent has in the former pages of this work been treated on at some length; yet I consider myself bound to notice some opinions on the subject, which appear to me erroneous, and which are the more important, as they are found in the writings of one, to whom, of all men of the present day, some branches of economical science are the most indebted. Of Mr Malthus's Essay on Population, I am happy in the opportunity here afforded me of expressing my admiration. The assaults of the opponents of this great work have only served to prove its strength; and I am persuaded that its just reputation will spread with the cultivation of that science of which it is so eminent an ornament. Mr Malthus, too, has satisfactorily explained the principles of rent, and shewed that it rises or falls in proportion to the relative advantages, either of fertility or situation, of the different lands in cultivation, and has thereby thrown much light on many difficult points connected with the subject of rent, which were before either unknown, or very imperfectly understood; yet he appears to me to have fallen into some errors, which his authority makes it the more necessary, whilst his characteristic candour renders it less unpleasing to notice. One of these errors lies in supposing rent to be a clear gain and a new creation of riches.

I do not assent to all the opinions of Mr Buchanan concerning rent; but with those expressed in the following passage, quoted from his work by Mr Malthus, I fully agree; and, therefore, I must dissent from Mr Malthus's comment on them.

'In this view it (rent) can form no general addition to the stock of the community, as the neat surplus in question is nothing more than a revenue transferred from one class to another; and from, the mere circumstance of its thus changing hands, it is clear that no fund can arise, out of which to pay taxes. The revenue which pays for the produce of the land, exists already in the hands of those who purchase that produce; and, if the price of subsistence were lower, it would still remain in their hands, where it would be just as available for taxation as when, by a higher price, it is transferred to the landed proprietor.'

After various observations on the difference between raw produce and manufactured commodities, Mr Malthus asks, 'Is it possible then, with M. de Sismondi, to regard rent as the sole produce of labour, which has a value purely nominal, and the mere result of that augmentation of price which a seller obtains in consequence of a peculiar privilege; or, with Mr Buchanan, to consider it as no addition to the national wealth, but merely a transfer of value, advantageous only to the landlords, and proportionably injurious to the consumers?'(69*)

I have already expressed my opinion on this subject in treating of rent, and have now only further to add, that rent is a creation of value, as I understand that word, but not a creation of wealth. If the price of corn, from the difficulty of producing any portion of it, should rise from £4 to £5 per quarter, a million of quarters will be of the value of £5,000,000 instead of £4,000,000, and as this corn will exchange not only for more money, but for more of every other commodity, the possessors will have a greater amount of value; and as no one else will, in consequence, have a less, the society altogether will be possessed of greater value, and in that sense rent is a creation of value. But this value is so far nominal, that it adds nothing to the wealth, that is to say, the necessaries, conveniences, and enjoyments of the society. We should have precisely the same quantity, and no more of commodities, and the same million quarters of corn as before; but the effect of its being rated at £5 per quarter, instead of £4, would be to transfer a portion of the value of the corn and commodities from their former possessors to the landlords. Rent then is a creation of value, but not a creation of wealth; it adds nothing to the resources of a country, it does not enable it to maintain fleets and armies; for the country would have a greater disposable fund if its land were of a better quality, and it could employ the same capital without generating a rent.

It must then be admitted that Mr Sismondi and Mr Buchanan, for both their opinions are substantially the same, were correct, when they considered rent as a value purely nominal, and as forming no addition to the national wealth, but merely as a transfer of value, advantageous only to the landlords, and proportionably injurious to the consumer.

In another part of Mr Malthus's 'Inquiry' he observes, 'that the immediate cause of rent is obviously the excess of price above the cost of production at which raw produce sells in the market;' and in another place he says, 'that the causes of the high price of raw produce may be stated to be three:

'First, and mainly, that quality of the earth, by which it can be made to yield a greater portion of the necessaries of life than is required for the maintenance of the persons employed on the land.

'2dly. That quality peculiar to the necessaries of life, of being able to create their own demand, or to raise up a number of demanders in proportion to the quantity of necessaries produced.

'And 3dly. The comparative scarcity of the most fertile land.' In speaking of the high price of corn, Mr Malthus evidently does not mean the price per quarter or per bushel, but rather the excess of price for which the whole produce will sell, above the cost of its production, including always in the term 'cost of its production,' profits as well as wages. One hundred and fifty quarters of corn at £3 10s. per quarter, would yield a larger rent to the landlord than 100 quarters at £4, provided the cost of production were in both cases the same.

High price, if the expression be used in this sense, cannot then be called a cause of rent; it cannot be said 'that the immediate cause of rent is obviously the excess of price above the cost of production, at which raw produce sells in the market,' for that excess is itself rent. Rent, Mr Malthus has defined to be 'that portion of the value of the whole produce which remains to the owner of the land, after all the outgoings belonging to its cultivation, of whatever kind, have been paid, including the profits of the capital employed, estimated according to the usual and ordinary rate ofthe profits of agricultural stock at the time being.' Now whatever sum this excess may sell for, is money rent; it is what Mr Malthus means by 'the excess of price above the cost of production at which raw produce sells in the market;' and, therefore, in an inquiry into the causes which may elevate the price of raw produce, compared with the cost of production, we are inquiring into the causes which may elevate rent.

In reference to the first cause which Mr Malthus has assigned for the rise of rent, namely, 'that quality of the earth by which it can be made to yield a greater portion of the necessaries of life than is required for the maintenance of the persons employed on the land,' he makes the following observations: 'We still want to know why the consumption and supply are such as to make the price so greatly exceed the cost of production, and the main cause is evidently the fertility of the earth in producing the necessaries of life. Diminish this plenty, diminish the fertility of the soil, and the excess will diminish; diminish it still further, and it will disappear.' True, the excess of necessaries will diminish and disappear, but that is not the question. The question is, whether the excess of their price above the cost of their production will diminish and disappear, for it is on this that money rent depends. Is Mr Malthus warranted in his inference, that because the excess of quantity will diminish and disappear, therefore 'the cause of the high price of the necessaries of life above the cost of production is to be found in their abundance, rather than in their scarcity; and is not only essentially different from the high price occasioned by artificial monopolies, but from the high price of those peculiar products of the earth, not connected with food, which may be called natural and necessary monopolies?'

Are there no circumstances under which the fertility of the land, and the plenty of its produce may be diminished, without occasioning a diminished excess of its price above the cost of production, that is to say, a diminished rent? If there are, Mr Malthus's proposition is much too universal; for he appears to me to state it as a general principle, true under all circumstances, that rent will rise with the increased fertility of the land, and will fall with its diminished fertility.

Mr Malthus would undoubtedly be right, if, of any given farm, in proportion as the land yielded abundantly, a greater share of the whole produce were paid to the landlord; but the contrary is the fact: when no other but the most fertile land is in cultivation, the landlord has the smallest proportion of the whole produce, as well as the smallest value, and it is only when inferior lands are required to feed an augmenting population, that both the landlord's share of the whole produce, and the value he receives, progressively increase.

Suppose that the demand is for a million of quarters of corn, and that they are the produce of the land actually in cultivation. Now, suppose the fertility of all the land to be so diminished, that the very same lands will yield only 900,000 quarters. The demand being for a million quarters, the price of corn would rise, and recourse must necessarily be had to land of an inferior quality sooner than if the superior land had continued to produce a million of quarters. But it is this necessity of taking inferior land into cultivation which is the cause of the rise of rent, and will elevate it, although the quantity of corn received by the landlord, be reduced in quantity. Rent, it must be remembered, is not in proportion to the absolute fertility of the land in cultivation, but in proportion to its relative fertility. Whatever cause may drive capital to inferior land, must elevate rent on the superior land; the cause of rent being, as stated by Mr Malthus in his third proposition, 'the comparative scarcity of the most fertile land.' The price of corn will naturally rise with the difficulty of producing the last portions of it, and the value of the whole quantity produced on a particular farm will be increased, although its quantity be diminished; but as the cost of production will not increase on the more fertile land, as wages and profits taken together will continue always of the same value,(70*) it is evident that the excess of price above the cost of production, or, in other words, rent must rise with the diminished fertility of the land, unless it is counteracted by a great reduction of capital, population, and demand. It does not appear then, that Mr Malthus's proposition is correct: rent does not immediately and necessarily rise or fall with the increased or diminished fertility of the land; but its increased fertility renders it capable of paying at some future time an augmented rent. Land possessed of very little fertility can never bear any rent; land of moderate fertility may be made, as population increases, to bear a moderate rent; and land of great fertility a high rent; but it is one thing to be able to bear a high rent, and another thing actually to pay it. Rent may be lower in a country where lands are exceedingly fertile than in a country where they yield a moderate return, it being in proportion rather to relative than absolute fertility - to the value of the produce, and not to its abundance.(71*)

Mr Malthus supposes that the rent on land yielding those peculiar products of the earth which may be called natural and necessary monopolies, is regulated by a principle essentially different from that which regulates the rent of land that yields the necessaries of life. He think that it is the scarcity of the products of the first which is the cause of a high rent, but that it is the abundance of the latter, which produces the same effect.

