plained, 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. 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 less productive, 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, to produce the food required, and the same number of men should



be employed in producing it, 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 of 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.

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, as



with the same quantity of corn it not only gives him a command over a greater quantity of money, but over a greater quantity of every commodity which money can purchase.

## CHAPTER XXIII.

### 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.

Without affirming or denying, that the actual practice of Europe with regard to their colonies is injurious to the mother countries, I may be permitted to doubt 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*l.* per quarter in this country, we saw, that with a bounty of 10*s.* per quarter, on exportation in England, corn would have been reduced to 3*l.* 10*s.* in France. Now, if corn had previously been at 3*l.* 15*s.* per quarter in France, the French consumers would have been benefited by 5*s.* per quarter on all imported corn; if the natural price of corn in France were before 4*l.*, they would have gained the whole bounty of 10*s.* 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 in some cases 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 she 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 5000*l.*—she desires then to sell



goods somewhere by which she may get 5000*l.* 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 5000*l.* 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 5000*l.* for their wine, and consequently 5000*l.* 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 price of money is the same thing as the decline in the price of commodities. To obtain 5000*l.*, 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 5000*l.* 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 pro-



duction 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 will be in the same proportion to the demand 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 neither 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, according to him, 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 XXIV.

### 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."*

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,

* 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. 120.



or for savings; the former, if moderate, constituting always the necessary expenses of production. To an individual, with a capital of 20,000*l.*, whose profits were 2000*l.* 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*l.*, or for 20,000*l.*, provided, in all cases, his profits were not diminished below 2000*l.* 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; 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, where profits are in proportion to the capital, and not in proportion to the quantity of labour employed.*



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

* "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 their 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.

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 XXV.

### ON CURRENCY AND BANKS.

It is not my intention to detain the reader by any long dissertation on the subject of money. 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

* "The use of gold and silver then establishes in every place a certain necessity for these commodities; and when the country possesses the quantity necessary to satisfy this want, all that is further imported, not being in demand, is unfruitful in value, and of no use to its owners."—*Say*, vol. i. p. 187.

In page 196, M. Say says, that supposing a country to require 1000 carriages, and to be possessed of 1500—all above 1000 would be useless; and thence he infers, that if it possesses more money than is *necessary*, the overplus will not be employed.



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, 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 multiplied in proportion to its diminished value.*

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

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



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 effects, 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 order 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*l.* 17*s.* 10½*d.* 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

* "In the transactions of Government with individuals, and in those of individuals between themselves, a piece of money is never received, whatever denomination may be given to it, but at its intrinsic value, increased by the value of the utility which the impression it bears has added to it."—*Say*, vol. i. p. 327.

"Money is so little a mark of value, that if the pieces of



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

money lose a part of their value by friction, from use, or by the knavery of the clippers of money, all goods rise in price in proportion to the alteration which they have experienced; and if Government orders a recoinage, and restores each piece to its legal weight and fineness, goods will fall to their former price; if they have not been exposed to variations from other causes."—*Say*, vol. i. p. 346.

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.

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*l.* per annum, it is a question of importance to the individuals of that country, whether they must be taxed to pay this 70,000*l.* 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*l.* 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 amounts 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 their 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 rate 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 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 at 5 per cent. indeed, a rate fixed by law, 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 22*s.* or more, and sometimes for 18*s.* 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 that gold only was subject to rise or fall. Thus, although a guinea passed for 22*s.* instead of 18*s.* gold might not have varied in value, the variation might have been wholly confined to the silver, and therefore 22*s.* might have been of no more value than 18*s.* were before. And on the contrary, the whole variation might have been in the gold: a guinea, which was worth 18*s.* might have risen to the value of 22*s.*

If now we suppose this silver currency to be debased by clipping, and also increased in quantity, a guinea might pass for 30*s.*; for the silver in 30*s.* 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*l.* 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*l.* 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 no where 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*l.*, unless by weight, according to the mint standard.

But this law did not prevent any debtor from paying any 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 last session of Parliament, when it was enacted that gold only should be a legal tender for any sum exceeding twenty-one 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 or the main currency, it depends wholly on its being in excess of quantity.

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 on 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 *3l. 17s.* 10½*d.* 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 four pence 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 more effectually prevent any unnecessary variation of the currency.*

* M. Say recommends that the seignorage should vary according to the quantity of business that the mint might be called upon to perform.

