POLITICAL ECONOMY:

DESIGNED AS

A TEXT-BOOK FOR COLLEGES.

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ANDOVER:
PUBLISHED BY W. F. DRAPER.
1859.

ELECTROTYPED AND PRINTED

BY W. F. DRAPER, ANDOVER, MASS.

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INTRODUCTION.

A SCIENCE which comes in contact with the interests of men, which lies in the region of daily action and desire, will find its theories more frequently questioned, and its proofs more severely tried, than one which has to do with the relations of abstract ideas, or the facts of the external world. In reference to wealth, its acquisition, and the policy which should control and guide our individual and national industry, there have always been favorite opinions, — schemes which, though often based on the most limited views, on mere prejudices, have yet arrogated the authority of experience, and led men to look with suspicion or contempt on the best established principles, the most broad and conclusive reasonings, of Political Economy. Even when forced to assent to the proofs and conclusions of this science, many have been willing to regard them as so restricted by arbitrary and hypothetical premises, as to be utterly unsafe in practice; as solely theoretical; as giving hints and hopes, but not laws, to the weighty necessities of life.

While not forgetting the occasion which the inaccuracy of alleged science has frequently given to this feeling, we yet are sure that no attack, open or furtive, more thoroughly undermines the social sciences than this capricious and arbitrary suspension of their conclusions the instant they affect action. The meeting of well-ascertained tendencies of principles established by broad and careful reasoning, with a vague charge of theory, with a reference to certain practical exigencies, undefined and unexplained, is declamation — is the substitution of a narrow opinion and most partial experience, for conclusions deeply established on observation and

human nature. Such a method, if defensible, would render the most radical and thorough investigations valueless, and the careless affirmations of an unanalyzed experience authoritative.

We readily acknowledge the modifying influences of circumstances; we only demand that these circumstances, while as yet but partially apprehended, and, in the nature and degree of their influence, wholly unestimated, should not be thrown into the scale as make-weights against clear, accurate reasonings, and inevitable tendencies. We appreciate the advantage which these practical difficulties, these experimental reasons, must ever have while left vague and undefined. They may vitiate the most conclusive argument; they may set aside the most weighty tendencies; indeed, none can tell what they may not do, for no one knows exactly what they are, or has tested their strength. Who can say that friction may not overcome the best devised machinery, till he has measured friction, and determined how great among the powers this friction is? But this friction cannot rightly be urged against any demonstration; it is obscure, if not unmeaning, declamation to urge it till the points have been shown at which it exists, and its vitiating influence there measured.

There are, unquestionably, practical difficulties, causes not estimated, in the theories of Political Economy, which modify the results. But this does not alter the fact, that the proofs of this science include all leading and permanent forces — forces that give direction and law to financial movements; that the forces not estimated in the proof are transitory, secondary, and accidental, and often wholly imaginary. Certainly, it is not wise to cast aside conclusions resting on, and including all, leading causes — causes always present and always at work — unless in favor of exceptions equally well understood, and capable of a proof equally complete. It is admitted that all the circumstances of no one real transaction will ever be found embraced in the premises of a general theory; but this does not destroy, or at all modify, the force of the theory, so long as it includes all essential and efficient agencies. Circumstances not taken into the estimate, opinions, surmises, are not to be thrown across the path of proof till they have been resolved into proof,

and that, too, proof of a given denomination — proof that can be weighed with proof.

In order to a right apprehension of Political Economy, and of the value of its conclusions, we need to understand its nature and relations as a science.

§ 1. Political Economy belongs to the social sciences, and has to deal with complicated and ever-varying phenomena. Individual characteristics, social characteristics, the circumstances of advantage and disadvantage acting upon these, the new conditions begotten by their interaction, are all innumerable, and, in any given instance, much more in anticipation of all instances, totally beyond a complete estimate. Yet these phenomena, complicated beyond all exhaustive analysis, are the material of the social sciences. If, then, these sciences can have no validity, no authority, except as they include and explain all the phenomena to which they pertain and are afterward to be applied, it is evident they must be abandoned as sources of instruction and guidance, and be retained only for that discipline, which theories consecutively unfolded, however partial and arbitrary, are able to afford. But this, far from being the sole, is but a very secondary aim in the cultivation of the sciences of wealth, morals, and government. Notwithstanding the conflicting and partial results of mental science, with which these sciences are in immediate connection, — notwithstanding the broad, shifting field of phenomena in which their principles find play, — there is yet in each of them authority and guidance.

A science of wealth is secured, not by an effort to enumerate and trace in their effects all the influences at work in its production, consumption, and transfer, but only those which, by their prominence and weight, give direction and law to the whole movement.

This limit of analysis is assigned us, not by our desires, but by our abilities; investigation can only proceed securely as it limits the causes which it considers and explains. The possibility, then, of a science of Political Economy — indeed, of any social science — will depend on the question, whether there are causes underlying its

phenomena so few, as to be within the stretch of inquiry; so controlling, as to render that inquiry safe in its practical deductions; and so traceable, as to give us their law, and also prepare us for the exceptions.

In Political Economy these conditions are fully met — more fully than in any other social science. The one fact, that men everywhere choose that action which secures the most wealth with the least labor, is the spirit and the law of nearly every monetary transaction. The three desires of wealth, or enjoyments which wealth mediates, of ease, and of present as opposed to future gratification, require but little mental analysis to be reached, are readily traceable through all their results, and constitute, not only the leading impulses, but the great mass of impulse in pecuniary action. It matters not what ultimate end, whether of appetite, avarice, or benevolence, a man may propose to himself in the acquisition of wealth, these desires are yet the law of his effort. Between one dollar and two dollars he has no choice; he must take the greater; between one day and two days of labor, he must take the less; between the present and the future, he must take the present. This is not a sphere of caprice, nor even of liberty; the actions themselves present no alternative, and, if an alternative giving an opportunity for choice does arise, it arises from some partial or individual impulse, — from some one of those transitory and foreign influences which, while rippling the surface, neither belong to nor affect the current of the stream. Whichever one of a thousand motives engages man in the pursuit of wealth, once in that pursuit, these all conform to one method, and acknowledge one law: the various causes which draw men from production are overcome, or tend to be overcome, by the same motive, — success made most rapid and complete.

The universality and certainty of this impulse, which leads men everywhere and at all times to seek in pecuniary transactions the largest gains, stands in marked contrast with the many influences and modifying circumstances entering into moral action, not only making prediction impossible, but, when the facts have all transpired, rendering it oftentimes difficult to decide on their moral char-

acter. Nor does the multiplicity of the desires and counter-desires, which control the phenomena of Political Economy, compare less favorably with the many distinct tendencies of a complex, social life, which must enter into the premises of every well-established principle of government.

The fewness of its forces and the steadiness of their action, place the theories of Political Economy on a footing well-nigh as safe as those of mechanical powers.

Another consideration giving strength to the conclusions of Political Economy is, that, however wayward may be some acts of the individual, however great the perturbation of any one community in its assigned orbit, these are but chance effects from fluctuating causes, and, like other chance effects, in the end balance and counteract each other without modifying the permanent forces.

Political Economy offers its guidance, not so much to each act of the individual, as to the mass of his individual action; not so much to the individual himself, as to the nation of which he is a member; and, just in proportion as the field increases in breadth and importance, are the elements of doubt and fluctuation eliminated, and that affirmed with certainty of many transactions, which might not be completely true of each transaction. Caprice is so capricious, that it does not resolve itself into any distinct and settled tendencies, but leaves all permanent forces unaffected.

It will also many times be found, that considerations which have not entered into the estimate of our theories are resolvable into forces acting parallel with those actually considered, and thus do not demand a separate consideration. Of this we shall give illustrations as we proceed.

It is the office, then, of Political Economy to explain the phenomena of wealth in its acquisition and circulation, by consecutively tracing all the results of a few leading and controlling principles which, of themselves, give character and direction to the great mass of facts. Nor is this an easy task. While the principles guiding any movement are few, the movement once inaugurated, the number of interests affected is often so great, their mutual actions and interactions so complicated, that any stopping short of a complete

survey of all results is sure to mislead; that only a stretch and tension of thought, able to embrace and hold the most complex phenomena, can make our reasoning safe. The compensation for an apparent gain, while fully coming, yet often comes in so remote and obscure a form as to escape detection, and thus to leave us with conclusions wholly false. But these few principles once traced to their complete results, the great work of Political Economy is performed. If we thoroughly understand the leading forces and lines of movement, it is comparatively easy to apply these to a given case; to trace the effects of the modifying causes or peculiar circumstances entering into any given problem.

Political Economy is not a science varying with climate and country. There is not an English and an American Political Economy distinct from each other, and, in a measure, the reverse of each other. The forces of human nature, the agents of production, the arithmetic of gains, are the same everywhere, and lead to the same principles of economic action. We may show the application of these principles to the existing state of a particular nation, and thus transform our science into the art of local statesmanship; but we are to remember that the basis of science is the same with us as with others; that its previous conclusions are not to be modified save by causes whose existence has been as thoroughly established, whose law has been as completely traced, and whose force as fully estimated as its own; and that there is no easier fallacy than the displacing of general principles on the ground of alleged peculiarities. All permanent forces lying within the field of his survey, it is the office of the Political Economist to bring forward and calculate; transient forces — forces not belonging to, but affecting for the moment, the interests of production — it is the office of the business man and the statesman to consider. It is they who take the general conclusions of science and apply them to the varied facts immediately before them, remembering that the use of a principle is not its suspension or rejection, but the right discernment of its modified action.

Political Economy is spoken of as an experimental science. This is a partial, and only a partial, truth. We arrive at all its data

through experience. It is thus we know the desires and tendencies of men, thus the natural agents at his disposal, and the relation which the wants of the world bear to their various methods of supply. But these given, a strict abstract, logical process can reach, and safely reach, many conclusions. We are not compelled in each instance to learn by experience how given causes will act, how they will affect and modify each other; but are able, through our knowledge of these forces, to predict results, and to anticipate the gains and losses of a great variety of undertakings on which experience has not yet pronounced. False methods may be seen to be such, and right methods may be pointed out before the tardy teachings of experience have been given. Forces are necessitated and fixed in their action; the calculation of results is often mathematical; and we need not go beyond the closet of the student to know that capital cannot be indefinitely increased by banks; that money in its multiplication must destroy its own value; that among lands, those which are regarded as the best will be first taken.

Political Economy has to do with facts, but it has first to do with existing causes of a known character, and mentally traceable in their results. The verification of this logical process is the broad explanation which it is able to furnish to past and present facts. Facts do not give a law to, but find their law in, the impulses of our nature; and this law may be reached by tracing the impulse and looking to the facts for our verification; and, sometimes, by inductively uniting the facts in a law, and looking to our known impulses for its explanation. So simple and so free from caprice are the causes with which Political Economy has to deal, that the first is its most common — its safe and feasible method of investigation.

In the fact, then, that the forces of Political Economy, as far as human nature is concerned, are few, well defined, and certain in their action, — that its calculations are largely those of mathematics, that the uncomputed forces are transient, mutually compensatory, and, in all extended cases, unimportant, — we find the possibility of its being a science accurate and practical. Such a science we regard it already, and shall trust to its presentation for the proof, delaying only to see something of its advantages and of its history.

§ 2. It is not sufficient to say that Political Economy, in common with other sciences, exercises, strengthens, and gives training to the mind. This it does with peculiar efficacy in two respects. Its proofs being more exact and conclusive than those belonging to any other social science, excepting, perhaps, a few of the conclusions of moral science, it best prepares the way for this whole department of investigation, and happily introduces the student into a field whose phenomena are excessively complicated, whose methods of reasoning are peculiar, the generality of whose logic is limited by many exceptions, and whose questions are the most practical and important of any that pertain to man. The preparatory discipline afforded by Political Economy to one giving himself to social questions, is invaluable. The training which it affords is also of peculiar importance from the number of compensations, the complicated system of action and reaction which it accustoms the mind to observe and trace. The forces at work seek a certain balance, a certain equilibrium; and when this is disturbed there is often a large variety of adjustments and readjustments before it is again secured. It is not sufficient to follow single causes; these set in movement other forces, which, in their results, either modify or wholly compensate the action of the first. The whole field must be kept before the mind, and each alteration be traced in all its ramifications, in all its direct and indirect effects, till a second equilibrium, a second state of rest, has been found. This often tasks the mind to the utmost, and accustoms it to a broad survey of consequences. This, again, is eminently a practical discipline, fitting the statesman for a wise and comprehensive policy, and the private citizen for a liberal and strengthening method of thought and action.

But the chief advantage of Political Economy is not the discipline which it affords. The knowledge which it imparts is of an important and — if we choose to make that the test — of a most practical character. Wealth underlies all civilization, and ultimately, therefore, in a large measure, both knowledge and religion. It is among the lowest, but also among the first steps to social worth and national strength. We are not to value wealth for that which it is in itself, but for that to which it can be made to minister. In its

retinue come, or rather may come, all intellectual, social, and religious advantages. Aught which helps to make the road of acquisition easy and open to all, thereby helps to lift all into a higher rank, and place at their command a larger share of enjoyments and of knowledge, and hence, we may hope, of virtue. Political Economy, as the science of wealth, makes plain the laws of its acquisition and distribution, and if it does not open the path of the individual, yet gives him indisputable principles, according to which his action must be directed when once in that path. More especially, when the interests and pursuits of large numbers are to be affected or regulated by legal enactments, these principles come forward to point out the action of the mutual forces at work, to show where legislation is futile, where pernicious, and where demanded to supply a deficiency. It is scarcely necessary to say, that a large share of legislation relates to the regulation and protection of industrial agents, and that the laws of the forces of production must be thoroughly understood before this can be successfully accomplished. In a country where, in theory, every man is, and where every educated man should be, his own statesman, nothing can be more fit than a thorough training in this direction. If, even among those possessed of most intelligence, there are in this department no correct and thorough principles, we can hardly expect from the mass anything but the most unsafe and superficial views.

Still another advantage conferred by this study is, that we are thereby able to see the harmony which exists between the interests of all classes and all countries. The competition and conflict which are on the surface are found to be but the transient foam of forces — of currents uniting to work the common weal; beneath, there is no real strife, no permanent conflict between the several classes of producers; the highest prosperity of each can only tend to the highest prosperity of all. This remark needs one qualification; that, while the laws of legitimate acquisition look to the good of all, and not to the plunder of any, any illegitimate action which violates a higher, a moral law, will usually violate a lower, an economic law, and measure the gains of one by the losses of another. There is a harmony of productive action by which the gains of all are secured,

and the laws of this harmony are those of Political Economy. Intimately connected with this view, is that by which the harmony of the lower laws of acquisition with the higher laws of morals is seen, and the mutual strength which they lend to each other. The state of highest production not only may be, but must be, the state of highest intelligence and virtue; and the highest intelligence and virtue cannot fail to be productive of the greatest wealth. The interests of production are often seen to be so parallel with the path of virtue, as to be more provocative of virtue than virtue herself. The admirable interaction of the laws of the several departments of man's social nature, the mutual support which they render each other, and the general concurrence of their motives, present topics not less suggestive of divine skill than those of the external world.