This distinction does not appear to me to be well founded; for you would as surely raise the rent of land yielding scarce wines, as the rent of corn land, by increasing the abundance of its produce, if, at the same time, the demand for this peculiar commodity increased; and without a similar increase of demand, an abundant supply of corn would lower instead of raise the rent of corn land. Whatever the nature of the land may be, high rent must depend on the high price of the produce; but, given the high price, rent must be high in proportion to abundance and not to scarcity.

We are under no necessity of producing permanently any greater quantity of a commodity than that which is demanded. If by accident any greater quantity were produced, it would fall below its natural price, and therefore would not pay the cost of production, including in that cost the usual and ordinary profits of stock: thus the supply would be checked till it conformed to the demand, and the market price rose to the natural price.

Mr Malthus appears to me to be too much inclined to think that population is only increased by the previous provision of food - 'that it is food that creates its own demand,' - that it is by first providing food, that encouragement is given to marriage, instead of considering that the general progress of population is affected by the increase of capital, the consequent demand for labour, and the rise of wages; and that the production of food is but the effect of that demand.

It is by giving the workman more money, or any other commodity in which wages are paid, and which has not fallen in value, that his situation is improved. The increase of population, and the increase of food will generally be the effect, but not the necessary effect of high wages. The amended condition of the labourer, in consequence of the increased value which is paid him, does not necessarily oblige him to marry and take upon himself the charge of a family - he will, in all probability, employ a portion of his increased wages in furnishing himself abundantly with food and necessaries, - but with the remainder he may, if it please him, purchase any commodities that may contribute to his enjoyments - chairs, tables, and hardware; or better clothes, sugar, and tobacco. His increased wages then will be attended with no other effect than an increased demand for some of those commodities; and as the race of labourers will not be materially increased, his wages will continue permanently high. But although this might be the consequence of high wages, yet so great are the delights of domestic society, that in practice it is invariably found that an increase of population follows the amended condition of the labourer; and it is only because it does so, that, with the trifling exception already mentioned, a new and increased demand arises for food. This demand then is the effect of an increase of capital and population, but not the cause it is only because the expenditure of the people takes this direction, that the market price of necessaries exceeds the natural price, and that the quantity of food required is produced; and it is because the number of people is increased, that wages again fall.

What motive can a farmer have to produce more corn than is actually demanded, when the consequence would be a depression of its market price below its natural price, and consequently a privation to him of a portion of his profits, by reducing them below the general rate? 'If,' says Mr Malthus, 'the necessaries of life, the most important products of land, had not the proper of creating an increase of demand proportioned to their increased quantity, such increased quantity would occasion a fall in their exchangeable value.(72*) However abundant might be the produce of the country, its population might remain stationary; and this abundance without a proportionate demand, and with a very high corn price of labour, which would naturally take place under these circumstances, might reduce the price of raw produce like the price of manufactures, to the cost of production.'

Might reduce the price of raw produce to the cost of production. Is it ever for any length of time either above or below this price? Does not Mr Malthus himself, state it never to be so? 'I hope,' he says, 'to be excused for dwelling a little, and presenting 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 overlooked by the economists, by Adam Smith, and all those writers, who have represented raw produce as selling always at a monopoly price.'

'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 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 shew, 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.'(73*)

How are these passages to be reconciled to that which affirms, that if the necessaries of life had not the property of creating an increase of demand proportioned to their increased quantity, the abundant quantity produced would then, and then only, reduce the price of raw produce to the cost of production? If corn is never under its natural price, it is never more abundant than the actual population require it to be for their own consumption; no store can be laid up for the consumption of others; it can never then by its cheapness and abundance be a stimulus to population. In proportion as corn can be produced cheaply, the increased wages of the labourers will have more power to maintain families. In America, population increases rapidly, because food can be produced at a cheap price, and not because an abundant supply has been previously provided. In Europe population increases comparatively slowly, because food cannot be produced at a cheap value. In the usual and ordinary course of things, the demand for all commodities precedes their supply. By saying, that corn would, like manufactures, sink to its price of production, if it could not raise up demanders, Mr Malthus cannot mean that all rent would be absorbed; for he has himself justly remarked, that if all rent were given up by the landlords, corn would not fall in price; rent being the effect, and not the cause of high price, and there being always one quality of land in cultivation which pays no rent whatever, the corn from which replaces by its price, only wages and profits.

In the following passage, Mr Malthus has given an able exposition of the causes of the rise in the price of raw produce in rich and progressive countries, in every word of which I concur; but it appears to me to be at variance with some of the propositions maintained by him in his Essay on Rent. 'I have no hesitation in stating, that, independently of the irregularities in the currency of a country, and other temporary and accidental circumstances, the cause of the high comparative money price of corn is its high comparative real price, or the greater quantity of capital and labour which must be employed to produce it; and that the reasons 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 in a progressive country, is sold at a price necessary to yield the actual supply; and that, as this supply becomes more and more difficult, the price rises in proportion.'

The real price of a commodity is here properly stated to depend on the greater or less quantity of labour and capital (that is, accumulated labour) which must be employed to produce it. Real price does not, as some have contended, depend on money value; nor, as others have said, on value relatively to corn, labour, or any other commodity taken singly, or to all commodities collectively; but, as Mr Malthus justly says, 'on the greater (or less) quantity of capital and labour which must be employed to produce it.'

Among the causes of the rise of rent, Mr Malthus mentions, 'such an increase of population as will lower the wages of labour.' But if, as the wages of labour fall, the profits of stock rise, and they be together always of the same value,(74*) no fall of wages can raise rent, for it will neither diminish the portion, nor the value of the portion of the produce which will be allotted to the farmer and labourer together; and, therefore, will not leave a larger portion, nor a larger value for the landlord. In proportion as less is appropriated for wages, more will be appropriated for profits, and vice versâ. This division will be settled by the farmer and his labourers, without any interference of the landlord; and, indeed, it is a matter in which he can have no interest, otherwise than as one division may be more favourable than another, to new accumulations, and to a further demand for land. If wages fell, profits, and not rent, would rise. If wages rose, profits, and not rent, would fall. The rise of rent and wages, and the fall of profits, are generally the inevitable effects of the same cause - the increasing demand for food, the increased quantity of labour required to produce it, and its consequently high price. If the landlord were to forego his whole rent, the labourers would not be in the least benefited. If it were possible for the labourers to give up their whole wages, the landlords would derive no advantage from such a circumstance; but in both cases the farmer would receive and retain all which they relinquish. It has been my endeavour to shew in this work, that a fall of wages would have no other effect than to raise profits. Every rise of profits is favourable to the accumulation of capital, and to the further increase of population, and therefore would, in all probability, ultimately lead to an increase of rent.

Another cause of the rise of rent, according to Mr Malthus, is 'such agricultural improvements, or such increase of exertions, as will diminish the number of labourers necessary to produce a given effect.' To this passage I have the same objection that I had against that which speaks of the increased fertility of land being the cause of an immediate rise of rent. Both the improvement in agriculture, and the superior fertility will give to the land a capability of bearing at some future period a higher rent, because with the same price of food there will be a great additional quantity. but till the increase of population be in the same proportion, the additional quantity of food would not be required, and, therefore, rents would be lowered and not raised. The quantity that could under the then existing circumstances be consumed, could be furnished either with fewer hands, or with a less quantity of land, the price of raw produce would fall, and capital would be withdrawn from the land.(75*) Nothing can raise rent, but a demand for new land of an inferior quality, or some cause which shall occasion an alteration in the relative fertility of the land already under cultivation.(76*) Improvements in agriculture, and in the division of labour, are common to all land; they increase the absolute quantity of raw produce obtained from each, but probably do not much disturb the relative proportions which before existed between them.

Mr Malthus has justly commented on the error of Dr Smith's argument, that corn is of so peculiar a nature, that its production cannot be encouraged by the same means that the production of all other commodities is encouraged. He observes, 'It is by no means intended to deny the powerful influence of the price of corn upon the price of labour, on an average of a considerable number of years; but that this influence is not such as to prevent the movement of capital to, or from the land, which is the precise point in question, will be made sufficiently evident, by a short inquiry into the manner in which labour is paid, and brought into the market, and by a consideration of the consequences to which the assumption of Adam Smith's proposition would inevitably lead.'(77*)

Mr Malthus then proceeds to shew, that demand and high price will as effectually encourage the production of raw produce, as the demand and high price of any other commodity will encourage its production. In this view it will be seen, from what I have said of the effects of bounties, that I entirely concur. I have noticed the passage from Mr Malthus's 'Observations on the Corn Laws,' for the purpose of shewing in what a different sense the term real price is used here, and in his other pamphlet, entitled 'Grounds of an Opinion', &c. In this passage Mr Malthus tells us, that, it is clearly an increase of real price alone which can encourage the production of corn,' and, by real price, he evidently means the increase in its value relatively to all other things; or, in other words, the rise in its market above its natural price, or the cost of its production. If by real price this is what is meant, although I do not admit the propriety of thus naming it, Mr Malthus's opinion is undoubtedly correct; it is the rise in the market price of corn which alone encourages its production; for it may be laid down as a principle uniformly true, that the only great encouragement to the increased production of a commodity, is its market value exceeding its natural or necessary value.