"Government

"Government should not coin the bullion of individuals except on payment, not only of the expenses, but also of the profits of coining. This profit might be carried to a considerable height, in consequence of the exclusive privilege of coining; but it must vary according to the circumstances of the mint, and the quantity required for circulation." Vol. i. p. 380.

Such a regulation would be extremely pernicious, and would expose us to considerable and unnecessary variation in the bullion value of the currency.

## CHAPTER XXVI.

### ON THE COMPARATIVE VALUE OF GOLD, CORN, AND LABOUR, IN RICH AND IN 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 subsistence 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*l.* 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*l.* and 3*l.*, 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 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 XXVII.

## TAXES PAID BY THE PRODUCER.

M. 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 addi-



tional 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* 1000*l.* 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 1000*l.* the amount of the tax, but probably of 1100*l.*, 100*l.* being for interest on the 1000*l.* advanced. But in return for this additional 100*l.* 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 1000*l.* 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 1000*l.* 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*l.* 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 4000 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 6734 francs. This calculation proceeds on the supposition, that he who first advanced the tax, would receive from the next manufacturer 4400 francs, and he again from the next, 4840 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 2734, 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 XXVIII.

### 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 give 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.* "*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

---

* 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 p. 78.

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."*

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

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

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 XXIX.

## MR. MALTHUS'S OPINIONS 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?"*

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

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*l.* to 5*l.* per quarter, a million of quarters will be of the value of 5,000,000*l.* instead of 4,000,000*l.*, 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, to 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*l.* per quarter, instead of 4*l.*, 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 crea-



tion 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.

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 production," profits as well as wages. One hundred and fifty quarters of corn at *3l.* 10*s.* per quarter, would yield a larger rent to the landlord than 100 quarters at *4l.*, 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 of the 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 markets;" 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 of the rise of rent, Mr. Malthus has 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 rent money 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, 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 share 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 of 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. 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; 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; but as the cost of production will not increase, as wages and profits taken together will continue always of the same value,* 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

* See page 124, 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.



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. Mr. Malthus says, that the "cause of the excess of price of the necessaries of life above the cost of production, is to be found in their abundance rather than their scarcity, and is essentially different from the high price of those peculiar products of the earth, not connected with food, which may be called natural and necessary monopolies."

In what are they essentially different? Would not the abundance of those peculiar products of the earth cause a rise of rent, if the demand for them at the same time increased? and can rent ever rise, whatever the commodity produced may be, from abundance merely, and without an increase of demand?

The second cause of rent mentioned by Mr. Malthus, namely, "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," does not appear to me to be any way essential to it. It is not the abundance of necessaries which raises up demanders, but the abundance of demanders which raises up necessaries.

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, together with 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 may, if it please him, exchange his increased wages for any commodities that may contribute to his enjoyments—for chairs, tables, and hardware; or for 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 a new and increased demand arises for food. This demand then is the effect of an increase of 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 property of creating an increase of demand proportioned to their increased quantity, such increased quan-



tity would occasion a fall in their exchangeable value.* However abundant might be the produce of a 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

* 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?

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."*

* 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



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

"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 proportioned fall in all the necessary expenses of a farm, every tax on the land, every tax on farming stock, every tax on the necessaries 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.

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 some parts of 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 the 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,* no fall of wages can raise rent, for it will neither diminish the portion, nor the value of the portion of the pro-

* See p. 124.



duce 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 versa*. 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 fall, 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 the labourers were 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 relinquished. It has been my endeavour to shew in this work, that a fall of wages would have no other effect than to raise profits.

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." This would not raise the value of the whole produce, and would therefore not increase rent. It would rather have a contrary tendency, it would lower rent; for if in consequence of these improvements, the actual quantity of food required 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.* 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.† Im-

* See p. 70, &c.

† It is not necessary to state on every occasion, but it must be always understood, that the same effect will be produced by employing different, but equal portions of capital on the land already in cultivation, with different results. Rent is the



provements 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 an error of Adam Smith, and says, "the substance of his (Dr. Smith's) argument is, that corn is of so peculiar a nature, that its real price cannot be raised by an increase of its money price; and that, as it is clearly an increase of real price alone, which can encourage its production, the rise of money price, occasioned by a bounty, can have no such effect."

He continues: "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,

difference of produce obtained with equal capitals, and with equal labour on the same, or on different qualities of 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."*

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

* Observations on the Corn Laws, p. 4.