§ 3. In all its standard works, Political Economy is comparatively a modern science. There was that pride in the philosophy of Greece and Rome which repelled it from the practical and useful. It was a contemptuous philosophy that scorned to clothe and feed itself, — a thing not uncommon with those who live on the labor of slaves. It was not till the latter part of the seventeenth century that views generally correct began to be advanced on this subject. During two or three preceding centuries, a very false estimate of gold and silver, finally shaping itself into what is termed the mercantile theory, had held possession of the public mind, and guided legislation. This theory, long after its overthrow in the speculations of the thoughtful, continued to exert a wide influence. It regarded gold and silver as especially wealth, and that trade alone profitable which, directly or indirectly, resulted in the importation of these metals. The balance of trade, as indicating these payments in specie, became a phrase of constant occurrence and of grave import. With this false theory the interest of the East India Company at length came in conflict, and the prospect of an immediate and obvious gain was sufficient to correct the opinions of interested parties, and slowly, through them, of the commercial world. Natural laws, bringing to light immediate gains, often serve to confute a false theory and gradually to destroy its hold.

Previous to the great work of Adam Smith, "The Wealth of Nations," there were essays and treatises, by several authors, containing correct principles and a thorough handling of single points. Earliest among these, were the productions of Sir William Petty and Sir Dudley North; also discussions from the pens of Hume and Locke. On the continent, Quesnay had drawn attention to agriculture, and, regarding this branch of industry as primarily the source of wealth, had established the school of the French Economists. These efforts were, however, partial and desultory. It was not till 1776 that Political Economy was fairly established as an independent science by the publication of the "Wealth of Nations." This work, while adding original and thorough investigations on several points, gathered up, corrected, and compacted all the current knowledge in this department, and gave body and form to the new science. In the variety and importance of the reasoning employed and the principles advanced in this first great work of Political Economy, none were left to doubt either the breadth, importance, or scientific character of the material in this department of thought. The "Wealth of Nations," while containing much that subsequent writers have had but little occasion either to enlarge or alter, is defective in two fundamental points. Neither value nor rent are rightly apprehended, or clearly presented. These deficiencies, with the want of a compact and systematic order, left much to be accomplished by subsequent authors. At a later period, Malthus made an important contribution to the science, by a more enlarged discussion of population and its relation to food; though his statements, as is natural with one bringing forward a new principle, were one-sided and extreme, demanding the correction of later authors. Of recent additions, the most original and important are those of Ricardo, especially on the two subjects of value and rent, so inadequately treated by Smith. The subtle thoughts of this author have furnished much material for writers possessed of a more clear and easy style. Among continental authors, Say has been conspicuous, contributing a clear elucidation of the vexed question of a general glut. A want of sales arises from a want of purchasing power; a universal supply implies a universal purchasing power, and, men's

desires being unlimited, would result in unlimited exchanges. The latest and most valuable contributions to Political Economy have been from Senior, McCulloch, and Mill; the work of the last is probably the most clear, complete, and masterly treatise on the subject, and well rewards the careful student.

PRELIMINARY PRINCIPLES.

§ 1. POLITICAL ECONOMY is the science of wealth.

Wealth is those products possessed of an exchange value, taken singly or collectively: individual wealth is the portion of those products that falls to the individual; national wealth, the portion that falls to the nation.

Exchange value, or value, has two elements; utility, difficulty of attainment: these being present, value is secured; either of them being absent, is destroyed.

By utility is meant the ability of a product to gratify any human desire, without reference to the benefit of such gratification. It is a utility that contemplates solely an enjoyment to be secured, or a pain to be alleviated, without reference to ulterior results. It is evident that no object can possess value that does not appeal to some one or other of the many parts of man's nature, calling it out in desire: without such desire, it is a thing of indifference, having no value, — no power to secure or reward pursuit.

This utility may be either immediate or mediate.

Those products have an immediate utility which directly gratify the desires of the possessor, and are obtained for this consumption on desires. Those products have a mediate utility which are secured, not for personal consumption, but that they may be exchanged for other products having the power of immediate gratification; all utility rests ultimately on a

desire in some way to be gratified, — a consumer somewhere to be found. So far as utility alone is concerned, it is sufficient that a product should be able to gratify any desire in any person, in order to its possessing a value, at least a limited and local value; the universality of the value of any product will depend on the number and universality of the desires which it meets.

The second element of value is difficulty of attainment. It matters not how many offices a thing may subserve, it can have no value unless it is also subject to some limitation. Nothing can exceed air, light, water, in the variety and importance of the ends to which they minister, and yet nothing is usually more valueless than these elements. Light, superabundant and prodigal, costs no man anything. Recreate himself, his fields and his flocks, as much as he will in it, he thereby opposes no obstacle to his neighbors in the same luxurious enjoyment. Each draws at will from the unbounded store, and the very freeness of the gift destroys its exchange, as it often does its moral value. Where no natural obstacle is to be overcome, and men can oppose no artificial one in the attainment of any desired object, it is evident that each will help himself according to his own desire, and that such an article can have no exchange value.

Difficulty of attainment is equivalent to limitation of supply, — the difficulty causing and measuring that limitation. The greater the difficulties to be overcome, the fewer will be the instances in which they are overcome, and the less the supply. There is, with all objects of value, this barrier of difficulties which encloses them, and is to be surmounted; its height measures the exertion, limits the supply, and hence determines the value that will attach to that limited supply.

That which has no value at one time or in one place, may have a high value at another time or in another place. Most

countries are so favored with water that it has no value; yet, in a large city, or in a parched land, or in time of drought, it may bear a price, and, if the supply be greatly limited, a very high price. In an oasis, water might bear a stated value. If an artesian well were to be sunk, increasing the supply, the value would immediately fall; and if the experiment were so successful as to make the supply henceforward exceed the want, and thus practically unlimited, water would immediately lose all value, and the owner would forfeit his remuneration, unless able to restrain the stream gushing but too freely from his well.

The supply of the same article may be limited for one purpose and not for another, and thus have value in one respect and not in another. Water may be restricted as affording water privileges, and not, as affording irrigation; or it may be restricted as affording irrigation, and not, as affording drink; and thus in one of these uses have value, and not in another.

§ 2. Difficulties of attainment are of two classes: those which arise from the labor to be expended in securing a product, and those which arise from the limited quantity of the article or agent sought for. Manufactured articles are examples of the first class, — difficulty of attainment here consisting in the amount of exertion to be put forth, of skill to be employed in their production. This is the element of labor which so widely enters into the value of nearly all products. Gems are examples of the second class. It is not the labor which a particular gem has cost, when actually secured, which gives it its value, for this labor is not unfrequently trifling; nor is it the labor which has been expended by others in unsuccessful pursuit, for this itself is the effect of a deeper cause; but it is the very limited quantity of gems which the world furnishes, — thus enabling them to gratify man's love of

rank and distinction, and to secure an appreciation wholly independent of the labor which they may have cost. If the number of diamonds were to diminish one-half, but this limited supply were henceforth to be furnished without any labor, they would not fall, but greatly rise in value. Another example is that of land. The best land is furnished in but limited quantities, and though for a time these limitations are not felt, and it bears no value, the processes of human progress are hardly commenced before obstacles to possession begin to arise. Soil of the first quality is exhausted, and value attaches to possession, — a value to be increased with each fresh limitation in the supply. The same is true of all natural agents. The number of water privileges is restricted, and they soon come to bear a price. Each one occupied, still further restricts the number and enhances the price.

Of the elements of value, it is difficulty of attainment that especially measures and determines value in all its degrees, and this whether the limits of production are assigned by the labor to be expended or by the rarity of the article to be secured. If only a certain amount of difficulty were to be overcome, a certain amount of labor to be employed, in securing a yard of cotton, the utility of cotton fabrics might then be greatly enhanced, the number of purposes for which they are employed — and thus the consumption — be largely increased, without permanently raising their value. So, too, on the same supposition, the consumption might fall to almost nothing without diminishing their value. If the products of the globe had at any one time been bestowed without labor on those who actually possessed them, as the boundary of supply assigned by the difficulty of attainment would not thereby have been affected, value would not have been altered.

§ 3. Though utility and difficulty of attainment are the

two elements of value, they are so, not simply of themselves, but by virtue of that which they either presuppose or involve. Utility involves the existence of the desire and of the object gratifying the desire, and that the difficulty of attainment is not so great in comparison with the strength of the desire as to preclude the effort requisite for acquisition. A diamond has utility, but not a diamond at the centre of the earth. Wheat has utility, but not wheat in all places, or at all distances from the consumer. Gold has utility, but not a gold mine too barren to be worked.

Limitation of supply, the result of difficulty of attainment, involves an ability to appropriate this limited supply, and thus the capability of transfer, on the part of those having secured the possession of any given article. Transferableness is not an independent element of value, but is involved in the two already given. If an article is limited in supply, but not capable of appropriation,— as fish still at large in a public fishing-ground,— there is indeed no possibility of transfer, and no value, but there is also no utility. It is not till the fish can be appropriated, till they are caught, that the utility arises, and then the ability to transfer one's possession is instantly involved. Utility presupposes that the useful object can be appropriated to the gratification of desire; the limited supply excludes all from a free participation in this gratification; and hence that which has been so appropriated in preparation for consumption is, from these two elements alone, transferable and possessed of value.

There is one class of products constituting one form of wealth, in reference to which the power of appropriation does not involve that of transfer: it is that of skill, knowledge, and all personal qualities. These are not directly exchangeable, and can only be said to possess value on the ground of the transferableness which belongs to their products and services, and thus mediately to themselves.

Where the supply is unlimited, the acts of appropriation and of consumption are usually the same. In each successive breath we possess ourselves of air and consume it. The water we take from a spring, a stream, we often secure and employ in the same instant. But in products limited in supply, the possession precedes, and usually with long intervals, the consumption. These periods involve the possibility of transfer, and are largely attended with it.

There is also presupposed by these elements of value a state of society which protects both the possession and transfer of property.

The phenomena of wealth have relation to the production of values, their distribution among the producers, and the conditions and means of their exchange.

Political Economy may again be defined as the science of values — their production, distribution, and exchange.

POLITICAL ECONOMY.

BOOK I.

PRODUCTION.

CHAPTER I.

GENERAL PRINCIPLES OF PRODUCTION.

§ 1. Nature, though liberal in her gifts, seldom puts them in that form in which they are ready for immediate consumption. There is in them the possibility of food, rather than food itself; the possibility of clothing, rather than clothes themselves; and the possibility of adequate shelter, and not that shelter itself. Of those things which are furnished entirely ready for use, all, or nearly all, are regarded as common property, not to be exclusively appropriated by any. Berries and other wild fruits every man gathers for himself, and it is not till they have been transformed and multiplied by culture that a well recognized possession and value attach to them. The common sentiment of men claims wild game as belonging to all, and resents as tyrannical the effort of any class to restrict to themselves animals which have not been bred or protected by them. When an ability to appropriate these natural gifts exists, it exists as incident to the possession of land.

There is then, everywhere, occasion for the labor of man in effecting those changes by which the materials about him are fitted for his use and enjoyment. Those transformations are very various in their character — involving labor in very different quantities, and in proportions, as regards ultimate value, very different. Some products, as the precious metals and the precious stones, owe almost their entire value to the worth of the material; others, as laces and India shawls, to the labor which has been expended upon them. Sometimes, in the imparting of value, the direct agency is that of man, and the indirect agency that of nature, and sometimes the reverse. In all mechanical processes, man is the leading agent. Nature furnishes the wool, but man shears, washes, spins, and weaves it, till in the final product nature seems to have ministered to the processes of man, rather than man to those of nature. Not so in agricultural and chemical processes. Here man prepares the way and meets the necessary conditions; but the act itself of growth, or molecular transformation, on which the ultimate value primarily depends, is that of nature. Man may water the seed, but its living forces are not his nor the sun which quickens them. He may put the iron in the furnace, but, if it become steel, it does so by another power than his, which he has learned to employ, through that mechanical arrangement of materials which prepares the way for its working. Indeed, all man's direct agency in production is analyzable into a mechanical transfer of particles, — all else being the work of nature, of which he is thereby able to avail himself.

Production is the occasioning those changes in matter or in mind which have value.

This change is a product, and these products are divisible into two classes, — services and commodities.

This division of products marks a convenient distinction, yet one whose outline it is sometimes difficult to trace. The changes produced in matter by some actions are vague and indeterminate, and hence the attention is primarily directed to the action, which is more appreciable and determinate. In these cases, the value and the recompense attach to the action itself, the results of that action existing in a form in which it is difficult or impossible to appreciate them. A service, then, is that action which, without producing a definite change or corresponding increase of value in the material on which it is employed, is itself possessed of an exchange value. The brushing of a coat, the cleansing of a house, the washing of a plate, add no appreciable value to these articles, — produce no new transformation by means of which an advanced price can be realized: these services are themselves products, and bear a value. Thus it is with the imparting of skill and knowledge. There are here no results that can be appropriated by the teacher. The act of instruction itself is his product, and this alone is he able to bring to the market or sell in the market.

At other times, the changes occasioned in matter by production are definite, and precisely measure the labor which has been employed, are capable of ready appropriation, and enhance to their full extent the value of the material in which they have been wrought. In these cases, the results of action remain in a distinct, condensed form, and the attention is mainly drawn to the new commodity before us.

A commodity, then, is the material on which labor has been employed, and which now possesses a new value.

Leather is transformed into boots, cotton into cloth, and cloth into a garment. Each change is productive of a new value, measures that value, and secures it in a commodity from which by exchange it can be realized.

These distinctions now marked, if not in all cases entirely definite, are nevertheless sufficiently so to subserve a valuable purpose. This division marks the origin of many new words. The changes in matter which constitute commodities are usually of so decided and appreciable a character as to give rise to names. The iron just dug from the earth, is ore; passed through the furnace, it is pig-iron; still further refined, it is bar-iron; and yet further modified, it is the knife, the axe, the scythe.

Those changes in matter which accompany services, seldom, on the other hand, receive distinct names: a horse curried is still a horse; an axe sharpened is still an axe.

§ 2. The action which results in a service usually expends its utility — its ability to gratify desire — at once; the very producing of the service involving immediate consumption.

Instruction is received at the time in which it is imparted, and the requisite effort and time of the teacher is then consumed. No sooner is a meal set in order than consumption commences, and its utility begins to be expended. But that action which results in a commodity, stores itself in preparation for a future consumption, which may be indefinitely postponed according to the nature of the com-

modity. There are, however, certain services which unite themselves to commodities, and are virtually consumed and paid for in connection with the consumption of the commodity.

Such a service is that of the watchman who protects a cotton factory from fire. It weaves itself, an inextricable thread, into the ultimate cost of the cotton fabric.

The fundamental proposition of production — that which marks the force underlying and controlling all its phenomena — is the following:

Every man desires to obtain wealth, and this with the least sacrifice.

This proposition hardly demands proof. Its first clause is but little more than the safe assertion, that man is possessed of desires; for, of his ten thousand desires, there are few that do not, in their gratification, directly or indirectly involve the securing of some value — the attainment of some wealth. Wealth mediates between desire and the object of that desire, and unites the two in that possession and appropriation in which lies the enjoyment. There are few enjoyments so immaterial as to require, neither for their existence, their enhancement, nor their perpetuity, a commodity from earth or a service from man. The desire impelling acquisition may be a sordid avarice, a love of social position, of the leisure and instruments of culture, or of enlarged benevolence, yet the means remain the same; wealth in some of its degrees or forms is still the instrument of gratifying desire. Nor does it at all follow from this, that the aims of commerce, which have superseded those of war and physical strength, are the ultimate

ends of society. These in their turn are to be left behind as ends, though not as means. Wealth will ever be an indispensable means to the highest development of the race.