But this is not the meaning which Mr Malthus, on other occasions, attaches to the term, real price. In the Essay on Rent, Mr Malthus says, by 'the real growing price of corn, I mean the real quantity of labour and capital, which has been employed to produce the last additions which have been made to the national produce.' In another part he states 'the cause of the high comparative real price of corn to be the greater quantity of capital and labour, which must be employed to produce it.'(78*) Suppose that in the foregoing passage we were to substitute this definition of real price, would it not then run thus? - 'It is clearly the increase in the quantity of labour and capital which must be employed to produce corn, which alone can encourage its production.' This would be to say, that it is clearly the rise in the natural or necessary price of corn, which encourages its production - a proposition which could not be maintained. It is not the price at which corn can be produced, that has any influence on the quantity produced, but the price at which it can be sold. It is in proportion to the degree of the difference of its price above or below the cost of production, that capital is attracted to, or repelled from the land. If that excess be such as to give to capital so employed, a greater than the general profit of stock, capital will go to the land; if less, it will be withdrawn from it.

It is not, then, by an alteration in the real price of corn that its production is encouraged, but by an alteration in its market price. It is not 'because a greater quantity of capital and labour must be employed to produce it,' (Mr Malthus's just definition of real price,) that more capital and labour are attracted to the land, but because the market price rises above this its real price, and, notwithstanding the increased charge, makes the cultivation of land the more profitable employment of capital.

Nothing can be more just than the following observations of Mr Malthus, on Adam Smith's standard of value. 'Adam Smith was evidently led into this train of argument, from his habit of considering labour as the standard measure of value, and corn as the measure of labour. But that corn is a very inaccurate measure of labour, the history of our own country will amply demonstrate; where labour, compared with corn, will be found to have experienced very great and striVing variations, not only from year to year, but from century to century; and for ten, twenty, and thirty years together. And that neither labour nor any other commodity can be an accurate measure of real value in exchange, is now considered as one of the most incontrovertible doctrines of political economy; and, indeed, follows from the very definition of value in exchange.'

If neither corn nor labour are accurate measures of real value in exchange, which they clearly are not, what other commodity is? - certainly none. If, then, the expression, real price of commodities, have any meaning, it must be that which Mr

Malthus has stated in the Essay on Rent - it must be measured by the proportionate quantity of capital and labour necessary to produce them.

In Mr Malthus's 'Inquiry into the Nature of Rent,' he says, 'that, independently of irregularities in the currency of a country, and other temporary and accidental circumstances, the cause of the high comparative money price of corn, is its high comparative real price, or the greater quantity of capital and labour which must be employed to produce it.'(79*)

This, I apprehend, is the correct account of all permanent variations in price, whether of corn or of any other commodity. A commodity can only permanently rise in price, either because a greater quantity of capital and labour must be employed to produce it, or because money has fallen in value; and, on the contrary, it can only fall in price, either because a less quantity of capital and labour may be employed to produce it, or because money has risen in value.

A variation arising from the latter of these alternatives, an altered value of money, is common at once to all commodities; but a variation arising from the former cause, is confined to the particular commodity requiring more or less labour in its production. By allowing the free importation of corn, or by improvements in agriculture, raw produce would fall; but the price of no other commodity would be affected, except in proportion to the fall in the real value, or cost of production, of the raw produce, which entered into its composition.

Mr Malthus, having acknowledged this principle, cannot, I think, consistently maintain that the whole money value of all the commodities in the country must sink exactly in proportion to the fall in the price of corn. If the corn consumed in the count were of the value of ten millions per annum, and the manufactured and foreign commodities consumed were of the value of twenty millions, making altogether thirty millions, it would not be admissible to infer that the annual expenditure was reduced to 15 millions, because corn had fallen 50 per cent, or from 10 to 5 millions.

The value of the raw produce which entered into the composition of these manufactures might not, for example, exceed 20 per cent of their whole value, and, therefore, the fall in the value of manufactured commodities, instead of being from 20 to 10 millions, would be only from 20 to 18 millions; and after the fall in the price of corn of 50 per cent, the whole amount of the annual expenditure, instead of falling from 30 to 15 millions, would fall from 30 to 23 millions.(80*)

This, I say, would be their value, if you supposed it possible, that with such a cheap price of corn, no more corn and commodities would be consumed; but as all those who had employed capital in the production of corn on those lands which would no longer be cultivated, could employ it in the production of manufactured goods; and only a part of those manufactured goods would be given in exchange for foreign corn, as on any other supposition no advantage would be gained by importation, and low prices; we should have the additional value of all that quantity of manufactured goods which were so produced, and not exported to add to the above value, so that the real diminution, even in money value, of all the commodities in the country, corn included, would be equal only to the loss of the landlords, by the reduction of their rents, while the quantity of objects of enjoyment would be greatly increased.

Instead of thus considering the effect of a fall in the value of raw produce; as Mr Malthus was bound to do by his previous admission; he considers it as precisely the same thing as a rise of 100 per cent in the value of money, and, therefore, argues as if all commodities would sink to half their former price.

'During the twenty years beginning with 1794,' he says, 'and ending with 1813, the average price of British corn per quarter was about eighty-three shillings; during the ten years ending with 1813, ninety-two shillings; and during the last five years of the twenty, one hundred and eight shillings. In the course of these twenty years, the Government borrowed near five hundred millions of real capital; for which, on a rough average, exclusive of the sinking fund, it engaged to pay about five per cent. But if corn should fall to fifty shillings a quarter, and other commodities in proportion, instead of an interest of about five per cent, the Government would really pay an interest of seven, eight, nine, and for the last two hundred millions, ten per cent.

'To this extraordinary generosity towards the stockholders, I should be disposed to make no kind of objection, if it were not necessary to consider by whom it is to be paid; and a moment's reflection will shew us, that it can only be paid by the industrious classes of society, and the landlords; that is, by all those whose nominal income will vary with the variations in the measure of value. The nominal revenues of this part of the society, compared with the average of the last five years, will be diminished one half, and out of this nominally reduced income, they will have to pay the same nominal amount of taxes.'(81*)

In the first place, I think, I have already shewn, that even the value of the gross income of the whole country will not be diminished in the proportion for which Mr Malthus here contends; it would not follow, that because corn fell fifty per cent, each man's gross income would be reduced fifty per cent in value;(82*) his net income might be actually increased in value.

In the second place, I think the reader will agree with me, that the increased charge, if admitted, would not fall exclusively, on the landlords and the industrious classes of society: 'the stockholder, by his expenditure, contributes his share to the support of the public burdens in the same way as the other classes of society. If, then, money became really more valuable, although he would receive a greater value, he would also pay a greater value in taxes, and, therefore, it cannot be true that the whole addition to the real value of the interest would be paid by 'the landlords and the industrious classes.'

The whole argument, however, of Mr Malthus, is built on an infirm basis: it supposes, because the gross income of the country is diminished, that, therefore, the net income must also be diminished, in the same proportion. It has been one of the objects of this work to shew, that with every fall in the real value of necessaries, the wages of labour would fall, and that the profits of stock would rise - in other words, that of any given annual value a less portion would be paid to the labouring class, and a larger portion to those whose funds employed this class. Suppose the value of the commodities produced in a particular manufacture to be £1,000, and to be divided between the master and his labourers, in the proportion of £800 to labourers, and £200 to the master; if the value of these commodities should fall to £900, and £100 be saved from the wages of labour, in consequence of the fall of necessaries, the net income of the masters would be in no degree impaired, and, therefore, he could with just as much facility pay the same amount of taxes, after, as before the reduction of price.(83*)

It is of importance to distinguish clearly between gross revenue and net revenue, for it is from the net revenue of a society that all taxes must be paid. Suppose that all the commodities in the country, all the corn, raw produce, manufactured goods, &c. which could be brought to market in the course of the year, were of the value of 20 millions, and that in order to obtain this value, the labour of a certain number of men was necessary, and that the absolute necessaries of these labourers required an expenditure of 10 millions. I should say that the gross revenue of such society was 20 millions, and its net revenue 10 millions. It does not follow from this supposition, that the labourers should receive only 10 millions for their labour; they might receive 12, 14, or 15 millions, and in that case they would have 2, 4, or 5 millions of the net income. The rest would be divided between landlords and capitalists; but the whole net income would not exceed 10 millions. Suppose such a society paid 2 millions in taxes, its net income would be reduced to 8 millions.

Suppose now money to become more valuable by one-tenth, all commodities would fall, and the price of labour would fall, because the absolute necessaries of the labourer formed a part of those commodities, consequently the gross income would be reduced to 18 millions, and the net income to 9 millions. If the taxes fell in the same proportion, and, instead of 2 millions, £1,800,000 only were raised, the net income would be further reduced to £7,200,000, precisely of the same value as the 8 millions were before, and therefore the society would neither be losers nor gainers by such an event. But suppose that after the rise of money, 2 millions were raised for taxes as before, the society would be poorer by £200,000 per annum, their taxes would be really raised one-ninth. To alter the money value of commodities, by altering the value of money, and yet to raise the same money amount by taxes, is then undoubtedly to increase the burthens of society.