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, 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 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."* Suppose that in the fore-

* Upon shewing this passage to Mr. Malthus, at the time when these papers were going to the press, he observed, "that

going 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 excess of its price above 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.

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.



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 striking 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.**

* Page 40.



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 either 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 country 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 25 millions, would fall from 30 to 23 millions.*

* 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.



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 with 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."*

In the first place, I think, I have already shewn, that the nominal income of the whole

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



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 income would be reduced fifty per cent. 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 sup-

* Mr. Malthus, in another part of the same work, supposes commodities to vary 25 or 20 per cent. when corn varies $33\frac{1}{3}$.

poses, 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 1000*l.*, and to be divided between the master and his labourers, in the proportion of 800*l.* to labourers, and 200*l.* to the master; if the value of these commodities should fall to 900*l.*, and 100*l.* 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.*

* In Chap. 24. I have observed, that the real resources of a country, and its ability to pay taxes, depend on its net, and not on its gross income.



And that wages would fall as much as the mass of commodities, or rather that the net income remaining to landlords, farmers, manufacturers, traders, and stockholders, the only real payers of taxes, would be as great as before, is very highly probable; for nothing would be even nominally lost to the society by the freest importation of corn, but that portion of rent of which the landlords would be deprived in consequence of the fall of raw produce.

The difference between the value of corn and all other commodities sold in the country, before and after the importation of cheap corn, would be only equal to the fall of rent; because, independently of rent, the same quantity of labour would always produce the same value.

The whole reduction which is made in wages, is a value actually added to the value of the net income before possessed by the society; whilst the only value which is taken from that net income is the value of that part of their rent of which the landlords will be deprived by a fall of raw produce. When we consider that the fall of produce acts upon a limited number of landlords, while it reduces the wages not only of those who are employed in agriculture, but of all those who are occupied in manufactures and commerce, it may well be doubted, whether the net revenue of the society would suffer any abatement whatever.*

But, if it did, it must not be supposed that the ability to pay taxes will diminish in the same degree, as the money value, even of the net revenue. Suppose that my net revenue were diminished from 1000*l.* to 900*l.*; but that my taxes continued to be the same, to be 100*l.*: is it not probable that my ability to pay this 100*l.* may be greater with the smaller than with the larger revenue? Commodities cannot fall so universally as Mr. Malthus supposes, without greatly benefiting the consumers, without enabling them with a

* This is on the supposition that money continued at the same value. In the last note, I have endeavoured to shew that money would not continue of the same value,—that it would fall, from increased importation; a fact which is much more favourable to my argument.



much smaller money revenue to command more of the conveniences, necessaries, and luxuries of human life; and the question resolves itself into this—whether those who are in possession of the net revenue of the country will be benefited as much by the diminished price of commodities, as they will suffer by the greater real taxation. On which side the balance may preponderate, will depend on the proportion which taxes bear to the annual revenue; if it be enormously large, it may undoubtedly more than counterbalance the advantages from cheap necessaries; but I trust enough has been said, to shew, that Mr. Malthus has very greatly over-rated the loss to the tax-payers, from a fall in one of the most important necessaries of life; and that if they were not entirely remunerated for the real increase of taxes, by the fall of wages and increase of profits, they would be more than compensated, by the cheaper price of all objects on which their incomes were expended.

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.*

* Mr. M'Culloch, 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.



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.

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 1200*l.* of which 1000*l.* is retained for profit, and 200*l.* is paid for rent; the other in manufactures produces only an annual value of 1000*l.* Suppose that by importation, the same quantity of corn can be obtained for commodities which cost 950*l.*, and that, in consequence, the capital employed in agriculture is diverted to manufactures, where it can produce a value of 1000*l.* the net revenue of the country will be of less value, it will be reduced from 2200*l.* to 2000*l.*, 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*l.* 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.



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.

THE END.

ERRATA.

*Page* 190, *line* 8, *for* obtained, *read* attained.
521, *line* 20, *for* twenty-one shillings, *read* forty-two shillings.
543, *last line*, *for* give, *read* spend.
555, *last line*, *for* rent money, *read* money rent.

# INDEX.

A.



B.

C.

INDEX.



2 Q 2

M.







N.



P.

INDEX.



## R.

S.







T.

U.



V.







W.



J. M'Creery, Printer,
Black-Horse-court, London.