The end of all production is consumption; in this lie the motive and spring of effort. It is not consumption itself, but only that wasteful and precipitate consumption which limits and straitens production, that meets censure in the principles of Political Economy. It is only with the reflex effect of consumption upon production that Political Economy has to do; all else comes under the higher principles, regulating moral and social action.

The question of our present science is, how values may best be created, not how they may be rightfully employed.

Consumption is the appropriation of an object to the gratification of desire. It may occupy very different periods of time, being completed in seconds, or stretching through centuries. Consumption is usually divided into two kinds — productive and unproductive. The last has already been defined, as consumption proper. It is a use which gratifies desire with no ulterior product in view. It is a true destruction of value. The products so consumed may indeed renew the strength and quicken the spirits, and thus lead to fresh production; but this is not the aim of true consumption. Men do not live to labor, but labor to live.

Productive consumption is the use of one product to obtain a second. The tools of the trades, the machinery and building of the various manufactories, are so consumed. It has none of the characteristics of real consumption. It

is an inseparable part of production, and, however numerous and various may have been the values destroyed, they all reappear in the final product, and there await a true consumption.

The proposition, that all men desire wealth, is inconsistent with the occurrence of a general glut. Some have supposed such a thing possible; it is plainly impossible. A partial glut is a thing of constant occurrence. The production at single points may exceed the desire, either absolutely, or, what is much more common, relatively.

A book to the full extent of the edition issued may not anywhere be wanted, or may be wanted much less than other things. The desire, again, may exist without the ability of purchase, and thus the product be left without a consumer.

But neither of these states can at one time exist in reference to all products. The supposed superabundance in all departments of production involves the ability of purchase by exchange, and nothing could more contravene all experience than to suppose all men satisfied with what they possess, and equally destitute of wants and of desires.

§ 3. The sacrifices which are requisite to production are those of ease and of present, as opposed to future, enjoyment. However agreeable certain kinds of activity may be, labor, as labor, is not agreeable to man. Taken in connection with the ends which it reaches, and the feelings of self-support, self-rule, and self-discipline which accompany it, it is not generally, within certain limits, irksome. But the moment those ends and feelings are wanting, it becomes

excessively burdensome, and requires the most stringent regulations of slavery to secure it in any tolerable degree. Men do not rejoice in labor except in connection with the rewards of labor, nor adopt a more when a less laborious method is open to them.

So also the future stands with men in unfavorable contrast with the present. The one is a bird in the hand, the other, a bird in the bush. They demand some compensation for surrendering the present hour and taking a draft on the future. He who abstains from enjoying the products of to-day, and employs them in production, expects that they will return increased in quantity, and this increase is the price of delay. These obstacles to production — man's love of ease and of the present — vary greatly in different states of society. In any community, the force available in production — the excess of desires over counter-desires — will vary directly with its intellectual, social, and religious culture.

The number of products offered to the desires in an enlightened community and in a barbarous one is very different: their connection with social position, and the facility with which they may be obtained, are also very different.

Desire is quickened by civilization in a thousand directions, and obstacles removed in as many. Exertion is made less, and gratification is made greater, and though the gross sum of labor is greatly increased, enjoyments are increased in a much larger measure. An enlarged comfort, fashion, taste, science, religion, have all their pleasures and facilities, and no spirit is so sluggish as to find itself altogether at rest amid their importunity.

Science enlarges the vision, and brings within it more objects that can be made to minister to enjoyment. Art, following on apace, makes easy the methods of attainment. Social refinement makes imperative the possession of those products which are the decencies of station. Individual education trains to activity, spreads far-reaching motives through all action, and overcomes the obstacles to production by a high and indomitable purpose. General education transfers the impulse of the individual to the community, and in reaction restores it again in fresh strength; each offers to all, and all to each, new products; and a common knowledge and sense of common interests secure, or struggle to secure, that equality of rights and safety of possession which are indispensable to all extensive production.

The effect of culture in substituting future for present enjoyment is very marked. The savage will hardly sow the seed whose increase is to be gathered in the coming fall; the half-civilized will plant with reluctance the fruit-tree whose produce it requires but a few years to secure; those, whose conception of periods and the relations of things has been enlarged by culture, cheerfully plant forests, drain lands, and perform many labors, the benefit of which will be but partially secured in their own generation.

Increased products are the wages of increased culture, and mark the victory of man, both in thought and in act, over matter. The three instruments of production are, natural agents — nature's contribution; labor — man's contribution; and capital — the products arising from these, themselves reserved and employed in production.

CHAPTER II.

NATURAL AGENTS.

§ 1. A natural agent is anything which can be appropriated, and is possessed of a productive power, derived from nature and not from man. This term includes every manageable and productive force in the world, save man alone. Of the forces in nature of which we avail ourselves, — while all are inherent in matter, and through its appropriation are made serviceable, — some are inseparably connected with a product, and have no power beyond the one product to which they give value. Such are all the useful qualities of commodities; the firmness of timber, the hardness of steel, the chemical action secured by the ingredients of any compound. Other forces give rise to independent products, and are not themselves lost in those products. The horse produces a service without being destroyed by that service. These alone are strictly possessed of a productive power, and alone are natural agents.

Natural agents are divisible into two classes, — those productive of material, and those productive of power. The first of these classes is the most important, and chief among its agents is land. The earth is the great producer, and its products are preëminently produce, affording that material on which man's labor employs itself, and which

lies at the centre of all commodities as their substance and source of their qualities.

The value of land as a productive power depends on two things, — its fertility and its location. In the first respect, there is every variety, from the rich alluvial plain to the ragged mountain and sandy desert; and in each variety, as far as fertility alone is concerned, there is a corresponding difference of value. But it is the second element which occasions the widest distinctions in the productive power of different lands, and causes their value to pass to the highest point. Certain causes determine, or have already determined on each country and continent, the centres of commerce and of human life. These centres remaining the same, value in land will increase as we approach them and shade out as we leave them. Distance and difficulty of approach may overcome the greatest fertility, and render the best lands valueless. The neighborhood of a large city may impart to comparatively poor lands a high value.

Land as a natural agent subserves two purposes, in one of which the range of value is much broader and more striking than in the other. The first is in affording positions for buildings, the second is in affording arable surfaces. For the first use, much the greater portion of the world has no value — the localities being but rare which, by their relations to commerce or by their beauty of position, have an extra utility, and thus an extra value. But the scale of valuation, expressing the relations of different positions as fitted for buildings, not only passes up abruptly, but also to a great height, with no definite limitations;

square feet now securing a measurement more accurate than that of acres of the most fertile land employed solely for tillage.

For the second use, the larger part of land has a value, — the two elements of fertility and position uniting to establish a scale of values with differences comparatively regular and slight.

The effect of increased facilities of communication is also very different on the value of land as employed in one or the other of these uses. Highways, canals, and railroads, all converge to the central points, — are ever bearing more and more to them, and taking more and more from them. The city thus extends its competition over tracts wider and wider; all are placed in easy communication with it, and, by those facilities which first gave it its preëminence, together with those other facilities which always belong to a great city, it increasingly draws the wealth of the nation to itself, and becomes more than ever its heart. By increased ease of intercourse, places which were before the centres of a narrow trade, are brought into competition with each other, and those whose natural advantages are preëminent, and which are therefore already in the advance, quickly outstrip their neighbors, and, by the conveniences of a larger market, draw much business that was before local to themselves. It is evident that, through these results, lands designed for buildings will differ from each other in value more widely than ever, — those of the metropolis passing up to unimagined prices, and those of the country and the villages suffering, though not perhaps an absolute, yet a relative depression. The effect on lands employed in agriculture

will be very different. Farms which, before the introduction of railroads, were able, by their proximity to a city, to command its market in those articles which are rapidly perishable, and thus greatly to enhance their own value, after the metropolis has wedded itself to the whole country by these new links, are no longer able to control its trade, but are forced into a wide competition, rapidly reducing profits. Milk, fruits, and fresh produce of every kind, are rolled in, each morning, from a distance of many scores of miles, and the supply is better, much larger, and cheaper. As the result of this, land is less affected by its position, and its value depends more exclusively on its fertility.

The advantages of agriculture are more evenly divided, and the power of land being everywhere more available, its gross value as a productive agent is increased, and the differences of value between its different portions is diminished.

§ 3. It is only land as yielding the various products of husbandry, that demands our further attention; and in this connection the principal proposition is the following:

Of the labor employed in any given agricultural district, the first portion is the most productive, and each succeeding portion is less productive than that which preceded: the same is true of this labor assisted by any given improvements.

If six men are employed upon a farm for one year, the produce will bear a larger ratio to the labor expended, than it will if twelve men are employed on the same farm for the same time. This principal proposition —

marking the most important law of agricultural products — is equally true, whether the soil of the given district has, or has not, been all occupied.

The lands of any territory are capable of being so arranged along a scale of values, that the position assigned to each will mark its productive force. The strength of the soil, the supply of water, the position in reference to markets, are all items readily estimated, readily balanced, and uniting to determine for each farm a position and a value in reference to all others. If such a scale were actually established, it would mark the differences which here, as elsewhere, exist in the gifts of nature; and no sooner should population enter the given district than the most valuable gifts, that is to say, the farms possessed of the largest productive force, would be immediately appropriated, and each successive occupation would mark a movement downward in the scale of values. He who came first would obtain the best; he who came last would obtain the worst. In all new settlements, every man, quickened by his own interests, according to his own judgment and the judgment of the times in agriculture, establishes for himself, between a few of the most feasible locations still remaining unoccupied, a relative estimate, and selects that from which in the end he anticipates the largest return with the least labor. As this process goes on, it is evident that later choices, from their very position, must suffer a disadvantage, as compared with earlier ones. The same principle guides action on the farm. It is the most arable acre that is first ploughed, the least arable that is last ploughed.

What is true of the labor expended in occupying land, is also true of that expended in bestowing additional culture on land already occupied: its ratio to production is a less and less advantageous one. If, from a single acre, by double labor, the products of two acres could be obtained, and by triple labor, of three, and so on, there would be no reason why a farmer should ever occupy more than a single acre, indeed, more than a few square feet. The farmer passes to the second acre, because, according to the prevailing method of husbandry, more produce can be secured from it by the same labor than can be secured by a like amount of additional labor bestowed upon its fellow already under cultivation. There is a strong motive to confine tillage, as long as its ratio to produce is the same, since each enlargement of the farm involves greater distances, and a greater transfer of tools and crops. There is then a physical limit to the yield of each acre, and a limit that is, perhaps, never reached, but whose approach demands increasing resources and exertion. Each farmer stands, as to the degree and kind of culture to be bestowed on his acres, precisely as we have seen him stand in reference to the choice of those acres. The crops are various, the labor demanded by them various, and the perfection in the cultivation of each various. He chooses; his interest prompts him to choose that crop and that degree of cultivation in that crop, in which the returns bear the largest ratio to the labor. As there arises an increased pressure for production, he will be forced down the scale of advantages, taking each kind of crop and method of culture according to their several relations

to profits. Here then, as before, the agricultural movement is toward a labor relatively less profitable.

This proposition is equally true, whatever may be the state of agriculture at the time. The knowledge of farming which is practical, is that which belongs to the farmers, and while this remains the same, it matters not how great or how little it is. Each farmer guides himself by it in the choice of his lands and his methods, and the movement from that which is more favorable to that which is less favorable goes on. The ignorance of the individual, by which he falls in judgment below the majority, and accepts a poorer tillage in place of that which he should have known to be better, may indeed be a private misfortune, but does not affect the general movement. No more does that skill by which single individuals outstrip their fellows. Any change in climate, or in the centres of population, or in the unexpected presence of an insect, may alter results and rearrange relations; but, under every fresh set of circumstances, the movement will go on to renew itself. While things are in a state of change, or coerced by new conditions and foreign interference, this native tendency may be disguised or counteracted; but the moment the attendant circumstances are given, it develops itself. The only important counteraction has been reserved for the following proposition.

§ 4. *Improvement in the methods and implements of agriculture and of transportation increases the returns of labor, and thus retards the growth of an unfavorable ratio between agricultural labor and its products.*

These improvements are in the kind of manures, in their method of application; in the succession of crops

and manner of treatment; in a knowledge of the capabilities of different soils; in instruments for more thoroughly and readily breaking up the soil; in instruments for more perfectly and rapidly sowing, securing the crop, and preparing it for market; in new varieties of fruits and grains; in the breeding of cattle; and in all those methods of internal intercourse by which produce is easily brought to market, and in its value the element of transportation reduced to a minimum. If these and kindred improvements were all given us in the very outset of agriculture, we should then start from a much higher point, and possess a much broader margin than now; but, appropriating the best of these gifts at once, and they, in their several grades, being no more than at present inexhaustible, we should begin to slide down the scale of advantages, passing from greater to still greater labor, with no increase of recompense, and with nothing to suspend the slow but inevitable movement. If, in the beginning, man had been completely armed with knowledge, this tendency would still have shown itself in the first district occupied by him; shortly, emigration passing from this district to neighboring districts, these would have become separate centres for the development of the same law, till it had extended itself over the whole earth, and then been left to intensify itself in each portion of the earth. With the general intelligence and free communication now supposed, this law would never become stringent in its action, till the whole tolerably fertile territory of the earth was occupied.

But the facts are very different from these imaginary

ones. In some countries, teeming with a large population, stationary in all the arts of life, and restrained by law and custom from foreign intercourse, this law has fallen heavily on the lower classes, — the slightest accident reducing many to famine. In other more favored countries, the law contained in our last proposition has taken full effect, and the progress in one direction has held in check that in another. The manner in which the law of agricultural labor is in part counteracted by that of agricultural improvements, will best be seen by an illustration. Suppose that in any district the land of the first quality is all occupied, and that population is just advancing upon the second quality. If, at this point, a discovery be made in the management of manures, equivalent in its results to the difference between the two kinds of land, it is evident that agriculture so aided will enter on land of the second degree of fertility with the same advantages that it before entered on land of the first degree. A difference will indeed be established between the owners of the two qualities; but not by depressing the owners of the second quality, but by elevating the owners of the first quality. Agricultural labors have not been forced down the scale; but the scale itself has been moved upward one degree, bearing a portion with it, and leaving the remainder where they all before were. If the movement from the second to the third-rate land is attended by another equivalent invention in tools, two divisions of community — the owners of the first and the second-rate lands — would be borne upward one degree, and owners of third-rate lands left to occupy the old position.

There is then instituted a race between these two tendencies. If the advantages secured by improvements can outstrip the disadvantages arising from the occupation of poorer lands and the higher culture of old lands, then each fresh addition to agricultural labor will secure more products than former additions. If the two are equal, then fresh labor will occupy the position of old labor, and old labor a more advantageous position than formerly. At this point, the two forces stand in equilibrium, though a large balance of advantages is secured to the community. If improvements fall behind, then the law of this kind of labor resumes its march, retarded, but not stopped.