But suppose of the 10 millions net revenue, the landlords received five millions as rent, and that by facility of production, or by the importation of corn, the necessary cost of that article in labour was reduced 1 million, rent would fall 1 million, and the prices of the mass of commodities would also fall to the same amount, but the net revenue would be just as great as before; the gross income would, it is true, be only 10 millions, and the necessary expenditure to obtain it 9 millions, but the net income would be 10 millions. Now suppose 2 millions raised in taxes on this diminished gross income, would the society altogether be richer or poorer? Richer, certainly; for after the payment of their taxes, they would have, as before, a clear income of 8 million to bestow on the purchase of commodities, which had increased in quantity, and fallen in price, in the proportion of 20 to 19; not only then could the same taxation be endured, but greater, and yet the mass of the people be better provided with conveniences and necessaries.

If the net income of the society, after paying the same money taxation, be as great as before, and the class of landholders lose I million from a fall of rent, the other productive classes must have increased money incomes, notwithstanding the fall of prices. The capitalist will then be doubly benefited; the corn and butcher's meat consumed by himself and his family will be reduced in price; and the wages of his menial servants, of his gardeners, and labourers of all descriptions, will be also lowered. His horses and cattle will cost less, and be supported at a less expense. All the commodities in which raw produce enters at a principal part of their value, will fall. This aggregate amount of savings, made on the expenditure of income, at the same time that his money income is increased, will then be doubly beneficial to him, and will enable him not only to add to his enjoyments, but to bear additional taxes, if they should be required: his additional consumption of taxed commodities will much more than make up for the diminished demand of landlords, consequent on the reduction of their rents. The same observations apply to farmers and traders of every description.

But it may be said, that the capitalist's income will not be increased; that the million deducted from the landlord's rent, will be paid in additional wages to labourers! Be it so; this will make no difference in the argument: the situation of the society will be improved, and they will be able to bear the same money burthens with greater facility than before; it will only prove what is still more desirable, that the situation of another class, and by far the most important class in society, is the one which is chiefly benefited by the new distribution. All that they receive more than 9 millions, forms part of the net income of the country, and it cannot be expended without adding to its revenue, its happiness, or its power. Distribute then the net income as you please. Give a little more to one class, and a little less to another, yet you do not thereby diminish it; a greater amount of commodities will be still produced with the same labour, although the amount of the gross money value of such commodities will be diminished; but the net money income of the country, that fund from which taxes are paid and enjoyments procured, would be much more adequate, than before, to maintain the actual population, to afford it enjoyments and luxuries, and to support any given amount of taxation.

That the stockholder is benefited by a great fall in the value of corn, cannot be doubted; but if no one else be injured, that is no reason why corn should be made dear.. for the gains of the stockholder are national gains, and increase, as all other gains do, the real wealth and power of the country. If they are unjustly benefited, let the degree in which they are so, be accurately ascertained, and then it is for the legislature to devise a remedy; but no policy can be more unwise than to shut ourselves out from the great advantages arising from cheap corn, and abundant productions, merely because the stockholder would have an undue proportion of the increase.

To regulate the dividends on stock by the money value of corn, has never yet been attempted. If justice and good faith required such a regulation, a great debt is due to the old stockholders; for they have been receiving the same money dividends for more than a century, although corn has, perhaps, been doubled or trebled in price.(84*)

But it is a great mistake to suppose, that the situation of the stockholder will be more improved than that of the farmer, the manufacturer, and the other capitalists of the country; it will, in fact, be less improved.

The stockholder will undoubtedly receive the same money dividend, while not only the price of raw produce, and labour fell, but the prices of many other things into which raw produce entered as a component part. This, however, is an advantage, as I have just stated, which he would enjoy in common with all other persons who had the same money incomes to expend: his money income would not be increased; that of the farmer, manufacturer and other employers of labour would, and consequently they would be doubly benefited.

It may be said, that although it may be true that capitalists would be benefited by a rise of profits, in consequence of a fall of wages, yet that their incomes would be diminished by the fall in the money value of their commodities. What is to lower them? Not any alteration in the value of money, for nothing has been supposed to occur to alter the value of money. Not any diminution in the quantity of labour necessary to produce their commodities, for no such cause has operated, and if it did operate, would not lower money profits, though it might lower money prices. But the raw produce of which commodities are made, is supposed to have fallen in price, and, therefore, commodities will fall on that account. True, they will fall, but their fall will not be attended with any diminution in the money income of the producer. If he sell his commodity for less money, it is only because one of the materials from which it is made has fallen in value. If the clothier sell his cloth for £900 instead of £1,000, his income will not be less, if the wool from which it is made, has declined £100 in value.

Mr Malthus says, 'It is true, that the last additions to the agricultural produce of an improving country, are not attended with a large proportion of rent; and it is precisely this circumstance that may make it answer to a rich country to import some of its corn, if it can be secure of obtaining an equable supply. But in all cases the importation of foreign corn must fail to answer nationally, if it is not so much cheaper than the corn that can be grown at home, as to equal both the profits and the rent of the grain which it displaces.' Grounds, &c. p. 36.

In this observation Mr Malthus is quite correct; but imported corn must be always so much cheaper than the corn that can be grown at home, 'as to equal both the profits and the rent of the grain which it displaces.' If it were not, no advantage to any one could be obtained by importing it.

As rent is the effect of the high price of corn, the loss of rent is the effect of a low price. Foreign corn never enters into competition with such home corn as affords a rent; the fall of price invariably affects the landlord till the whole of his rent is absorbed; - if it fall still more, the price will not afford even the common profits of stock; capital will then quit the land for some other employment, and the corn, which was before grown upon it, will then, and not till then, be imported. From the loss of rent, there will be a loss of value, of estimated money value, but, there will be a gain of wealth. The amount of the raw produce and other productions together will be increased; from the greater facility with which they are produced, they will, though augmented in quantity, be diminished in value.

Two men employ equal capitals - one in agriculture, the other in manufactures. That in agriculture produces a net annual value of £1,200 of which £1,000 is retained for profit, and £200 is paid for rent; the other in manufactures produces only an annual value of £1,000. Suppose that by importation, the same quantity of corn which cost £1,200 can be obtained for commodities which cost £950, and that, in consequence, the capital employed in agriculture is diverted to manufactures, where it can produce a value of £1,000, the net revenue of the country will be of less value, it will be reduced from £2,200 to £2,000; but there will not only be the same quantity of commodities and corn for its own consumption, but also as much addition to that quantity as £50 would purchase, the difference between the value at which its manufactures were sold to the foreign country, and the value of the corn which was purchased from it.

Now this is precisely the question respecting the advantage of importing, or growing corn; it never can be imported till the quantity obtained from abroad by the employment of a given capital exceeds the quantity which the same capital will enable us to grow at home, - exceeds not only that quantity which falls to the share of the farmer, but also that which is paid as rent to the landlord.

Mr Malthus says, 'It has been justly observed by Adam Smith, that no equal quantity of productive labour employed in manufactures can ever occasion so great a reproduction as in agriculture.' If Adam Smith speaks of value, he is correct; but if he speaks of riches, which is the important point, he is mistaken; for he has himself defined riches to consist of the necessaries, conveniences, and enjoyments of human life. One set of necessaries and conveniences admits of no comparison with another set; value in use cannot be measured by any known standard; it is differently estimated by different persons.

NOTES:

1. Chapter XV, part i. "Des Débouchés' contains, in particular, some very important principles, which I believe were first explained by this distinguished writer.

2. Book i, chap. 5.

3. 'But though labour be the real measure of the exchangeable value of all commodities,it is not that by which their value is commonly estimated. It is often difficult to ascertain the proportion between two different quantities of labour. The time spent in two different sorts of work will not always alone determine this proportion. The different degrees of hardship endured, and of ingenuity exercised, must likewise be taken into account. There may be more labour in an hour's hard work, than in two hours easy business; or, in an hour's application to a trade which it costs ten years' labour to learn, than in a month's industry at an ordinary and obvious employment. But it is not easy to find any accurate measure, either of hardship or

ingenuity. In exchanging, indeed, the different productions of different sorts of labour for one another, some allowance is commonly made for both. It is adjusted, however, not by any accurate measure, but by the higgling and bargaining of the market, according to that sort of rough equality, which though not exact, is sufficient for carrying on the business of common life.' -- Wealth of Nations, book i, chap 10. [actually it is book i, chap v.]

4. Wealth of Nations, book i, chap. 10.

5. A division not essential, and in which the line of demarcation cannot be accurately drawn.

6. We here see why it is that old countries are constantly impelled to employ machinery, and new countries to employ labour. With every difficulty of providing for the maintenance of men, labour necessarily rises, and with every rise in the price of labour, new temptations are offered to the use of machinery. This difficulty of providing for the maintenance of men is in constant operation in old countries, in new ones a very great increase in the population may take place without the least rise in the wages of labour. It may be as easy to provide for the 7th, 8th, and 9th million of men as for the 2d, 3d, and 4th.