It is sufficiently evident which of these two forces must in the end prevail; the one, as persistent and inexorable as that of gravitation, drags everything, and drags everywhere; the other, fitful and uneven, like that of life, now builds its fabric rapidly up, and then ceases altogether. Improvements can do much for a farm; but they cannot make it into a continent, nor a continent into a planet; and their insatiable enemy eats up continents and planets. As long, then, as fresh additions are made to labor — and we shall shortly see whence these are to come — our proposition remains true, that improvements retard, and only retard, the growth of an unfavorable ratio between agricultural labor and its products.

Another natural agent, intimately connected with that of land, and subject to the same laws, are mines. These — though the judgment here is much more uncertain, and the objects between which the choice is to be made much less perfectly before the mind — are occupied in the order

of their supposed value, and the labor expended on them, taking intervals of any great length, decreases in its reward by means of the greater depths and distances through which the work extends. The effect of all improvement in means would obviously be the same as we have already seen it in the case of land. Results here are liable, however, to much more violent modifications, from the discovery of new and richer mines, and from unexpected developments in old ones.

§ 5. The second class of natural agents are those which impart power. Of these, the first used and still the most extensively useful, are domestic animals of draught and of carriage. Here, the perfect mobility of the power, and the fulness of the supply, compensate for its relative weakness. This agent, though frequently appropriated while land is yet undivided and without value, in all the stages of society possessed of economic interest, is a product of land, and of course subject to the same laws. Though, as furnishing power, all the natural agents which remain to be mentioned have successively risen into competition with this first agent of animal force; yet, so greatly has the demand for power been at the same time augmented, that we can hardly suppose that from this cause, in any extensive territory, the number of animals of this class has ever been diminished; or, whatever may have been the result in a restricted territory, that its rate of aggregate increase has been checked.

The three leading, inanimate natural agents imparting power are wind, water, and steam. The most important

productive office of the first is in the transfer of vessels; but in this use, as it is incapable of appropriation, it is not, for the discussions of Political Economy, a natural agent. Existing in reliable currents, in streams, and thus confined to localities, it may move machinery, and hence become strictly a natural agent. In this relation, it is wholly secondary to water, and conforms to precisely the same laws.

Water, as a source of mechanical power, has but one rival — steam. Its great advantages are, the absence of any first cost or any cost in sustaining it, and the simplicity of the means by which it is applied. Its disadvantages, that the power furnished is limited in amount, is strictly local, and is unequal at different times and seasons. The possession of water privileges is dependent upon the possession of the land of which they are the incidents, and their limited number and differences in value will cause them to conform, in the returns they make to labor, to the general law of agriculture. Improvements in the method of securing and applying the power will occasion results similar in kind to those sufficiently presented in the discussion upon land. It should be observed, as modifying the first law, that a good water privilege, not being so open as a good soil to the judgment of all, is frequently overlooked, and that it sometimes involves at the outset an expense which for a long time prevents occupation.

In this natural agent, the elements of value are power, position, and constancy. It must have force, for on the degree of this depends its productive power; this force,

for its highest utility, must be regular, otherwise there is a loss of time and of use in the machinery employed; and, for this same highest utility, the locality must be that which, in reference to the material employed and the commodities to be sold, involves the least transportation. These elements, in ever-varying proportions, exist in the value, each in its fluctuations modifying or wholly destroying it.

There still remains the most powerful, the most controllable, and most widely applicable of all the natural agents generating force — steam. Employed the latest of these motive agents, it now performs the work of millions, without seeming to infringe upon the career left open to the others. It has created the call for the labor which it has performed. Its principal advantages are, that its amount is not given but within limits which include all practical wants; can be fitted to the demand,— the power conforming to the purpose, and not the purpose to the power; that it can be applied at any place, indeed, oftentimes produces and accompanies a transfer in place; and that it is uniform through all times and seasons. It will be observed that these advantages strictly correspond to the disadvantages of water, and to the three elements which unite to determine, in any given instance, the value of that natural agent. There is a correspondence, not less strict, between the disadvantages of steam and the advantages of water. The cost of sustaining steam is large; the means, the machinery by which it is applied, is expensive and complicated. One of these agents is the complement of the other. Steam can do much that water

cannot do; water does cheaply and readily much that steam would do with great cost and great difficulty. Owing to the correspondence between the advantages and deficiencies of these agents, by which the one is made the counterpart of the other, it will usually happen that when, for any given business, the cheapness of water is outweighed by its want of entire availability, the availability of steam will come in to overbalance its cost. In another class of cases, the reverse of this would be true.

Steam, as a natural agent, comes under both of the laws of land. Steam works at a constantly increasing cost, and thus with something less of ability to reward the labor employed in securing and applying it. It comes under this law by reason of the fuel, which is the chief part of the cost of sustaining it. Fuel, a product of the land, comes under the law of agricultural products, and extends that law to the steam-engine, rapidly if that fuel be wood, and slowly if it be coal. The second law has, at present, a still more vigorous application, — the constant improvements securing a greater economy of heat and of power, often throwing far back the advancing expense of wood.

All the natural agents, either from sharing the same limitations in quality and quantity as land, or from the intimacy of their connection with and dependence on this agent, come under the two great laws of agricultural labor; and that which finds its most characteristic and important application in the soil, extends itself through the remainder of nature's gifts and working forces.

CHAPTER III.

OPERATION OF LAW ON PRODUCTION THROUGH NATURAL AGENTS.

§ 1. The world, as the abode of man, — in its fields furnishing food to his appetites, materials to his skilful hands, and objects of attachment to his thoughtful eye; in its forces providing strength to arm his weakness, endurance to render unnecessary his fatigue, and velocity to wing his slow feet, — is a gift to the race, to man, and to all men, and not to individuals. It is the law of nature's unrestricted gifts — air, light — that each person endowed with faculties for their enjoyment, by the very possession of those faculties, claims and secures for himself a corresponding gratification. The ability to enjoy and the right to enjoy are commensurate. There is here one law of enjoyment laid down by nature for all, and he that meets the law secures the corresponding pleasure. Not less is this true of those gifts that can be appropriated and have value; they are for all, and on conditions the same to all. Men, placed in the midst of nature's gifts, her materials and forces, stand each in relations precisely the same in kind, and with rights based alike and strong alike. The part which falls to any one is a matter of interest to every one. The divided right of each implies the previous

estimation and determination of the right of all; and property is not secured to the individual till it has first vested in the community of individuals, and been removed thence by the assignment to each, on the part of all, of his own portion.

Hence it is, that where men exist in communities, and are united, as tribes and as nations, their unoccupied and undivided lands vest in the government, which is the representative of their common right and common ownership. When so vested, the land may be sold to individuals, and the money, swelling the general revenue, be virtually divided among all, by relieving them in part of the common burden of taxation; or it may be granted, in limited quantities, to actual settlers, — thus acting as a bounty on productive labor, and increasing the general resources. In either case, the advantages virtually reach, and are divided among, the whole community; though, in the second, somewhat more indirectly and less obviously than in the first. Every family has an open invitation, a reserved resource, for any of its members, by which the pressure of numbers on limited advantages can at once be relieved; and the increase of wealth, from the production which the new lands have stimulated, helps to bear the common burdens and call forth the common energies.

Since production looks for its materials and for that which is to sustain its labor to land, it is evident that nothing can be of more fundamental importance to it than the method of division in land, and the tenure upon which land is held. If these are such as to excite the highest agricultural activity and skill, and to secure the largest

amount of produce, then the basis of production is broadly laid, and labor has that upon which skill, in all its departments, may be employed, and that which is its first and most necessary reward. If, however, land is so divided and so held as to straiten its productive power, all the other forces of production will be weakened in a corresponding degree, and the whole economical system languish.

For purposes of production, that apportionment of land among agricultural laborers is the best which is the most equal, and which makes each a freeholder.

The equality here spoken of is not an absolute equality — is not an equality secured or maintained by forced divisions and rigid restrictions, but that proximate equality to which the natural action of a free people will spontaneously and inevitably tend. It is that equality which ever accompanies land held in fee simple by its cultivators. The skill and desire which can realize large agricultural rewards find the way open before them, and the indolence which is able to secure but slight returns meets with no difficulty in disposing of an agent, more liberal when dismissed than when retained. Land thus tends to lodge in the hands of those who wish to cultivate, and know how to cultivate it, — since here it rests most profitably to the owner, and can bear the highest price. If forces are left free to act and arrange results, any agent and any product will finally rest in possession with the persons in whose hands it bears the highest price, — since this highest price represents a preponderance of power and desire on their

part, drawing the agent or product to themselves. Thus landed possessions, being free to move, will seek out those who have the largest ability to make their culture profitable, and hence to hold them at the highest price. The ability to employ land, will, under such circumstances, shortly connect itself with its actual possession, and the presence of productive power among agricultural laborers will so arrange and determine ownership, as to secure, if not accurately, yet roughly, a maximum of production.

The equality produced by a fee simple and unchecked transfer, though as between individuals far from perfect, is yet more so as the field of comparison enlarges, and is all that is demanded by the interests of production. It is an equality that is perpetually shifting, according to the varying enterprise and energy of men. It is an equality of opportunities, rather than of results; an equality productive, not of a dead and unbroken level, like that of the plain, but of a heaving and restless surface, like that of the ocean. That the forces now marked will produce a proximate equality in the division of land in a community of general intelligence and skill, and where, therefore, there is already a general equality in the resources of those bidding for possession, is sufficiently evident. But, even in a community where the disparity between the intelligence and skill of its different members is very great, and hence where the productive power of the whole will be greatly reduced, these forces of full ownership and free transfer will struggle towards an equality, — the germ of a higher productive state.

Though the superior skill of the individual may, stand-

ing at a vantage amid the ignorance about it, outbid for ownership, it cannot do so indefinitely. One man may be able to cultivate two hundred acres better than any other man can cultivate a like amount in all his neighborhood; but it does not thence follow that if ten acres be added to the two hundred, that those ten will be more profitably cultivated by him than by any other. Personal interest, supervision, and labor, rapidly exhaust themselves; and, as it was these which gave the fortunate individual his advantage, as fast as they are expended, that advantage will be expended. The additional ten acres, by the zeal of limited ownership, might, in the hands of a person of much less original skill, be brought up in cultivation to a point higher than that which they would occupy if added to a farm already sufficiently large. Thus it would happen that all agricultural laborers, though with intervals between classes greater than in a more favored community, would be able to bid for ownership, and to secure that on which labor might meet with a return, and skill be ripened.

No other tenure than that of a fee simple, with its attendant facility of transfer, will tend to the equality of which we have spoken, since none other yields itself perfectly to the natural forces at work; but all bring forward a foreign law of their own, by which land is retained in certain hands, and clustered about certain centres.

§ 2. Having explained our proposition as to the equality of division, to which it refers, and the connection of that division with the method of tenure, we now proceed to its proof.

(*a*) By an apportionment of land comparatively equal — the only element of inequality being the inequality of desire and effort still existing under facilities and rights essentially the same for all — there is secured to production a larger amount of the personal supervision, skill, and exertion of owners, than by any other method of division; both because the number of separate estates is by this means made as large as the number of efficient laborers, and because each estate is of those limited dimensions which most thoroughly subject it to the eye and labor of the owner. However skill may concentrate itself in individuals, that skill, to be most thoroughly applied, must be personally and limitedly applied; and so applied, it will beget corresponding skill in those standing on the same basis of advantages and interests To assume that this practical skill is any more likely to exist in the holder of great estates than in the actual cultivator of a limited property, is altogether a gratuity; and when it does so exist, acting through mere agents, it acts with less precision, and, standing on a higher platform of advantages, it has comparatively little ability to stimulate the agricultural interests that lie below it.

(*b*) By small freeholds, the strongest motives to production are brought to bear the most universally. These motives are the pleasure of possession, of self-guided exertion, and pecuniary interest. The motive which operates upon a slave is fear; and the inquiry is, how little can be done with safety. The motive which operates upon the freeholder is expectation, hope; and the inquiry is, how much can be done with safety. Between these

there is every grade and degree of motive; but at no point does the sense of interest, of pleasure, and of worth, so press to and reward effort, as when the laborer is conscious of controlling himself, his resources and his land, and that he is to look to these for his reward.

(*c*) By a division and possession of land proximately equal and general, that intelligence and energy upon which production is so largely dependent is both implied and secured. In society, the highest productive state is also the state of highest intelligence and morality. It is in these last that the spring and life of the first is to be found. All labor is productive in proportion to the intelligence and integrity that guide it. The lower value, the lower excellence, cannot exist in any high degree detached from the superior excellence, of which it is the offspring. Hence it is, that the state of society which secures the largest aggregate of knowledge and integrity, is the state best fitted for production. Now, intelligence and energy aim at possession, are fostered by success, and are greatly injured and straitened by failure. The agricultural laborers of any community will trace and make proof of their progress in knowledge, by their progress in the possession of freeholds; and when these are not allowed them, one of the most valued rewards of knowledge being absent, there will be a proportionate deficiency in knowledge itself. If, then, free acquisition and free possession are necessary to the highest development of energy, skill, a sense of responsibility, and enlightened action in any community; if the equal rights and undisturbed action of all are requisite to its highest social state; then are they

in the same degree requisite for the best interests of production, since the perfection of the last can alone be secured in the perfection of the first. Indolence and ignorance evidently tend to dependence; and it is scarcely less evident, that dependence, in all its degrees, secures in its subjects this same indolence and ignorance of which it is the appropriate shelter. Independence demands a skilful industry and a wise integrity; a skilful industry and wise integrity demand independence; and, independent, are in the highest degree productive.

In what has been hitherto said, we have spoken as if a people entered as an organized community upon its possessions, and determined freely the portion which should fall to each of its members, and the tenure upon which it should be held. This, though partially corresponding to the history of things in a portion of the United States, is widely different from the action of the causes which have fixed the condition of society in older countries. There, the present, with all its concomitants, is inherited from the past, and often bears traces of its violence and wrong. The partition of land has not been between acknowledged equals, but between masters and vassals, — between leaders and soldiers, — between those who by strength had usurped all rights, and those who by weakness had lost all rights. The accidents of strength and opportunity have established classes, with their complex relations, in each of these communities, and these relations have been slowly reädjusted, as, by the growth of intelligence and of power, any portion of the people has been able to claim and secure a larger share of rights and enjoyments.

The vicious and unjust systems, shaped under the arbitration of the sword, — established by unscrupulous assertion on the one side, and by a superstitious, an unquestioning and patient concession on the other, — have been gradually modified, in every variety of degree, by principles resting upon a broader justice and a more universal right. Upon the point which any nation has reached, in its progress towards an equality of social rights and advantages, will depend the method of division among those natural agents which are the common possession of all, not in actual ownership, but in the open and equal conditions of ownership. With this division, and with the motives springing therefrom, production has much to do.