7. Mr Malthus remarks on this doctrine, "We have the power indeed, arbitrarily to call the labour which has been employed upon a commodity its real value, but in so doing, we use words in a different sense from that in which they are customarily used; we confound at once the very important distinction between cost and value; and render it almost impossible to explain with clearness, the main stimulus to the production of wealth, which in fact depends upon this distinction.'

Mr Malthus appears to think that it is a part of my doctrine, that the cost and value of a thing should be the same; -- it is, if he means by cost, 'cost of production' including profits. In the above passage, this is what he does not mean, and therefore he has not clearly understood me.

8. "The earth, as we have already seen, is not the only agent of nature which has a productive power; but it is the only one, or nearly so, that one set of men take to themselves, to the exclusion of others; and of which, consequently, they can

appropriate the benefits. The waters of rivers, and of the sea, by the power which they have of giving movement to our machines, carrying our boats, nourishing our fish, have also a productive power; the wind which turns our mills, and even the heat of the sun, work for us; but happily no one has yet been able to say, the 'the wind and the sun are mine, and the service which they render must be paid for.'" -- Economie Politique, by J.B. Say, vol. ii. p. 124.

9. Has not M. Say forgotten, in the following passage, that it is the cost of production which ultimately regulates price? "The produce of labour employed on the land has this peculiar property, that it does not become more dear by becoming more scarce, because population always diminishes at the same time that food diminishes, and consequently the quantity of these products demanded, diminishes at the same time as the quantity supplied. Besides, it is not observed that corn is more dear in those places where there is plenty of uncultivated land, than in completely cultivated countries. England and France were much more imperfectly cultivated in the middle ages than they are now; they produced much less raw produce: nevertheless from all we can judge by a comparison with the value of other things, corn was not sold at a dearer price. If the produce was less, so was the population; the weakness of the demand compensated the feebleness of the supply." vol. ii. 338. M. Say being impressed with the opinion that the price of commodities is regulated by the price of labour, and justly supposing that charitable institutions of all sorts tend to increase the population beyond what it otherwise would be, and therefore to lower wages, says, "I suspect that the cheapness of the goods, which come from England, is partly caused by the numerous charitable institutions which exist in that country." vol. ii. 277. This is a consistent opinion in one who maintains that wages regulate price.

10. "In agriculture too," says Adam Smith, "nature labours along with man; and though her labour costs no expense, its produce has its value, as well as that of the most expensive workman." The labour of nature is paid, not because she does much, but because she does little. In proportion as she becomes niggardly in her gifts, she exacts a greater price for her work. Where she is munificently beneficient, she always works gratis. "The labouring cattle employed in agriculture, not only occasion, like the workmen in manufactures, the reproduction of a value equal to

their own consumption, or to the capital which employs them, together with its owner's profits, but of a much greater value. over and above the capital of the farmer and all its profits, they regularly occasion the reproduction of the rent of the landlord. This rent may be considered as the produce of those powers of nature, the use of which the landlord lends to the farmer. It is greater or smaller according to the supposed extent of those powers, or in other words, according to the supposed natural or improved fertility of the land. It is the work of nature which remains, after deducting or compensating every thing which can be regarded as the work of man. It is seldom less than a fourth, and frequently more than a third of the whole produce. No equal quantity of productive labour employed in manufactures, can ever occasion so great a reproduction. In them nature does nothing, man does all; and the reproduction must always be in proportion 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 the 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." Book II, chapter v. p. 15.

Does nature nothing man in manufactures? Are the powers of wind and water, which move our machinery, and assist navigation, nothing? The pressure of the atmosphere and the elasticity of steam, which enable us to work the most stupendous engines -- are they not the gifts of nature? to say nothing of the effects of the matter of heat in softening and melting metals, of the decomposition of the atmosphere in the process of dyeing and fermentation. There is not a manufacture which can be mentioned, in which nature does not give her assistance to man, and give it too, generously and gratuitously.

In remarking on the passage which I have copied from Adam Smith, Mr Buchanan observes, "I have endeavoured to show, in the observations on productive and unproductive labour, contained in the fourth volume, that agriculture adds no more to the national stock than any other sort of industry. In dwelling on the reproduction of rent as so great an advantage to society, Dr Smith does not reflect that rent is the effect of high price, and that what the landlord gains in this way, he gains at the expense of the community at large. There is no absolute gain to the society by the reproduction of rent; it is only one class profiting at the expense of another class. The notion of agriculture yielding a produce, and a rent in consequence, because nature concurs with human industry in the process of cultivation, is a mere fancy. It is not from the produce, but from the price at which the produce is sold, that the rent is derived; and this price is got not because nature assists in the production, but because it is the price which suits the consumption to the supply."

11. The clearly understanding this principle is, I am persuaded, of the utmost importance to the science of political economy.

12. I hope I am not understood as undervaluing the importance of all sorts of improvements in agriculture to landlords -- their immediate effect is to lower rent; but as they give a great stimulus to population, and at the same time enable us to cultivate poorer lands, with less labour, they are ultimately of immense advantage to landlords. A period however must elapse, during which they are positively injurious to him.

13. To make this obvious, and to show the degrees in which corn and money rent will vary, let us suppose that the labour of ten men will, on land of a certain quality, obtain 180 quarters of wheat, and its value to be £4 per quarter, or £720; and that the labour of ten additional men will, on the same or any other land, produce only 170 quarters in addition; wheat would rise from £4 to £4 4s. 8d. for 170: 180: £4 4s. 8d.; or, as in the production of 170 quarters, the labour of ten men is necessary in one case, and only of 9.44 in the other, the rise would be as 9.44 to 10, or as £4 to £4 4s. 8d. If 10 men be further employed, and the return be

160, the price will rise to £4 10s. 0d.
150, the price will rise to £4 16s. 0d.
140, the price will rise to £4 2s. 10d.

Now if no rent was paid for the land which yielded 180 quarters, when corn was at £4 per quarter, the value of 10 quarters would be paid as rent when only 170 could be procured, which at £4 4s. 8d. would be £42 7s. 6d.
20 qrs. when 160 were produced, which at £4 10 0 would be £90 0

0
30 qrs. ... 150 .... 4 16 0 ... 144 0
0
40 qrs. ... 140 .... 5 2 10 ... 205 13
4

Corn rent would increase in the proportion of {100, 200, 300, 400} and money rent in the proportion of {100, 212, 340, 485}

14. "The shelter and the clothing which are indispensable in one country may be no way necessary in another; and a labourer in Hindostan may continue to work with perfect vigour, though receiving, as his natural wages, only such a supply of covering as would be insufficient to preserve a labourer in Russia from perishing. Even in countries situated in the same climate, different habits of living will often occasion variations in the natural price of labour, as considerable as those which are produced by natural causes." -- p. 68. An Essay on the External Corn Trade, by Robert Torrens, Esq.

The whole of this subject is most ably illustrated by Colonel Torrens.

15. With Mr Buchanan in the following passage, if it refers to temporary states of misery, I so far agree, that 'the great evil of the labourer's condition is poverty, arising either from a scarcity of food or of work; and in all countries, laws without number have been enacted for his relief. But there are miseries in the social state which legislation cannot relieve; and it is useful therefore to know its limits, that we many not, by aiming at what is impracticable, miss the good which is really in our power.' Buchanan, page 61.

16. The progress of knowledge manifested upon this subject in the House of Commons since 1796, has happily not been very small, as may be seen by contrasting the late report of the committee on the poor laws, and the following sentiments of Mr Pitt, in that year.

"Let us," said he, "make relief in cases where there are a number of children a matter or right and honour, instead of a ground of opprobrium and contempt. This will make a large family a blessing, and not a curse; and this will draw a proper line of distinction between those who are able to provide for themselves by their labour, and those who after having enriched their country with a number of children, have a claim upon the assistance for support." -- Hansard's Parliamentary History, vol. 32, page 710.

17. The reader is desired to bear in mind, that for the purpose of making the subject more clear, I consider money to be invariable in value, and therefore every variation of price to be referable to an alteration in the value of the commodity.

18. The reader is aware, that we are leaving out of our consideration the accidental variations arising from bad and good seasons, or from the demand increasing or diminishing by any sudden effect on the state of population. We are speaking of the natural and constant, not the accidental and fluctuating price of corn.

19. See Adam Smith, book i, chap. 9.

20. It will appear then, that a country possessing very considerable advantages in machinery and skill, and which may therefore be enabled to manufacture commodities with much less labour than her neighbours, may, in return for such commodities, import a portion of the corn required for its consumption, even if its land were more fertile, and corn could be grown with less labour than in the country from which it was imported. Two men can both make shoes and hats, and one is superior to the other in both employments; but in making hats, he can only exceed his competitor by one-fifth or 20 per cent, and in making shoes he can excel him by one-third or 33 per cent; -- will it not be for the interest of both, that the superior man should employ himself exclusively in making shoes, and the inferior man in making hats?

21. It must be understood that all the productions of a country are consumed; but it makes the greatest difference imaginable whether they are consumed by those who reproduce, or by those who do not reproduce another value. When we say that revenue is saved, and added to capital, what we mean is, that the portion of revenue, so said to be added to capital, is consumed by productive instead of unproductive labourers. There can be no greater error than in supposing that capital is increased by non-consumption. If the price of labour should rise so high, that notwithstanding the increase of capital, no more could be employed, I should say that such increase of capital would be

still unproductively consumed.

22. It may be doubted whether commodities raised in price, merely by taxation, would require any more money for their circulation. I believe they would not.

23. 18 Quarters at £4 8s. 10 2/3d.

24. 9 Quarters at £4 8s. 10 2/3d.

25. Book v., chap. ii.

26. That the profits of the farmer only should be taxed, and not the profits of any other capitalist, would be highly beneficial to landlords. It would, in fact, be a tax on the consumers of raw produce, partly for the benefit of the State, and partly for the benefit of landlords.

27. On further consideration, I doubt whether any more money would be required to circulate the same quantity of commodities, if their prices be raised by taxation, and not by difficulty of production. Suppose 100,000 quarters of corn to be sold in a certain district, and in a certain time, at £4 per quarter, and that in consequence of a direct tax of 8s. per quarter, corn rises to £4 8s., the same quantity of money, I think, and no more, would be required to circulate this corn at the increased price. If I before purchased 11 quarters at £4, and in consequence of the tax am obliged to reduce my consumption to 10 quarters, I shall not require more money, for in all cases I shall pay £44 for my corn. The public would, in fact, consume one-eleventh less, and this quantity would be consumed by Government. The money necessary to purchase it, would be derived from the 8s. per quarter, to be received from the farmers in the shape of a tax, but the amount levied would at the same time be paid to them for their corn; therefore the tax is in fact a tax in kind, and does not make it necessary that any more money should be used, or, if any, so little, that the quantity may be safely neglected.

28. M. Say appears to have imbibed the general opinion on this subject. Speaking of corn, he says, 'thence it results, that its price influences the price of all other commodities. A farmer, a manufacturer, or a merchant, employs a certain number of workmen,

who all have occasion to consume a certain quantity of corn. If the price of corn rises, he is obliged to raise, in an equal proportion, the price of his productions.' Vol. i. p. 255.

29. So far from this being true, they would scarcely affect the landlords and stockholder.

30. M. Say says, that 'the tax added to the price of a commodity, raises its price. Every increase in the price of a commodity, necessarily reduces the number of those who are able to purchase it, or at least the quantity they will consume of it.' This is by no means a necessary consequence. I do not believe, that if bread were taxed, the consumption of bread would be diminished, more than if cloth, wine or soap were taxed.

31. The following remark of the same author appears to me equally erroneous: "When a high duty is laid on cotton, the production of all those goods of which cotton is the basis is diminished. If the total value added to cotton in its various manufactures, in a particular country, amounted to 100 millions of francs per annum, and the effect of the tax was, to diminish the consumption one half, than the tax would deprive that country every year of 50 millions of francs, in addition to the sum received by Government." Vol. ii, p. 314.

32. It is observed by M. Say, 'that a manufacturer is not enabled to make the consumer pay the whole tax levied on his commodity, because its increased price will diminish its consumption.' Should this be the case, should the consumption be diminished, will not the supply also speedily be diminished? Why should the manufacturer continue in the trade, if his profits are below the general level? M. Say appears here also to have forgotten the doctrine which he elsewhere supports, 'that the cost of production determines the price, below which commodities cannot fall for any length of time, because production would be then either suspended or diminished.' -- Vol. ii. p. 26.

33. 'Melon says, that the debts of a nation are debts due from the right hand to the left, by which the body is not weakened. It is true that the general wealth is not diminished by the payment of the interest on arrears of the debt: The dividends are a value which passes from the hand of the contributer to the national creditor: whether it be the national creditor or the contributor

who accumulates or consume it, is, I agreed, of little importance to the society; but the principal of the debt -- what has become of that? It exists no more. The consumption which has followed the loan has annihilated a capital which will never yield any further revenue. The society is deprived not of the amount of interest, since that passes from one hand to the other, but of the revenue from a destroyed capital. This capital, if it had been employed productively by him who lent it to the State, would equally have yielded him an income, but that income would have been derived from a real production, and would not have been furnished from the pocket of a fellow citizen.' -- Say, vol. ii, p. 357. This is both conceived and expressed in the true spirit of the science.

34. 'Credit, in general, is good, as it allows capitals to leave those hands where they are not usefully employed, to pass into those where they will be made productive: it diverts a capital from an employment useful only to the capitalist, such as an investment in the public funds, to make it productive in the hands of industry. It facilitates the employments of all capitals, and leaves none unemployed.' -- Economie Politique, p. 463. 2 Vol. 4th Edition -- This must be an oversight of M. Say. The capital of the stockholder can never be made productive -- it is, in fact, no capital. If he were to sell his stock, and employ the capital he obtained for it, productively, he could only do so by detaching the capital of the buyer of his stock from a productive employment.

35. 'Manufacturing industry increases its produce in proportion to the demand, and the price falls; but the produce of land cannot be so increased; and a high price is still necessary to prevent the consumption from exceeding the supply.' Buchanan, vol. iv, p. 40. Is it possible that Mr Buchanan can seriously assert, that the produce of the land cannot be increased, if the demand increases?

36. I wish the word 'Profit' had been omitted. Dr Smith must suppose the profits of the tenants of these precious vineyards to be above the general rate of profits. If they were not, they would not pay the tax, unless they could shift it either to the landlord or consumer.

37. Vol. iii, p. 355.

38. In a former part of this work, I have noticed the difference between rent, properly so called, and the remuneration paid to the landlord under the name, for the advantages which the expenditure of his capital has procured to his tenant; but I did not perhaps sufficiently distinguish the difference which would arise from the different modes in which this capital might be applied. As a part of this capital, when once expended in the improvement of a firm, is inseparably amalgamated with the land, and tends to increase its productive powers, the remuneration paid to the landlord for its use is strictly of the nature of rent, and is subject to all the laws of rent. Whether the improvement be made at the expense of the landlord or the tenant, it will not be undertaken in the first instance, unless there is a strong probability that the return will at least be equal to the profit that can be made by the disposition of any other equal capital; but when once made, the return obtained will ever after be wholly of the nature of rent, and will be subject by the variations of rent. Some of these expenses, however, only give advantages to the land for a limited period, and do not add permanently to its productive powers: being bestowed on buildings, and other perishable improvements, they require to be constantly renewed, and therefore do not obtain for the landlord any permanent addition to his real rent.

39. 'Commerce enables us to obtain a commodity in the place where it is to be found, and to convey it to another where it is to be consumed; it therefore gives us the power of increasing the value of the commodity, by the whole difference between its price in the first of these places, and its price in the second.' M. Say, p. 458, vol. ii. True, but how is this additional value given to it? By adding to the cost of production, first, the expenses of conveyence; secondly, the profit on the advance of capital made by the merchant. The commodity is only more valuable, for the same reasons that every other commodity may become more valuable, because more labour is expended on its production and conveyance, before it is purchased by the consumer. This must not be mentioned as one of the advantages of commerce. When the subject is more closely examined, it will be found that the whole benefits of commerce resolve themselves into the means which it gives us of acquiring, not more valuable objects, but more useful ones.

40. In the last volume to the supplement of the Encyclopaedia Britannica, article 'Corn Laws and Trade' are the following excellent suggestions and observations: "If we shall at any future period, think of retracting our steps, in order to give time to withdraw capital from the cultivation of our poor soils, and to invest it in more lucrative employments, a gradually diminishing scale of duties may be adopted. The price at which foreign grain should be admitted duty free, may be made to decrease from 80s. its present limit, by 4s. or 5s. per quarter annually, till it reaches 50s. when the ports could safely be thrown open, and the restrictive system be for ever abolished. When this happy event shall have taken place, it will be no longer necessary to force nature. The capital and enterprise of the country will be turned into those departments of industry in which our physical situation, national character, or political institutions, fit us to excel. The corn of Poland, and the raw cotton of Carolina, will be exchanged for the wares of Birmingham, and the muslins of Glasgow. The genuine commercial spirit, that which permanently secures the property of nations, is altogether inconsistent with the dark and shallow policy of monopoly. The nations of the earth are like provinces of the same kingdom -- a free and unfettered intercourse is alike productive of general and of local advantage.' The whole article is well worthy of attention; it is very instructive, is ably written, and shews that the author is completely master of the subject.