§ 3. Though the home lands of most enlightened nations are already disposed of, in the hands of actual holders, and thus, the right of possession having taken full effect, are beyond the interference of government, yet the title to these lands is perpetually returning to the state, and is solely dependent upon the laws of the state for its establishment in a new set of owners. Every civil right, whether of possession or purchase, must, from its very nature, cease with death. There is no longer any claim on the part of the deceased which the state can recognize and sustain. The portion which he held, but which he no longer holds, has performed its office, in reference to him, and virtually fallen back into the common resources. The gifts of the world are repeated to each generation for its life, and not given to one generation for the life of the race. The dead man has no right, or, if a seeming right

were granted, no power, to claim and secure it. From the hand relaxed in death every vestige and semblance of earthly possession escape, and the concessions made to the tomb are those of fear and affection only. As far as the living are concerned, when the holder of property has exhausted his right in it, — a life's enjoyment, — and made resignation, it is as if a new addition had been made to the world's previous advantages, and was waiting a just partition.

Nor have the heirs, in this regard, any rights, except as the state, for its own interest, may see fit to give them such rights. They have no claim by possession, by labor, by purchase; their only claim is by inheritance, and this claim, for its existence and limitations, is dependent, and solely dependent, on the laws of the state. The state, in passing laws of inheritance, in deciding who shall be heirs, recognizes the fact that the title is in itself, and at its own disposal; if it is not, the inquiry should be, who owns the property, not who ought to own it.

It is involved, then, in the very nature of the case, and in every law of inheritance, that all property, at the death of the owner, reverts to the state, and there awaits its disposition. That land so reverting to the state should, according to certain laws of inheritance, be vested in heirs, there can be little doubt. Whatever may be said in the case of distant collateral heirs who are to the deceased as strangers, the thought that one's exertions are to benefit his children, his kindred, is unquestionably a great stimulus to production; and if the state were to enter into every inheritance, there would soon be but little to be inherited.

Heirs usually stand in such relation to property, that the interests of production can be most securely reached by their immediate and quiet possession.

We have introduced this discussion, not to question the general principle of inheritance, but to show the indisputable nature of that right which belongs to the state, to establish any law of inheritance which the general interests demand. What this law shall be is of the last importance to production.

That law of inheritance in land is best for production by which the division is made equal among heirs at the same remove.

By such a law, a constant dispersion of property is secured, — a constant return to the general level, by which all individual efforts for aggregation are effectually baffled. It excludes the possibility of a landed aristocracy, with its concentrated luxury, its tenantry trained to dependence, and its incentives to effort made feeble, on the one side, by the possession of too much, and on the other, by the possession of too little. The present proposition is intimately connected with the previous one, aims at the same result, and is sustained by the same arguments. Whatever may have been the distribution of land, laws of free transfer and of equal inheritance will, without violence or infringement of the rights of any, shortly break down all barriers, and place land in the hands of every agriculturist who seeks it with energy and skill. An equal inheritance is one of the most efficient methods of apportioning land among its cultivators, and of bringing all the incentives to production to bear at their maximum power

on individuals trained to exertion, — an exertion quickened both by the success which it still wants, and by the success it has already achieved; both by the objects which kindle desire, and the means in hand which make their attainment possible.

The law which especially stands opposed to this equal division among heirs is that of primogeniture. This is but one of those protections cast about an aristocracy, to sustain the dignity of its rank by broad landed possessions, and to shield it from the leveling tendencies of natural forces. Whatever may be the arguments sustaining such a class, they cannot be drawn from Political Economy.

Distinctions of classes, in the outset established by violence or the fear of violence, and all along sustained by legislation more or less inimical to the masses, find no justification in the interests of production. Production relies on the masses, seeks to bestow its rewards on them, to elevate them, and to make them its intelligent, successful and self-guided, and thus its most efficient agents. An aristocracy, on the other hand, gathers up the rewards of labor, the enjoyments and luxuries of life, and bestows them not on those who have produced them, and where falling they are the needful stimulus of industry, but upon the most unproductive, and hence, as far as Political Economy is concerned, the most worthless of all classes, where they can but cherish an indolence already too rank. A given state of production can, with a fixed population, secure, in addition to its necessaries, but a limited amount of luxuries. Through these luxuries it is that production is quickened, and if they be rightly divided — as natural

forces left to themselves will divide them — among the strongest and sturdiest producers, they act like bounties, and tell rapidly on the prosperity of a whole community. But if, by any restrictions or monopolies, — if, by the great monopoly of birth, — they are taken from the hand of the real producers, and given to those who, of all others, have least to do in securing the physical prosperity of a people, they then lose not only all ability to quicken industry, but, by a distribution so arbitrary and capricious, they dissuade from that industry which has not strength to hold its own rewards, or to vie with the lavish favors of fortune. What could more completely destroy the natural incentives to effort than a division into two classes, the one born to the enjoyments, and the other to the privations of labor; the enjoyments giving the indolence of luxury, the privations the indolence of misery? These distinctions may exist in every degree, from the community in which all are either slaves or masters, to that in which the small remains of an aristocracy are scarcely felt as a burden on the buoyant strength of a large and energetic people; yet everywhere, according to the intensity of the evil, will results develop themselves.

CHAPTER IV.

LABOR.

Chief among the means of production is labor. While natural agents furnish the instruments through which, and the materials on which, it may operate, while capital facilitates its operations, it is labor that, shaping commodities and services to the multiform desires of men, does most to create and determine values. Few are the articles into which it does not enter as a prime element of cost, and by its differences in kind and degree, the wealth and productive power of individuals and nations are determined. Labor, resulting in a product, — a bow, a spear, — has ever been one of the earliest teachers of the rights of ownership and the principles of economic action.

Labor is physical or mental exertion, on the part of man, to create or to occasion value.

This definition excludes all that activity which has reference simply to the pleasure of the person putting it forth. The most skilful pianist, when playing for his own enjoyment, occasions no value, and is not a laborer; performing in public, he creates a service, a value, and becomes a laborer. Activity which results neither in a commodity nor service, is not labor. It also, in connection with our other definitions, precludes a very common divis-

ion into productive and unproductive laborers. We have recognized services and commodities as alike products; those who produce neither of these are not producers, and hence not laborers; those who produce either of them are producers, and hence laborers.

Political Economy has no occasion to include in its definition of labor any exertion that does not create value, since such exertions lie outside of the province of production, and have for the science of wealth no interest. All labor, that it may be labor, must be productive; and when we have recognized a class of persons as laborers, we can no longer stigmatize them as unproductive laborers. The tangible form under which a commodity always appears, has given to it, in comparison with a service, a value seemingly more substantial, and a greater power to represent wealth. A partiality for visible and material values has exhibited itself in language, and secured for those whose exertions are directed to commodities the title of productive laborers, leaving those whose exertions are services under the disparagement of being unproductive laborers. That any distinction exists between commodities and services, unfavorable to the latter, is not evident. Services are usually consumed in the very instant in which they are performed, and this gives them the appearance of being unproductive. But a commodity, though it waits longer for the moment of its destruction, is not the less certainly destined for unproductive consumption; nor can the one of these two kinds of products receive any character from its ultimate destination which does not equally belong to the other. A service is not disparaged by being

immediately consumed; its utility is thereby but the more rapidly secured, its ability to gratify desire the more perfectly shown. Nor is it to be inferred, from this rapidity of consumption, that the effects of a service remain for a shorter time, stimulating and aiding production. The reverse of this is often true; and the results of a service performed by the teacher of knowledge and morals may remain, as a fresh and powerful agency in production, long after all the commodities which had birth with it have been destroyed by a consumption well-nigh total. Indeed, nearly all the guiding and renewing impulses of production come to it in the form of services.

Nor has a commodity any advantage over a service in its immediate ability to quicken effort. Both address desires, and aim at their gratification. He who attends a concert may receive a larger amount of pleasure than he who expends a corresponding amount on food or drink; and, if so, the stimulus to exertion, in order to secure similar enjoyments, will be greater in the first case than in the second. The two products may each be luxuries, may each be necessities, each gratify desire, and so far are equal; their relative worth must evidently depend, in each instance, on the particular desire gratified, and its relation to the good of the individual, and not at all on the question, whether the desire has been met through an object or an action. Indeed, if a rude generalization were at all admissible, our preference would certainly be for immaterial, as contrasted with material enjoyments. But, as far as the ends of production are concerned, there is no valid distinction between a commodity and a service, —

between the so-called productive and unproductive laborer. Each is a laborer, each a producer, and the disparaging adjective has no more truth when applied to the one class than to the other; indeed, whenever it can be applied, it simply excludes the individual suffering under it from the pale of Political Economy. The question of the degree of their productive power, of the value of their different employments, lies, not between two great classes, but between all those various laborers, who together make up the gross sum of producers.

§ 2. Labor aims at utilities, and these utilities may be fixed —

(*a*) In outward objects;

(*b*) In human beings;

(*c*) In no object.

The first gives us a commodity, the last two, services. Of these two classes of services, the first is among the most important and permanent agencies in production; the last, among the least important. Instruction in the arts, in the sciences, in social duties, is the most fruitful and productive of all culture. This product of skill and knowledge, different from the two other kinds of products, seems incapable of absolute consumption, but grows by being fed on. The indolence, on the other hand, begotten by many of those services which relieve men from the effort necessary for their personal convenience and comfort, has always disparaged them with Political Economists, and in part given rise to the distinction of productive and unproductive labor.

It is the labor resulting in commodities which especially engages attention, both in the pursuit and in the science of wealth. The amount and variety of labor represented in any given completed commodity, and rewarded in its sale, are usually beyond any definite estimate. Behind a yard of cotton, claimants for their portion of its price are the weaver, the spinner, the many workmen and agents of the manufactory; the drayman, the wagoner, the sailor, the ship owner, and all the agents of carriage; the planter, the laborer; and, in addition to these, and far outnumbering them, those who have constructed the machinery, the buildings, and the implements of commerce and of agriculture. Nor does our analysis rightly stop here; for each instrument is itself the product of other instruments, and, at every remove from the first commodity, — our starting-point, — we find the circle of laborers widening, and new comers, from all departments, crowding upon us.

Among the various ways in which labor is employed, the first and most fundamental is in the production of the material. This class of labor finds its type and representative in agriculture. Here is the farmer, the miner, the herdsman, the fisherman, and the huntsman.

The second office of labor is that modification of materials by which they become completed products. This includes not only that labor which lies in the direct line of change along which the raw material passes in becoming the commodity of our markets, but also the processes subordinate thereto, — the construction of buildings and implements. This class of labor is somewhat inadequately and roughly comprehended in the term, manufac-

turing. This class includes a great variety of laborers: millers, bakers, spinners, weavers, dyers; workers in wood, leather, iron, gold; all the innumerable servants of art in her various forms of handicraft.

A third office of labor, completing the other two, is that of transfer, by which commodities pass from the hand of the producer to that of the consumer. Much of this transfer, however, may come in prior to the labor of the manufacture, or during its continuance. Here are the workmen of commerce, — the sailor, the boatmen, the engineer, the porter, the drayman, the merchant.

Among those whose labors are represented in commodities, there is a fourth class, — that of intellectual laborers, — the inventor, the writer, the editor.

It deserves remark, that there is labor connected with a commodity which is not represented in it. If ten men are employed in making a machine, the material, their labor, and the wear of tools, are summed up in the final value, but not the labor which may have been expended in providing those ten men with food while thus engaged. Food is itself a commodity, and the labor which has been expended in securing that food is finally compensated by it. On the sale of this food to the ten men, it becomes to them, like all the other enjoyments of life, a thing whose cost they must bear, deducting it from their wages. The price of the machine is made up of the cost of materials, of the wear of tools, and of wages; to this last item the price of the food is not to be added; but these are to be expended by the laborer for food, for other necessities and enjoyments, in such ratios as he chooses, — these

collectively constituting to him the ultimate reward which, for a brief time and in a transition state, stood represented to him in his wages. Nor is the case altered, if the employer furnish food to the employee. In that case, the food and the money together make up the price of ten hours of labor; and these ten hours are all that is to be charged to the machine. It matters not that their price is now represented by two items, — food and money. This is accidental; it might have been represented by garments and money, or garments alone. A commodity would cost no less in any given community if the men who made it were able to live without food. This would redound to their advantage, not to that of their employer. All commodities, equally of food as of other kinds, complete up to their own value the remuneration of labor, by their sale or consumption, and do not again appear in the price of after commodities. If they did, the price of the last commodity would sum up that of all previous commodities. Not so with the tools and buildings incidental to a manufactory. These gratify no desire, and hence add themselves to the price of those products for which they were made, and in which a true or immediate utility is found. Commodities may have either a mediate or immediate utility. The first class — a tool, a machine — add their cost to the products made by them. The second, — food, garments, houses, — by their own value, compensate the producers, and when finally consumed, are so at the cost of the consumer. That they so frequently appear in wages is accidental; and, when so appearing, they do not add themselves to, but form a constituent of wages.

The productiveness of labor will depend —

(*a*) Chiefly on the characteristics of the laborers, — physical, intellectual, and moral, — their social position and influences;

(*b*) On the quality of the material agents in their possession;

(*c*) On the amount of capital at their disposal for purposes of industry.

The nature of this last agent, and its connection with production, now need to be pointed out.

CHAPTER V.

CAPITAL.

An indispensable condition for all extensive production is capital. The efforts of the past are the basis upon which the efforts of the present rest; and human labor would meet with very barren results were it not at every step sustained by previous labor. Capital enables industry to gather momentum, and by its accumulated force — its buildings, its machinery, and materials — to become a great power, holding at its disposal a working strength far beyond the aggregate strength of all individual laborers.

Capital is a commodity, or commodities, retained to be employed in production.

This retention, which is the condition of the existence of capital, is abstinence. Labor secures a product, and labor and abstinence secure capital.

Capital is divided into fixed and circulating.

The material, from the time in which it is first drawn into the circle of labor to that in which it is thrown out in actual consumption, undergoes many changes. These changes, in place, in form, in qualities, occupy time, and frequently the efforts of many persons. During this period there is a value in the material, and, having already received labor, it is a product. There is also, on the part

of each person through whose ownership it passes, abstinence, in order that it may pass on and become a completed commodity. The ultimate or true consumer rewards in its price all the abstinence and labor which have been employed about the article; and it is the interest of each one in the circle of industry to pass the product from hand to hand, in order that, reaching its destination, the returning recompense may be received. Now, with each of these owners it has been capital, since it contained both labor and abstinence; and circulating capital, since they reach their gains by its transfer.

But, in each of the processes through which the article has passed, there have been implements, and, perchance, buildings, aiding in the several changes; these have been retained by their owners, in order that they may again assist in a similar transformation of fresh material. The things so retained also contain labor and abstinence, and hence are capital; remaining in the hands of the owner, they are fixed capital.

Circulating capital is a product in transition, not yet in the hands of the consumer.

Fixed capital is a product retained as an instrument in the production of other products. The chief varieties of fixed capital are:

(*a*) The tools and machinery incident to any form of production;

(*b*) The buildings and structures employed for purposes of production.

To these Adam Smith has added the improvements of land, and personal skill. For reasons to be given here-

after, we have rather chosen to identify improvements with the natural agent in which they are incorporated, and to altogether exclude personal qualities from capital. The test of fixed and circulating capital is the inquiry, Are returns secured by the retention, or by the transfer, of the particular product? Tools, in the hands of him who uses them, are fixed, in the hands of him who manufactures them, circulating, capital.

Circulating capital includes —

(*a*) Material, in all its varieties, while still remaining in the stages of production;

(*b*) Wages;

(*c*) Completed products retained for sale,

(*d*) Products retained that they may be rented.