41. Whatever capital becomes fixed on the land, must necessarily be the landlord's, and not the tenants, at the expiration of the lease. Whatever compensation the landlord may receive for this capital, on re-letting his land, will appear in the form of rent; but no rent will be paid, if, with a given capital, more corn can be obtained from abroad, than can be grown on this land at home. If the circumstances of the society should require corn to be imported, and 1,000 quarters can be obtained by the employment of a given capital, and if this land, with the employment of the same capital, will yield 1,100 quarters, 100 quarters will necessarily go to rent; but if 1,200 can be got from abroad, then this land will go out of circulation, for it will not then yield even the general rate of profit. But this is no disadvantage, however great the capital may have been, that had been expended on the land. Such capital is spent with a view to augment the produce -- that, it should be remembered, is the end; of what importance then can it be to the society, whether half its

capital be sunk in value, or even annihiliated, if they obtain a greater annual quantity of production? Those who deplore the loss of capital in this case, are for sacrificing the end to the means.

42. Among the most able of the publications, on the impolicy of restricting the Importation of Corn, may be classed Major Torrens' Essay on the External Corn Trade. His arguments appear to me to be unanswered, and to be unanswerable.

43. Adam Smith says, 'that the difference between the real and the nominal price of commodities and labour, is not a matter of mere speculation, but may sometimes be of considerable use in practice.' I agree with him; but the real price of labour and commodities, is no more to be ascertained by their price in goods, Adam Smith's real measure, than by their price in gold and silver, his nominal measure. The labourer is only paid a really high price for his labour, when his wages will purchase the produce of a great deal of labour.

44. In vol. i, p. 108, M. Say infers, that silver is now of the same value, as in the reign of Louis XIV, 'because the same quantity of silver will buy the same quantity of corn.'

45. Elemens d'Idelogie, vol. iv, p. 99. -- In this work M. de Tracy has given a useful and an able treatise on the general principles of Political Economy, and I am sorry to be obliged to add, that he supports, by his authority, the definitions which M. Say has given of the words 'value', 'riches', and 'utility'.

46. 'The first man who knew how to soften metals by fire, is not the creator of the value which that process adds to the melted metal. That value is the result of the physical action of fire added to the industry and capital of those who availed themselves of this knowledge.'

'From this error Smith has drawn this false result, that the value of all productions represents the recent or former labour of man, or, in other words, that riches are nothing else but accumulated labour; from which, by a second consequence equally false, labour is the sole measure of riches, or of the value of productions.' The inference with which M. Say concludes are his own, and not Dr Smith's; they are correct if no distinction be made between value and riches, and in this passage M. Say makes none; but though Adam Smith, who defined riches to consists in the abundance of necessaries, conveniences and enjoyments of human life, would have allowed that machines and natural agents might very greatly add to the riches of a country, he would not have allowed that they add any thing to the value of those riches.

47. Adam Smith speaks of Holland, as affording an instance of the fall of profits from the accumulation of capital, and from every employment being consequently overcharged. 'The Government there borrow at a 2 per cent, and private people of good credit, at 3 per cent.' But it should be remembered, that Holland was obliged to import almost all the corn which she consumed, and by imposing heavy taxes on the necessaries of the labourer, she further raised the wages of labour. These facts will sufficiently account for the low rate of profits and interest in Holland.

48. Is the following quite consistent with M. Say's principle? 'The more disposable capitals are abundant in proportion to the extent of employment for them, the more will the rate of interest on loans of capital fall.' -- Vol. ii. p. 108. If capital to any extent can be employed by a country, how can it be said to be abundant, compared with the extent of employment for it?

49. Adam Smith says, that "When the produce of any particular branch of industry exceeds that the demand of the country requires, the surplus must be sent abroad, and exchanged for something for which there is a demand at home. Without such exportation, a part of the productive labour of the country must cease, and the value of its annual produce diminish. The land and labour of Great Britain produce generally more corn, woollens, and hardware, than the demand of the home market requires. The surplus part of them, therefore, must be sent abroad, and exchanged for something for which there is a demand at home. It is only by means of such exportation, that this surplus can acquire a value sufficient to compensate the labour and expense of producing it." One would be led to think by the above passage, that Adam Smith concluded we were under some necessity of producing a surplus of corn, woollen goods, and hardware, and that the capital which produced them could not be otherwise employed. It is, however, always a matter of choice in what way a capital shall be employed, and therefore there can never, for any length of time be a surplus of any commodity; for if there were,

it would fall below its natural price, and capital would be removed to some more profitable employment. No writer has more satisfactorily and ably shewn that Dr Smith, the tendency of capital to move from employments in which the goods produced do not repay by their price the whole expenses, including the ordinary profits, of producing and bringing them to market.

50. 'All kinds of public loans', observes M. Say, 'are attended with the inconvenience of withdrawing capital, or portions of capital, from productive employments, to devote them to consumption; and when they take place in a country, the Government of which does not inspire much confidence, they have the further inconvenience of raising the interest of capital. Who would lend at 5 per cent per annum to agriculture, to manufacturers and to commerce, when a borrower may be found ready to pay an interest of 7 or 8 per cent? That sort of income, which is called profit of stock, would rise then at the expense of the consumer. Consumption would be reduce, by the rise in the price of produce; and the other productive services would be less in demand, less well paid. The whole nation, capitalists excepted, would be the sufferers from such a state of things.' To the question: 'who would lend money to farmers, manufacturers, and merchants, at 5 per cent per annum, when another borrower, having little credit, would give 7 or 8?' I reply, that every prudent and reasonable man would. Because the rate of interest is 7 or 8 per cent there, where the lender runs extraordinary risk, is this any reason that it should be equally high in those places where they are secured from such risks? M. Say allows, that the rate of interest depends on the rate of profits; but it does not therefore follow, that the rate of profits depends on the rate of interest. One is the cause, the other the effect, and it is impossible for any circumstances to make them change places.

51. In another place he says, that 'whatever extension of the foreign market can be occasioned by the bounty, must, in every particular year, be altogether at the expense of the home market; at every bushel of corn which is exported by means of the bounty, and which would not have been exported without the bounty, would have remained in the home market to increase the consumption, and to lower the price of that commodity. The corn bounty, it is to be observed, as well as every other bounty upon exportation, imposes two different taxes upon the people; first, the tax which they are obliged to contribute, in order to pay the bounty; and

secondly, the tax which arises from the advanced price of the commodity in the home market, and which, as the whole body of the people are purchases of corn, must, in this particular commodity, be paid by the whole body of the people. In this particular commodity, therefore, the second tax is by much the heaviest of the two.' 'For every five shillings, therefore, which they contribute to the payment of the first tax, they must contribute six pounds four shillings to the payment of the second.' 'The extraordinary exportation of corn, therefore, occasioned by the bounty, not only in every particular year diminishes the home, just as much as it extends the foreign market and consumption; but, by restraining the population and industry of the country, its final tendency is to stunt and restrain the gradual extension of the home market, and thereby in the long run, rather to diminish than to augment the whole market and consumption of corn.'

52. The same opinion is held by M. Say. -- Vol ii, p. 335.

53. See Chapter on Rent.

54. M. Say supposes the advantage of the manufacturers at home to be more than temporary. "A government which absolutely prohibits the importation of certain foreign goods, establishes a monopoly in favour of those who produce such commodities at home, against those who consume them; in other words, those at home who produce them having the exclusive privilege of selling them, may elevate their price above the natural price; and the consumers at home, not being able to obtain them elsewhere, are obliged to purchase them at a higher price." vol. i, p. 201.

But how can they permanently support the market price of their goods above the natural price, when every one of their fellow citizens is free to enter into the trade? They are guaranteed against foreign, but not against home competition. The real evil arising to the country from such monopolies, if they can be called by that name, lies, not in raising the market price of such goods, but in raising their real and natural price. By increasing the cost of production, a portion of the labour of the country is less productively employed.

55. "A freedom of trade is alone wanted to guarantee a country like Britain, abounding in all the varied products of industry, in merchandise suited to the wants of every society, from the

possibility of a scarcity. The nations of the earth are not condemned to throw the dice to determine which of them shall submit to famine. There is always abundance of food in the world. To enjoy a constant plenty, we have only to lay aside our prohibitions and restrictions, and cease to counteract the benevolent wisdom of Providence." Article, 'Corn Laws and Trade' Supplement to Encyclopaedia Britainnica.

56. Are not the following passages contradictory to the one above quoted? 'Besides, that home trade, though less noticed, (because it is in a variety of hands) is the most considerable, it is also the most profitable. The commodities exchanged in that trade are necessarily the productions of the same country.' Vol. i. p. 84.

'The English Government has not observed, that he most profitable sales are those which a country makes to itself, because they cannot take place, without two values being produced by the nation; the value which is sold, and the value with which the purchase is made.' vol. i, p.221.

I shall, in the 26th chapter, examine the soundness of this opinion.

57. See p. 175.

58. M. Say is of the same opinion with Adam Smith: 'The most productive employment of capital, for the country in general, after that on the land, is that of manufactures and of home trade; because it puts in activity an industry of which the profits are gained in the country, while those capitals which are employed in foreign commerce, make the industry and lands of all countries to be productive, without distinction.

'The employment of capital the least favourable to a nation, is that of carrying the produce of one foreign country to another.' Say, vol. ii, p. 130.