To this last class belong dwelling houses, and money in the hands of bankers. In these instances the article is either not liable to, or of slow consumption, and thus capable of a protracted use. The parts, or years, into which this use is divided, are sold separately, and the transaction does not differ in kind from a sale of the entire use; in other words, of the article itself. The rent paid for a dwelling does not meet our definition of capital, since, so far as the lessee is concerned, it is in actual consumption, and not retained for production. Not so the rent of any tool; this rent is a product reserved to aid in production.

Money is placed by Adam Smith in circulating capital. In the hands of the individual its office is variable, and it would seem to belong, now to the one class, and now to the other. It is employed to purchase all the things enumerated under each of the two kinds of capital, and

hence is passing now into fixed, and now into circulating capital, according to the nature of the commodity purchased. While it is retained unemployed by the producer, it is not as yet in the circuit of production, either as material or instrument, and has not therefore assumed a definite form. It remains in its broad representative capacity, capable of any destination. Though capital, it is not definitely and finally set to perform any given part, but is open to perform all parts in production. While thus held in abeyance, not yet set apart for any purpose, it can hardly be said to belong to either of the two forms of capital, since these are distinctions established on the relation in which capital stands to the process of production, whether of reserved instrument or product waiting transfer.

Not thus, however, with the currency of a nation. In this broader field, money is an instrument, and, like all other instruments, is itself retained — fixed — to be used in the production of something else. The whole community secure and retain in a currency a certain amount of money, sufficient for the exchanges of that community. Exchange is involved in production. No commodity has reached its highest ultimate value — is fully produced — till, having received every addition, from all the processes of production and transfer, it at length rests with the true consumer.

The instrument of exchange, and hence of production, is money, — a fixed capital of currency, — remaining a most indispensable and permanent means by which the flow of marketable commodities is sustained.

The wheel of exchange, which interchanges and transfers all the products of a community, is sustained at the general expense of production, and constitutes one of its most efficient and valuable instruments.

§ 2. Capital is the result of abstinence; but this abstinence is not perpetual. All capital is more or less rapidly consumed. The most permanent instruments are worn out, and slowly incorporate their value into the values secured by their means. Consumption is the source of desire, and hence of effort. Thither gravitates every product, though for a time held back as capital, that it may reproduce itself in a harvest, or lose itself in a multiplicity of new commodities. Capital renews itself, and its reliance is upon its own profits. In each successful transaction, it replaces itself and something more, and in this more is found the measure of its success.

The importance of capital is involved in all that has been said of its nature. We see its presence in all production which goes beyond a single transformation, a single transaction, — the slightest complexity or aggregation of results marking its presence. But its prominent advantages must be more explicitly marked.

Instruments are the first gift of capital. Labor almost immediately arms itself with these; their growth in efficiency, variety, and complexity, marks the steps of civilization; and man who, in the outset, seems least the favorite of nature, in the end shows himself the heir of all her treasures, the wielder of all her forces. What industry does, she does by her instruments; these destroyed, she

could not secure the most beggarly subsistence for a tenth of her children.

Capital prepares the way for division of labor, the second most efficient agent of industry.

Division of labor is the separation of a complex operation into parts, more or less elementary, and assigning these parts to distinct individuals.

No protracted operations can be performed by a single individual without capital. To say nothing of the instruments and materials involved, all of which are capital, there is a constant increase of value as the process progresses; and each previous value, as soon as it is realized, becomes capital in reference to the succeeding. But when several persons perform different operations in one manufacture, the presence of capital becomes still more obvious. A larger amount of material is required, since the labor of several, sometimes of very many, is to be employed. The partially completed product no sooner passes from the hands of one set of workmen to those of another, than its place must be immediately supplied; and thus, when the entire series is in full operation, a large value may be accumulated in the several stages of manufacture. In proportion as the division of labor becomes more complete, the number of laborers, and hence the accumulation of capital, will increase. The products, as they pass through the hands of the several workmen, cannot well be, and are not usually, owned by them. The whole management and supervision of a single manufactory are best vested in one or two individuals, themselves the owners, or their representatives; and hence, for all

extended operations, the aggregation of capital becomes very great.

The advantages of division of labor are, that —

(*a*) It increases skill. Physical training is more perfect as it is more limited. A few movements, when habitual, are performed with great rapidity and ease; if often suspended and displaced by others, this facility is lost.

(*b*) It saves the time of passing from one kind of work to another.

(*c*) It enables us to employ labor not otherwise available. Single processes may be performed by those who are not capable of the combined series.

(*d*) It quickens invention, by limiting thought and making each operation a speciality.

(*e*) It places the consumer and producer in more intimate and safe relations. The retailer, the banker, the commission merchant, stand in immediate connection with the wants of community, and are aware of their precise amount, and by their connection, on the other hand, with the producers, enable these much more readily and perfectly to adapt the supply to this demand.

(*f*) It brings out the best powers of individuals, communities, and nations. The individual has in the manufactory that which he can do best, the community that kind of manufacture on which it can most profitably enter, the nation that kind of production in which it can most successfully engage. Division of labor, in each of these three cases, leaves industrial agents not at cross purposes, but gives to all their full strength.

A third advantage of capital is intimately allied with

division of labor, — the superiority of large operations over small.

These operations, dependent on the increase of capital, enable the division of labor to be carried to its full extent, render practicable a more thorough economy in gathering up the shreds and remnants of the principal business, — their larger amount giving value to what was before wasted, — and secure to labor the best machinery, and to laborers the fullest occupation.

Of these four advantages, the last two are the most important. The best machinery, though the most profitable, frequently cannot be afforded except by the larger establishments. A steam press would ruin a village paper.

A carriage-maker demands laborers in the four departments of iron-work, wood-work, painting, and upholstery. If the business be so small that, in any one of these occupations, a single hand cannot be constantly employed, the services of that hand will be obtained at a disadvantage. An express office requires a certain number of agents; these secured, a business which fully occupies them involves but little more expense than that which engages but a portion of their time. The post office also furnishes a good illustration.

A business complete in its departments, and having each department fully occupied, is the most profitable.

§ 3. The agriculturist is not primarily a capitalist, since he chiefly employs a natural agent, and not reserved products. The manufacturer is, for the reverse reason, prima-

rily a capitalist, and this leads us to our first proposition, marking a tendency in this kind of production opposite to that pointed out in agriculture.

The returns of labor employed in any manufacture tend to increase, by an increment greater than that due to the increment of labor.

This proposition we state in connection with capital, as capital is the soul of this kind of labor.

The increase in the returns of mechanical, as opposed to agricultural labor, is chiefly due to two things, — the ever enlarging career of invention, and the accumulative power of capital. The effect and progress of invention is finely illustrated in the manufacture of cotton. Inventions for separating the wool from the seed, for spinning, and for weaving, have superseded and improved upon each other, till, within little more than sixty years, the manufactured article has fallen to one-twelfth of its former value, while the amount manufactured has increased in about the same ratio. The price has been steadily forced down by the growing success of the manufacture; nor have we, as far as the nature of the agents achieving this success is concerned, reason to assign any definite limits to the movement. In the processes of the arts, no state is ultimate; but the same powers which secured the present give promise of something beyond it.

Capital, also, ever lending itself in larger quantities to labor, spreads through all the arts, perfects the internal economy of each, and enables them to unite in securing those roads, canals, and harbors, and in establishing that system of internal intercourse on which their common

prosperity so much depends. It is evident, that so long as capital can be profitably employed, it tends, by subdividing, enlarging, and improving the processes of labor, to add to its productive powers. But it has been denied that capital is capable of this extension, and thought that the laws of profits assign to it certain readily reached limits. This leads us to our second proposition.

The limits to the increase of capital are — first, the number of laborers at its command; second, the existing state of machinery, of mechanical invention.

This proposition includes the idea that it may, within these limits, meet with a constant return of profits; for from these profits the motives of abstinence are drawn; when these cease, its growth must cease.

Before the laboring strength in any community is fully taken up, the way is open for the employment of fresh capital; and this capital may command the needful assistance from labor. Nothing is to be apprehended from the consequent multiplication of commodities. The desires of men are ever transcending that which is possessed; and the greater the increase in commodities, the more universal the ability, by mutual exchange, to gratify these desires. As long as products can be created, they may safely be created, if not in all, yet in the great majority of their several varieties. It is only when capital has so accumulated that it can secure to itself no more labor, that its growth necessarily ceases. If an effort be made to force its employment beyond this point, the new capital comes into use at the expense of the old; there arises a

hot competition between capitalists for laborers, till, by the rapid fall of profits consequent thereon, the growth of capital is effectually stopped.

The immediate limitation, then, to capital, is the number of laborers which a community can furnish; the ultimate limitation, the number which can be sustained.

A second element determining the amount of capital is the state of invention. In proportion as the machinery is poor, and the instruments employed feeble, will the capital invested be small. Two hundred men, each in his own house, with a hand loom, will demand for their constant occupation but a small part of the capital necessary to sustain a cotton factory with the best machinery, giving full occupation to the same number of hands. Each step in the arts usually involves a larger cost in machinery, and always, by the more rapid production which it secures, a larger amount of materials and of products, partial and complete. If, therefore, capital, in any given state of invention, should reach the limits assigned by labor, those limits might again be enlarged by any device increasing the efficiency of labor, and thus the amount of capital it can employ.

Because these are the limits of capital, it does not follow that it will necessarily go on to increase till these are reached. The extent and rapidity of its actual growth in any community will depend on the strength of the motives which lead to abstinence. These are the variety and utility of the objects inciting desire, the security with which they are sought and enjoyed, the amount of the returns which abstinence secures, and the thoughtful

forecast of the people. If any of these are wanting; if arts and learning are incipient, giving but few enjoyments; if society is anarchical, giving but little protection; if the people have not learned to anticipate and provide for the future, — there will be a corresponding deficiency in capital, the great economic instrument by which the stream of earthly utilities is made to fill its banks.

The barrier of labor is an elastic barrier. Seldom is any large community so pressed, that there can be drawn from it nothing more of exertion. Indeed, such a pressure is more consistent with the lower and less assisted, than with the higher and better assisted states of production. When capital and invention are swelling production, laborers are borne above the mere necessities, and begin to share some of the comforts of life. Among these comforts is a certain amount of leisure; and hence, the best conditioned and most productive community is more elastic under a transient pressure for labor, than one poor and less productive. There is much more of reserved power in the first case than in the second. The barrier of invention is still more elastic. It may retreat indefinitely, and the closer we press upon it, the more likely it is to retreat.

CHAPTER VI.

EFFECT OF LAW ON PRODUCTION THROUGH LABOR AND CAPITAL.

§ 1. There is one class of laborers on whom the interests of production are peculiarly dependent, — rulers, — the makers and executors of law. As it is under the shadow of government that labor is busy, and capital is accumulated, — that the two go forth to fresh productive conquests, — Political Economy interests itself in the action of government, so far as this action affects her own agents.

The chief office of government, in connection with production, is protection, — is to furnish an open field in which it may bring forward its own motives, guide its action by its own laws, and enjoy its own reward. The economic action of men is so far social, is so far in harmony with those interests which it is the especial office of government to cherish, as not ordinarily to demand any constraint or coercion beyond the common criminal code. Not only does the line of action marked out by economic science run parallel with the higher interests of man, and minister to them, but this lower interest is amply able to furnish the safest, most general, and most efficient motives, drawn from all departments of enjoyments, for effort in its

own field. The impulse which most effectually works the forces of production is an internal impulse, drawn from its own rewards and the relations of those rewards to the civilization and science of the times. Of all departments, the economic is the most thoroughly self-sustaining, in the strength and universality of its motives, and least of all needs aid from without. Money secures or increases nearly all our enjoyments; hence there is no province of action from which it does not bring inducements to effort. The absorbing love of gain, ever ready to pass into avarice, and withhold those very ministrations to the social good for which it primarily exists, can, first and best of all our impulses, be emancipated from the patronage of government. Indeed, it is with its own products alone that governments undertake to stimulate production, and the increased reward bestowed at one point is plundered from another portion of its own field. Industry best knows how to apportion her own rewards, and is neither profited nor pleased with any interference. If she were wrong in her principles of distribution, the difficulty would be most radical, and we might be compelled to take the whole department into our hands, and force the regulations of civil polity into the apportionment of all products. In that case, we should have, instead of the quiet and firm action of natural forces, the tardy and defective action of complicated and artificial regulations. But we cannot well interfere at any one point, deny safety to any one of our natural economical forces, and leave the rest in full authority. The right of one is the right of all.

The ordinary action, then, of economic causes, neither

demands restraint nor incitement; yet government has much to do with production beyond its protection.

Society is a combination, whose agent and representative is government. Many labors which are supplemental to production devolve rightly on no individual producer. Many of these, if performed by an individual, or combination of individuals, can make them no recompense, or a recompense secured with much general vexation. This class properly falls on society as a whole, and hence on government, as its representative. This class is very numerous. Here belong the construction of roads, light-houses, water-breaks, the clearing of harbors and rivers, the establishment of a currency, and of a post office department. Those internal improvements, from which no income, or no income corresponding to the cost, and just for the parties, can be secured, seem properly to fall to government. All, offering fair inducements to private capital, are more safely and economically managed under the direction of private and interested individuals.

§ 2. In connection both with the beneficial and injurious action of civil law on production, we have the subject of monopolies. A monopoly is any kind of process, or instrument of production, restricted, in whole or in part, by law. Nothing should be included within the term which does not involve a right in addition to those natural rights protected by civil law. There is a sense in which all property may be termed a monopoly, as its possession and use are necessarily exclusive, and that which is one man's cannot be open to the occupation of another. Thus land is called

a great monopoly. It is a monopoly, and the worst form of monopoly, as we have already shown, if its acquisition and transfer are restricted by law, but no more a monopoly than any other species of property, if its possession is open to all. Nothing is gained by the term monopoly, if it is to be made to include every economical advantage, from whatsoever source derived, since all the appropriated powers of production would thus be monopolies, the very act of appropriation involving exclusion. Of these powers, a part is restricted by nature to certain owners, — such are personal qualities; another part is left open to the general effort, — such is land. Society sometimes goes beyond the restrictions of nature, and establishes restrictions of her own; these give rise to monopolies.

The effect of a monopoly is to limit the production in the department to which it applies, and thereby to raise the price and profits. Monopolies are illegitimately conferred, as a matter of favoritism, government losing sight of the equality of citizens, and distinguishing between them; are legitimately conferred, as a compensation for a corresponding service done to production. Of the first kind, is the exclusive trade in, or manufacture of, any article; of the second, all patent and copy rights. Inventors and writers, though among the most valuable of laborers, are not able, from the nature of the product realized, to retain its immediate pecuniary advantages. To relieve the hardship of these results, government steps in, and, giving to the individual, for a limited period, the exclusive disposition of his product, restores a part of the profits.

The rights of corporations, so far as they pertain to production and are bestowed at the option of government, are monopolies. A railroad company is a monopoly, and a close monopoly, till parallel roads are authorized. Banks, when charters are granted on the fixed conditions of a banking law, are open monopolies; — monopolies, since the restrictions are assigned by law; open monopolies, since these restrictions are the same for all.

The monopolies conferred in acts of incorporation are usually such as are designed to give either greater efficiency or safety to production. Either the corporate body, by the legal rights conferred upon it, is, without infringing on the industry or rights of others, enabled more readily and rapidly to push its own enterprises, or the common interests are watched over and protected from the heedless schemes of individuals, by requiring the sanction of a legislative act. Of the first class are all those partnerships and joint stock companies, by which small capitals are gathered into an effective form, and the greater enterprises of industry pushed rapidly onward. These combine the scattered energies of production, and secure an easy victory over obstacles too great for individnal strength, and open the way for a vast amount of more limited enterprise. They are the formidable enginery of industry, which accumulates about, and besieges every fresh obstacle, till it is overcome.

To the second class belong those corporations which, while conferring a benefit, demand the watchful eye of the community, lest they inflict a greater injury. Few things, as we shall more clearly see at a later point, are of greater

importance to production than a common, a safe, a sufficient, and a firm currency. When the currency is dependent upon a banking system, the common good demands that banks should be rigorously subjected to all those restrictions which the high and critical nature of their trust requires; and hence, that this kind of effort should be open to the enterprise of all, only within limits consistent with the interests of all. It being one of the more important functions of government to provide an adequate currency, the banking business is everywhere subjected to restrictions, which constitute it, in a greater or less degree, a monopoly.

Railroads, involving in their construction the violation of the ordinary rights of individuals, can only be authorized by the voice of the community whose interests are thereby affected. The government, the representative of an organized society, may suspend the rights of individuals, and force the sale of private property, for a public purpose. No such power can belong to individuals or to companies, save only, as by a special incorporating act, it has been imparted to them for a limited and particular purpose. This new and additional right vests in railroad companies, by virtue of a specific legislative act, and constitutes them monopolies. That those who possess a monopoly are not always certain of unusual profits, is seen in this example.

Of legitimate monopolies, we have two classes: the restriction in use or in sale of a discovery, an invention, a literary production, to him whose it is; the restriction of certain departments of production by conditions necessary for the safety of all.

In the first class, the rights of the individual are secured, and encouragement given to a most valuable class of laborers. But as their rights are guaranteed by law, and are solely dependent upon its protection, it is evident that the law-giver is to settle, in view of common interests, what length of use constitutes adequate compensation and encouragement. The right, as a practical, available right, is the offspring of law, and hence must conform to the end of law, — the common good. This it is which marks the limits within which law shall define and protect a right, left by nature undefined and unprotected. No more just and fitting bounty can be offered for invention than protection, for a limited period, in the exclusive use of the thing invented.

The second, like the first class of monopolies, are established by government, for the stimulus and protection of industry. A railroad charter, judiciously granted, places in the hands of producers a fresh power; judiciously withheld, protects private property from the plunder of needless speculation. To decide where the best interests of production lie, whether in the bestowing or withholding of a railroad, is manifestly the office of those whose duty it is to represent and protect those interests. It is evident, that this class of monopolies are obnoxious when bestowed with partiality, and thus removed still more than the common good requires from general competition.

Production demands that, as far as possible, the same conditions should be fixed for all, and that, within these conditions, the arena of competition should again be opened. If a general banking law is safe, — a point we

are not yet prepared to discuss, — it is more consonant with the general spirit and methods of production, than the granting of private powers by special acts.

A third and illegitimate use of monopolies is the protection of the individual, in any department of effort, from the competition natural to that department, when such protection does not aim to secure a common good.

This is a pernicious suspension of the laws which commercial intercourse has established for itself, and is gathering up a portion of the inducements for general productive effort, that it may afterwards scatter them as the seeds of arrogance and indolence.

§ 3. Another direction, in which government has usually deemed its aid requisite to production, has been in establishing a rate per cent. for the use of money. Its action here is entirely anomalous. There is elsewhere furnished no parallel. Price, in all other departments, is left to arrange itself according to its own laws, and, though there is here no suspension of the natural forces at work, it is suddenly discovered that they can no longer be trusted, and a single department, under the action of precisely the same laws as every other department, is taken out of its natural relations, and given over to the discretion of legislators. This action can rest on no principle; it does either too much or too little. If we regulate price, we must regulate it; if nature regulates it, she must regulate it: we cannot expect to compound the matter with her.

Nor have the success of these efforts been such as to support a limping theory. No law is more readily, is more

constantly violated than a usury law, and that, too, by precisely the class of persons against whom these laws are directed. They catch the simple and the honest; the shrewd and the dishonest readily escape. The meshes of the net are never tight enough to hold anything but a little vagrant drift-wood. The few that are punished are angered by the injustice of the law; the many that escape laugh at its imbecility. Nor is the impotence of this class of laws their chief defect; it is rather their principal defence. Were they efficient, they would be yet more pernicious. They aim to equalize the price of money, placing it at fixed rates in the hands of all. When they have any influence, their effect, by counteracting natural forces, is just the reverse of this. If money, in reference to the demand, is abundant in any community, its value is thereby lessened. If natural forces were left to themselves, this state of things would occasion a fall in the rate of interest, and, enticing enterprise by the easy terms of capital, would prepare the way for that accelerated exertion which restores price to its ordinary level. But a law, retaining the price of money at a rate beyond its true value, renders all borrowing a loss; and money, cut off from its natural remedy of forcing a market by a fall of price, is left to accumulate in the hands of holders, and sinks much beyond the mark which the real state of things made necessary.

Nor is such a law more fortunate in its efforts to give money, at all times, at an easy rate, to those who need it. If money is really worth something more than the law suffers to be received for it, the holder will struggle, as far

as possible, to employ it himself, that he may realize this additional per cent., and a market, already too dry, will become dryer and dryer, till not a drop can be extorted, without the illegal proffer, not simply of the true value, but of this value as enhanced by the odium and additional risk of a surreptitious business. And all this supplaces those natural forces which, by the additional profits and free circulation of money, would have shortly restored it in amount, and hence reduced it in rate per cent. to the general level. The simplest and the best interest law is that which determines the rate of interest to be implied when no rate has been expressed. The next most simple law is that which leaves individuals to give and receive whatever rate they may agree upon, but refuses to collect, by legal process, any interest higher than a given rate. But the law in no direction collects a fraudulent debt, and it is not easy to see why here, more than elsewhere, a given price should be taken as *prima facie* evidence of fraud.

§ 4. In connection with the effect of law on labor and capital, there arises the vexed question of how far any country should protect its industry from the competition of other countries. So far as the natural forces at work in the world tend to secure or mark out any course of action, it is evident that they look to a free exchange. Some forms of industry are made impossible, save in particular climates and soils; others differ greatly in the facilities different places afford them; and even those processes of art, capable of the most universal exercise, are in their

complete success intimately connected with natural characteristics and the advantages of position. These intrinsic differences, which cannot be overcome, and can only be partially removed, result in a great variety of productive power. If the highest aggregate of production is to be reached, these powers must be developed, each according to its own highest susceptibility, and the distribution of the products of industry, now the most numerous possible, be left to a free exchange. To this action the desires of men tend. Each nation naturally chooses for itself that kind of industry which it deems most productive, and with the products so traffics, as most fully to supply all its wants. Men do not accept the less, in place of the greater gratification, and in this course of action lies their largest power of purchase, and hence of gratification.

The system of exclusion and protection, on the other hand, is wholly the offspring of law, removing itself by an artificial force from the operation of the general, natural, and inherent forces at work. Laws of protection therefore, as superseding natural laws, always demand either specific reasons and special grounds of justification, marking and justifying them as exceptions, or a solid and sweeping proof, showing that a natural tendency, as natural law, is here at work, which is radically vicious, and requires to be systematically overcome. In either case the burden of proof lies with those bringing forward these affirmations. Such laws must expect, at every step, to be challenged for a reason, and, failing to render it in full weight, thereby to be destroyed.

Such laws, when tested by the general principles of

Political Economy, are not defensible. The considerations which strictly belong to this science are only those which pertain to production, to highest profits. Anything which ultimately lessens these cannot rest for its support on this department, for here the sentence is pronounced upon it, unprofitable. All that Political Economy has to say in reference to any course of action is, profitable, unprofitable. Much that is immediately and ultimately unprofitable, it may be well should be done; but we have for it no economic inducement. Much that is immediately profitable, — and may be ultimately so, using the word in its restricted sense, — is to be foregone, for an ethical injunction may overrule it. Government has other interests before it besides those of production, interests which may often modify, may sometimes set aside, these last. Political Economy needs only to be careful, to present a true table of profits and losses, and to value correctly the action of government in these respects.

The aggregate amount of products, of utilities, which the industry of the world can at any time create, is the measure of the productive power of that time, of that which she can furnish for human enjoyment. Any scheme by which the common stock is lessened, weakens production, is unprofitable, and must result somewhere in a smaller amount of enjoyments. If any branch of manufacture, which it is desired to introduce into a country, is equally productive with other branches already introduced, it needs no protection; if it is not equally productive, then that labor which is withdrawn from more productive departments to be employed in this department, realizes

a less number of products, and the aggregate of production is diminished. No kind of labor seeks protection save that which is to be expended at a disadvantage; and, so expended, that disadvantage betrays itself in diminished commodities. If this immediate loss is to be compensated by any additional skill in the individual, by any aptitude or love on his part, by any additional profits to accrue when the business shall have acquired momentum, — all these and kindred motives appeal to private interest, and will tend, to their full extent, to force enterprise in the proposed direction, and will so force it, when collectively they can fairly secure a balance in favor of the new employment.

It is only when, everything considered, there is yet an unrequited loss to be borne, that industry asks for protection; and this protection granted does not annihilate the loss, but only scatters and divides it. If there is no loss, why grant protection? if there is a loss, why accept and secure it by a special enactment? The answer must come outside of Political Economy.

The loss which a protective law occasions falls to its full extent on the community included within the protection. A loss is inflicted on those communities, the markets for whose products are thereby straitened; but this is a loss, in addition to the first loss, which is exclusively borne by the community in which the mischief originated. In that community, a smaller number of products is realized, a smaller number is to be divided; and hence, whether consumed directly or employed in purchase, they yield a less amount of enjoyment. The owner of the new factory

is raised to the general level; but he is so raised at the expense of that level. He purchases other commodities, at the same advantage as before; but all others purchase his commodity at a disadvantage. Protection shields the laborer from loss by raising the price of his commodities, thereby assessing the deficiency upon all who consume them. It is simply forcing an equal distribution of products now rendered less in amount. A country cannot destroy its losses by footing its own bill.

It is evident, that an industry so nursed will not rapidly learn to walk by itself. Its motives to energy and economy are in part removed. The law has undertaken to sustain its profits at the common level, and if they rise above that level will probably feel bound to reduce them. If its profits are going down, it can readily ask for more protection; if they are going up, enough will be found to ask for less. It is not as any other business. Its enterprise can do itself less good, its negligence less harm.

§ 5. There are certain considerations, at times urged by those who claim that industry demands protection against free competition, which are of a more indeterminate nature, and, for that reason, do their work only the more perfectly.

A weight which has not yet itself been weighed, in some calculations, may be a more convenient element than determinate and fixed quantities. Among these real but more indeterminate forces is the following. The entire prosperity of a community is intimately connected

with the number and variety of its employments. The machinery of social life is thus kept in active play. Every kind of talent and tendency has a corresponding impulse and opportunity. Such a society is more complete within itself. Its exchanges are more rapid, and involve less of mechanical transfer. A public disaster is never, under such circumstances, so broad and deep, since the evils incident to one department are not common to all, and cannot, to the same extent, affect all. The vitality of production is more thoroughly sustained, many directions successively inviting the shifting spirit of enterprise.

These being the undoubted attendants upon a variety of productions, how far ought the artificial methods of protection to be employed to secure this variety? Shall we establish a legal conservatory, and transfer thither every exotic, thus hoping to enrich our native varieties, and more completely employ our resources? It seems to us that the natural forces at work settle this question, precisely as they settle the question involved in the above comparison. If a plant is a hot-house plant, its culture must be left to curiosity and taste; it can hardly add to the permanent resources of a country. The question, whether it be a hot-house plant or not, is determined by a cautious, yet fair, exposure to the influences of soil and climate; if these adopt it, it is well; if they reject it, we can protect it against them, as a languishing exotic, only by the most persevering and costly effort. To the ordeal to which, in the end, it must be subjected, if it is to do us any good, let it be subjected at once, and let nature,

who can alone answer wisely for herself, decide whether this is an admissible or inadmissible variety of vegetable life.

The economic world has not less potent agencies which define the bounds of its flora, which determine, by inevasible laws of profit, the localities of its several kinds of production; and this, though sometimes less obviously, not less fixedly, in the mechanical than in the agricultural department. Each of these, though differing widely in their breadth, has limits which, the times and circumstances being given, cannot be safely overpassed. The culture of years cannot make the silk business indigenous to England; it is an exotic still. A business that is to be hardy and profitable must be able to meet and grow under the laws of trade, to sustain a vigorous life under the natural forces of its locality.

All the advantages above enumerated undoubtedly belong to a variety of healthy production, but not to a variety so artificial and forced that many of its parts are sustained by taxing the remainder. Such plants are parasites, not branches; eating up strength, not giving it. Any nursling of the mechanical arts will at once be surrounded and aided by all the advantages which naturally appertain to a new variety. These will add themselves to the favoring influences, and help to determine the question in favor of the new comer. A fresh impulse of individual enterprise has given rise to it, and will come in to sustain it; its market is just at hand. Entire success is not immediately demanded; a general and affectionate interest watches over it. If all these natural forces, con-

curring with its own inherent strength, cannot naturalize it, is it fitting that law should make of it a permanent pensioner?

It may be said that we have no right to this word, *permanent*. We certainly have not in all instances. All that the experiment, of which we have spoken, really decides is, that the new art cannot now live. What change there may be in the world of profits, making its future life possible, is a matter for still further experiment. But certainly the mere fact of present failure is not a promise of better success hereafter; and, if this success shall come, the principles here brought forward will not less apply to the intervening period. It may be worth our while to strike when the iron is hot, but equally worth our while to wait till that time comes.

The difficulties which oppose the introduction of a new branch of manufacture, and which can be removed, are a want of skill and of capital. The first of these is by no means of so formidable a character as to be insuperable to individual enterprise, nor shall we fail to suggest the manner in which government can, at this point, best lend aid. The second of these, capital, cannot be conferred by government, nor by undertaking an unprofitable business. Let capital abide in its most profitable channels, till it there secures volume with which to overflow into other departments. A premature effort necessarily delays permanent success. If there are other difficulties besides these, they inhere in the nature of the case, and it is useless to waste ourselves upon them.

But we have said that government can aid the advance

of skill and industry. Instruction is largely her department. Let her aid in giving mechanical and agricultural knowledge. Let her establish institutes where men may be trained, who shall be able to anticipate mechanical and industrial possibilities, to experiment upon, and point out, the best methods of advance, and to guide and quicken activity in all profitable directions. Thus, that which skill can give us will be added to that which nature has given us, and this is all that we can get.