59. Perhaps this is expressed too strongly, as more is generally allotted to the labourer under the name of wages, that the absolute necessary expenses of production. In that case a part of the net produce of the country is received by the labourer, and may be saved or expended by him; or it may enable him to contribute to the defence of the country.

60. M. Say has totally misunderstood me in supposing that I have considered as nothing, the happiness of so many human beings. I

think the text sufficiently shews that I was confining my remarks to the particular grounds on which Adam Smith had rested it.

61. 'It is fortunate that the natural course of things draws capital, not to those employments where the greatest profits are made, but to those where the operation is most profitable to the community.' -- vol. ii, p. 122. M. Say has not told us what those employments are, which, while they are the most profitable to the individual, are not the most profitable to the State. If countries with limited capitals, but with abundance of fertile land, do not early engage in foreign trade, the reason is, because it is less profitable to individuals, and therefore also less profitable to the State.

62. Whatever I say of gold coin, is equally applicable to silver coin; but it is not necessary to mention both on every occasion.

63. This, and the following paragraphs, to the close of the bracket, p. 355, is extracted from a Pamphlet entitled 'Proposals for an Economical and Secure Currency' published by the author in the year 1816,

64. The price of £3 17s. here mentioned,is, of course, an arbitrary price. There might be good reason, perhaps, for fixing it either a little above, or a little below. In naming £3 17s. I wish only to elucidate the principle. The price ought to be so fixed as to make it the interest of the seller of gold rather to sell it to the Bank, than to carry it to the Mint to be coined.
The same remark applies to the specified quantity of twenty ounces. There might be good reason for making it ten or thirty.

65. It has lately been contended in parliament by Lord Lauderdale, that, with the existing Mint regulation, the Bank could not pay their notes in specie, because the relative value of the two metals is such, that it would be for the interest of all debtors to pay their debts with silver and not with gold coin, while the law gives a power to all the creditors of the Bank to demand gold in exchange for Bank notes. This gold, his Lordship thinks, could be profitably exported, and if so, he contends that the Bank, to keep a supply, will be obliged to buy gold constantly at a premium, and sell it at par. If every other debtor could pay in silver, Lord Lauderdale would be right; but he cannot do so if this debt exceed 40s. This, then, would limit

the amount of silver coin in circulation, (if Government had not reserved to itself the power to stop the coinage of that metal whenever they might think it expedient,) because if too much silver were coined, it would sink in relative value to gold, and no man would accept it in payment for a debt exceeding 40 shillings, unless a compensation were made for its lower value. To pay a debt of £100, one hundred sovereigns, or Bank notes to the amount of £100 would be necessary, but £105, in silver coin might be required, if there were too much silver in circulation. There are, then, two checks against an excessive quantity of silver coin; first, the direct check which Government may at any time interpose to prevent more from being coined; secondly, no motive of interest would lead any one to take silver to the Mint, if he might do so, for if it were coined,it would not pass current at its Mint, but only at its market value.

66. 'If, with the quantity of gold and silver which actually exists, these metals only served for the manufacture of utensils and ornaments, they would be abundant,and would be much cheaper than they are at present; in other words, in exchanging them for any other species of goods, we should be obliged to give proportionally a greater quantity of them. But as a large quantity of these metals is used for money, and as this portion is used for no other purpose, there remains less to be employed in furniture and jewellery; now this scarcity adds to their value.' -- Say, vol. i, p. 316. See also note to page 78

67. An Inquiry into the Nature and Origin of Public Wealth, page 13.

68. 'The demand for labour depends on the increasing of circulating, and not of fixed capital. Were it true that the proportion between these two sorts of capital is the same at all times, and in all countries, then, indeed, it follows that the number of labourers employed is in proportion to the wealth of the State. But such a position has not the semblance of probability. As arts are cultivated, and civilization is extended, fixed capital bears a larger and larger proportion to circulating capital. The amount of fixed capital employed in the production of a piece of British muslin is at least a hundred, probably a thousand times greater than that employed in the production of a similar piece of Indian muslin. And the proportion of circulating capital employed is a hundred or a

thousand times less. It is easy to conceive that, under certain circumstances, the whole of the annual savings of an industrious people might be added to fixed capital, in which case they would have no effect in increasing the demand for labour.'

Barton, 'On the Condition of the Labouring Classes of Society'. p. 16.

It is not easy, I think, to conceive that under any circumstance, an increase in capital should not be followed by an increased demand for labour; the most that can be said is, that the demand will be in a diminishing ratio. Mr Barton, in the above publication, has, I think, taken a correct view of some of the effects of an increasing amount of fixed capital on the condition of the labouring classes. His Essay contains much value information.

69. An Inquiry into the Nature and Progress of Rent. p. 15.

70. See page 134, where I have endeavoured to shew, that whatever facility or difficulty there may be in the production of corn; wages and profits together will be of the same value. When wages rise, it is always at the expense of profits, and when they fall, profits always rise.

71. Mr Malthus has observed in a late publication, that I have misunderstood him in this passage, as he did not mean to say, that rent immediately and necessarily rises and falls with the increased or diminished fertility of the land. If so, I certainly did misunderstand him. Mr Malthus's words are, 'Diminish this plenty, diminish the fertility of the soil, and the excess (rent) will diminish; diminish it still further, and it will disappear.' Mr Malthus does not state his proposition conditionally, but absolutely. I contended against what I understood him to maintain, that a diminution of the fertility of the soil was incompatible with an increase of rent.'

72. Of what increased quantity does Mr Malthus speak? Who is to produce it? Who can have any motive to produce it, before any demand exists for an additional quantity?

73. Inquiry, &c. 'In all progressive countries, the average price of corn is never higher than what is necessary to continue the average increase of produce.' Observations, p. 21.

'In the employment of fresh capital upon the land, to provide for the wants of an increasing population, whether this fresh capital is employed in bringing more land under the plough, or improving land already in cultivation, the main question always depends upon the expected returns of this capital; and no part of the gross profits can be diminished, without diminishing the motive to this mode of employing it. Every diminution of price, not fully and immediately balanced by a proportionate fall in all the necessary expenses of a farm, every tax on the land, every tax on farming stock, every tax on the necessary of farmers, will tell in the computation; and if, after all these outgoings are allowed for, the price of the produce will not leave a fair remuneration for the capital employed, according to the general rate of profits, and a rent at least equal to the rent of the land in its former state, no sufficient motive can exist to undertake the projected improvement.' Observations, p. 22.

74. See page 134.

75. See p. 102, &c.

76. It is not necessary to state, on every occasion, but it must be always understood, that the same result will follow, as far as regards the price of raw produce and the rise of rent, whether an additional capital of a given amount, be employed on new land, for which no rent is paid, or on land already in cultivation, if the produce obtained from both be precisely the same in quantity. See p. 96.

M. Say, in his note to the French translation of this work, has endeavoured to shew that there is not at any time land in cultivation which does not pay rent, and having satisfied himself on this point, he concludes that he has overturned all the conclusions which result from that doctrine. He infers, for example, that I am not correct in saying that taxes on corn, and other raw produce, by elevating their price, fall on the consumer, and do not fall on rent. He contends that such taxes must fall on rent. But before M. Say can establish the correctness of this inference, he must also shew that there is not any capital employed on the land for which no rent is paid (see the beginning of this note, and pages 91 and 97 of the present work); now this he has not attempted to do. In no part of his notes has he refuted, or even noticed that important doctrine. By his note to page 182 of the second volume of the

French edition, he does not appear to be aware that it has even been advanced.

77. Observations on the Corn Laws, p. 4.

78. Upon shewing this passage to Mr Malthus, at the time when these papers were going to press, he observed, 'that in these two instances he had inadvertently used the term real price, instead of cost of production.' It will be seen, from what I have already said, that to me it appears, that in these two instances he has used the term real price in its true and just acceptation, and that in the former case only it is incorrectly applied.

79. Page 40.

80. Manufactures, indeed, could not fall in any such proportion, because, under the circumstances supposed, there would be a new distribution of the precious metals among the different countries. Our cheap commodities would be exported in exchange for corn and gold, till the accumulation of gold should lower its value, and raise the money price of commodities.

81. The Grounds of an Opinion, &c. page 36.

82. Mr Malthus, in another part of the same work, supposes commodities to vary 25 or 20 per cent when corn varies 33 1/3.

83. Of net produce and gross produce, M. Say speaks as follows: 'The whole value produced is the gross produce; this value, after deducting from it the cost of production, is the net produce.' vol ii. p. 491. There can then be no net produce, because the cost of production, according to M. Say, consists of rent, wages, and profits. In page 508, he says, 'The value of a product, the value of a productive service, the value of the cost of production, are all then similar values, whenever things are left to their natural course.' Take a whole from a whole, and nothing remains.

84. Mr McCulloch, in an able publication, has very strongly contended for the justice of making the dividends on the national debt conform to the reduced value of corn. He is in favour of a free trade in corn, but he thinks it should be accompanied by a reduction of interest to the national creditor.