But this concentration of the various kinds of production has its limits. The principle of the division of labor comes in to modify and restrain it. This principle is not less applicable between nations than between individuals and communities; indeed, it has been here so secured and enjoined by the varying natural gifts of different countries, that it is impossible wholly to set it aside. When the danger of its neglect, arising from mutual competition, seemed the greatest, the imperative has been made the most absolute, and every civilized nation must go abroad for a large share of its comforts. Nor, in the conflict which must exist in this large field, between a concentration of labor and division of labor, can we expect for wiser and better results than those which arise from a practical acceptance of the adjustment given us in the real state of things, a careful culture of our own resources, and an honest purchase of that which can best be purchased. Nations are not less requisite to stimulate and vivify nations, than individuals to quicken and reward individuals.

National absorption, and, following therefrom, national

isolation, by destroying the incitements and checks which exist between peaceful and rival states, is certainly as ruinous to production as the much abhorred separation of its distinct departments. The variety and breadth of production due to the community, to the nation, are but an image, on an inferior scale, of the variety and breadth of production due to the whole earth. Nor in this higher relation is the whole less necessary to the parts than in the lower. There is no safe regimen for the member which does not know it to be a member, and regard the health of the body to which it belongs.

§ 6. Another argument often urged, and capable of the same easy expansion and uncertain estimate, is, that population follows food; hence, that the largest population and the most national wealth can only be realized by that system of protection which establishes a home market sufficient for the consumption of all our own food. Population simply, can hardly be regarded as an advantage. It is only a population possessing the same physical and intellectual resources which belong to us at present, or resources greater than these, that can add to our happiness and strength. In a very limited territory, liable to be subjected by powerful neighbors, mere numbers may be a thing of importance. Not with most nations; these are quite as liable to be cursed as blessed, by the density of their population. A wise production does not aim at a surfeit of human life, but at the most ample and adequate provision for the life, naturally called forth under its own most successful action. A people may find their numbers

doubled in twenty years, and a large addition to the aggregate of wealth; but, if they also find that the standard of social life has declined, or not made the progress due to that period; that their resources are pressed upon by a swarming population, and every advantage devoured before it has fairly ripened, — the benefit conferred by such an increase is very questionable. That steady growth of social advantages and enjoyments, which is the true aim of production, has oftentimes no more formidable obstacle than a hasty multiplication of numbers, gathering and wasting, with careless sickle, the unripe grain of a future harvest. The good of the race, of nations and of individuals is found, not in the absolute increase, either of men or of products, but in an increase of the last in reference to the first, thereby giving to man a larger possession in himself and out of himself, a broader foothold, and the wielding of more efficient instrumentalities.

If these considerations are just, we may admit that population attends upon food, and still question the propriety of forcing a home market for food, and thus purchasing a population out of resources thereby made only the more scant and inadequate. This is to throw away existing advantages, only to secure greater numbers to devour the remaining advantages. Is it not evident, that a population so secured, if it does not actually depress a community, must mar its progress, and limit the prosperity otherwise open to it? In proving an increase of population nothing is gained, unless there is also proved a strictly corresponding increase of powers, a broadening of the social life, without damage to the previously existing

commercial profits. If this proof is to be given, those who give it are thrown back upon the old problem of showing how wealth is to be gained by restricting an advantageous trade. The population granted, — how is that population to be so liberally provided for as that which we already possess, when the very first step in the process involves a loss of advantage throughout the whole community, in the increased price of some of the most needful products? If we are willing to pay for population, there will undoubtedly be no difficulty in populating. A bounty would be as efficacious as a tariff, and much more direct and explicit. We should at least know what we get for what we give.

It is sufficiently evident, that no new point is involved in this argument of population, and that if any other than a dependent population, — for such are they who live by protection, — is to be given us, it still remains to be shown how, by the means proposed, profits and products are to bear a larger ratio to producers. It is certainly well that agriculture should find its supplement and completion in cities and villages, — the homes of manufacturers and artisans, — and accordingly, it offers, by the cheapness of subsistence, the abundance of the raw material, and a ready market for the new wares, great inducements, — inducements which practically will never leave any agricultural country, unless there be conflicting social institutions, like that of slavery, for any length of time, destitute of such aid. The forces which nature has established seem, and are, ample to secure, for each of the different forms of industry, aid in the correlative and allied forms;

and in no department are these forces more numerous and obvious than in that of agriculture. A country given to the culture of the soil is necessarily a well watered country, and can hardly fail, therefore, to offer, in its water privileges, cheap and efficient sources of mechanical power. It is also a well wooded country, or capable of becoming a well wooded country; and here is a large reduction in the original cost of buildings, and a perpetual reduction in the price of fuel. The food and raw produce which an agricultural nation has been in the habit of exporting is necessarily of a bulky character, not well bearing the expense of transportation; and hence, therefore, able to be afforded at home at prices very much reduced. Of this advantage, the manufacturer on the ground avails himself to the full extent, even if his own products are to be sent abroad, — a thing not to be anticipated in reference to the great mass of them, — since the increased value and diminished volume of manufactured goods enables them to be readily transferred.

Not only will all the grains be cheaper in such a country than in another, but in a much higher degree will the meats and perishable articles of food be cheapened. These can, only within narrow limits, be transported; and hence, in a farming country, must exist in great superabundance. When the land is enclosed for culture, if its fertility is to be kept good, there must be a corresponding amount of animal life, that the necessary manures may be furnished, and the needful labor be performed. This animal life, existing as an essential appendage of all profitable and protracted tillage, and finding a large part of its

recompense in the additional value which it has already imparted to the fruits of the field, will, when it comes as food to a restricted market, be exceedingly low. Any product, which comes into existence primarily for the sake of another product, and in which, therefore, a portion of its value is already represented, will of necessity be cheap. In such a position is animal food, as long as no adequate and open market makes a demand which causes it to be produced for its own sake. In a country where sheep are chiefly kept for the fleece, the flesh will bring but little; where horned cattle are kept for labor, for butter, for milk, for hides, for sustaining tillage, there will be but a small residuum of value due to the meat which they furnish.

All these forces will be in their highest intensity prior to the existence of any large manufacturing interest, and, just at the moment when such an interest is seeking to establish itself, will render their fullest aid. It is not till the manufacture is firmly rooted, and the home market ample, that these advantages will in part be withdrawn. Are not then the natural forces, by which industry provides for its own wants, sufficient? If any case be found in which they are not sufficient, in which the balance fully apprehended and fairly struck is against us, will we force ourselves into the stream, and, by naked strength and obdurate will, turn back and vanquish those very laws of production on which our profits solely depend? If the natural agencies at work unite in the verdict, *unprofitable*, can we hope to reverse that verdict? If it is wisdom to know laws, it is also wisdom to obey them.

Nor is it sufficient to say that we anticipate and inaugurate natural tendencies. Anticipation is disobedience, and, for the full length of time in which we are really in advance of the natural forces at work, we pay the full price of our mistake, and, by wasting our resources, retard, rather than advance, the time of true success. Nature lifts with a lever, and we by hand; if we tug prematurely, we shall only exhaust our strength. If our present profits are too high for a given manufacture, let us enjoy them to their full extent, till their own action, and not ours, has reduced them to the needful level. The lower wages and profits of a neighboring country are not transferred to us when we stand on our own basis of local advantage, commanding by commodities produced with higher profits and better wages their commodities; but when, neglecting these advantages, we force ourselves into competition with them in the same articles, their low wages must, in part at least, be inevitably transferred.

The Political Economist relies not on schemes and devices, and craft and retaliation, and local gains secured at the general expense; but upon inherent, inevitable tendencies, — upon natural laws. It would be but a destructive confession to allow that these laws, while good between individuals, break down between nations; that just as we are passing up to generalities, our system vanishes, and leaves us in thin air. Accordingly, such a confession has rarely, and never wisely, been made. Economists have felt themselves standing on the indisputable and immutable relations of things in advocating the freedom of natural forces, and brushing aside the

selfish schemes and temporizing policy, with which their place has been supplied; they have felt, that the adjustment and interaction of different tendencies, that the determination of the point at which the concentration of industry in a single nation should be suspended by a division of labor between nations, might be safely left to the regulation of the same power which established the separate forces and principles. Laws of production, which faithfully mark out the path of all minor procedure, and carefully adjust the conflict of secondary interests, do not leave the higher and broader questions and collisions of the world's commerce unguided and unguarded. This science vindicates itself, by showing both the perfection of the parts and the perfection of the whole; that in its keeping is the profit of the individual, of the nation, and the world; and that the law of the members, in its broadest and grandest application, still holds good.

§ 7. The system of protection condemns itself, in that it so frequently aims at, and so universally inflicts, an injury on a foreign nation. This is sufficient to characterize it as a selfish scheme, and remove it from the pale of broad principles. We have now to speak of it as that weapon of warfare and retaliation which it truly is. When an impost is laid for the protection of home production, it may be so high as altogether to exclude the foreign article, and completely leave the market to the home product. This, however, will rarely happen, since so high an impost is more than is demanded for the purposes of protection. It will ordinarily aim to raise the price of the imported

commodity to that point at which it can be manufactured at home, placing competition from abroad to a disadvantage, but not entirely excluding it. Under these circumstances, the increase in price, which the community, so watched over, will pay, is divided between the manufacturers engaged in rearing the nursling, and the government. The ratio of division will be that of the domestic to the foreign products still clinging to the market. The first of these sums realizes to the people all, and no more than the particular policy of protection is worth; the second, appearing as taxes, is entirely saved. These exhaust the home, but not the entire, effect. The nation whose market has thus been retrenched is also a loser. A portion of her commodities must go elsewhere, to crowd old, or search out new, avenues of trade; and, unless favored by some unexpected opening, equal to the one just closed, there must be a loss in profits on this portion of her merchandise. But, in order to retain so far as possible the old and wonted market, she will reduce somewhat the price of her goods, aiming thereby to compensate the rise occasioned by the tariff, and to retain a portion of the customers that would otherwise be driven off. Here, again, is a loss of profits. These results it is, which have always given to such acts an injurious and hostile aspect, and marked the policy which dictated them as eager and crafty, not broad and catholic.

The advantages of a trade are not necessarily divided equally between the two parties. If a strong demand exists for the articles furnished by the one nation, and only a moderate demand for those furnished by the other,

the bulk of the profits will be secured by her whose merchandise is most sought. This is readily seen. Suppose the nation whose commodities are in but moderate demand to offer her products in the ports of her neighbor. They do not meet with a rapid sale, and, to hasten the traffic, the price is lowered. But the articles which are sought in return are in high demand, and hence, bearing a full price. Every effort to secure an increased supply of these, still further enhances their market value; and the more, since nothing is offered in return but commodities of which the supply is already ample. Thus the result is a reduced price on the one side, and an enhanced price on the other, leaving the profits of the two nations to bear to each other the same ratio as the demand for their respective commodities. As fast as the product least in demand falls, its market will be enlarged, and the tendency to further declension in price checked. As fast as the article in largest demand rises in value, its market, or the number of persons who wish it at the advanced price, will be diminished, and hence the tendency to further increase restrained. At the opening of trade, the two commodities were not in equilibrium, the call for the one not being sufficient to enable it to meet and balance the indebtedness incurred by the larger call for the other. But as the market of the first is enlarged by its falling, and of the second, restricted by its rising price, there comes to be an equality in demand, and the sales on the one side cancel those on the other. The price at which this equilibrium occurs marks, for the time being, the relation and adjustment of trade between the two nations, and is termed the

Equation of International Demand. We have only spoken of a single traffic in single products; their multiplicity does not affect the statement.

The proposition which expresses the above principle is this:

The profits accruing from a trade between nations will be so divided between the parties, as, by resulting prices, to equalize the demand for their respective products, and cancel the debts mutually incurred: the greater the demand for a nation's products, the larger the share of profits thereby secured; the less the demand, the less the share.

A single example will make this proposition plain. Suppose that the results of ten days' labor, expended in the United States in producing breadstuffs, will purchase in England cotton goods to an amount requiring twelve days of our own labor to manufacture; suppose, also, that the products of ten days' labor, expended in England in the manufactory of cotton goods, will purchase in the United States the produce of twelve days of its agricultural labor: it would then seem that exchange might take place with a mutual profit of twenty per cent., of two days in every ten. This would be so, if the sales of the one commodity in the one country readily equalled those of the other commodity in the other country; that is, if the demand for the two were equal. But if the cotton goods of England were in less demand than the breadstuffs of the United States, that demand must be increased by the fall of price, if this class of goods is still to command American produce. Suppose that the market could be sufficiently enlarged, and an equilibrium reached by a decline in British merchandise of ten per cent. In that

case, there would remain on the one side, as profits of the trade, the gain of four-fifths of a day's labor in every ten, and, on the other side, three and one-third days. With every variation of demand, there would be a reädjustment of profits.

With these principles in view, the effect of a tariff is obvious. Foreign commodities are raised in value; the demand for them is thereby straitened, and the remnant of trade is then carried on with a larger share of profits, on the part of the nation imposing the duty. Hence it is, that high imposts in one country naturally beget corresponding imposts in those countries trading with it, that the Equation of International Demand, which has been forced from its natural point, leaving the bulk of profits on one side, may be restored again. The point at which the price settles in traffic is like the fulcrum of a scale beam; the rough justice of natural forces place it at, or near, the middle; private avarice and fraud struggle to slip it toward the pan containing their portion of the spoils.

If a heavy duty is laid by us on the teas and silks of China, her market is thereby restricted; her prices, in the effort to regain it, immediately fall, and of this reduction we avail ourselves. For these injuries she has no redress, save in a corresponding system, with corresponding profits accruing to herself; after which the trade proceeds as before the respective imposts, save only that it is on a platform of higher prices, restricted sales, and bitter emulation.

From the profits now shown to accrue in the international trade, protectionists have found a very limited

consolation. We need only remark, that the more complete their system, the more certainly are these profits lost; their realization requires protection at home and free trade everywhere else; in other words, that we should know enough to plunder mankind, and that they should not know enough to resist us. Whatever may be said of production, such a state of things would undoubtedly be favorable to pelf. Again, the price of foreign commodities, after the full reduction has taken place, is still, higher than before the impost. We purchase, by our own loss, the opportunity of inflicting a loss upon our neighbor.

These obvious and designed effects of a protective tariff justify us in calling it a piece of selfish craft, and not a broad and liberal principle.

§ 8. The only topic remaining to us, in marking the connection of government with labor and capital, is taxation. The services of rulers, though, if well performed, as valuable as any rendered to production, are not self-rewarding. The methods by which the expenses of government are met are two, direct and indirect taxation, — an assessment made on persons and property, and an assessment made on products.

A direct tax assumes two forms, a poll tax and a property tax. The expenses of government chiefly fall upon property, both because this implies the ability to meet them, and, also, because the largest share of legislative and judicial action is directed to the protection of property, and the adjustment of the interests and the controversies connected therewith. But as each citizen,

however limited may be his possessions, is yet indebted to government for the defence of personal rights, and himself has an interest in, and duty to, that government, — these relations are recognized in a poll tax. Just government is so needful for all, is so the common interest of all, so open in its remedies and duties to all, that it is fitting that all should unite for its support, on a basis of taxation equal and universal.

The general principles of just taxation, as given by Adam Smith, are the following:

"1. The subjects of every state ought to contribute to the support of the government, as nearly as possible in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state. In the observation or neglect of this maxim consists what is called the equality or inequality of taxation.

"2. The tax which each individual is bound to pay, ought to be certain, and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor and to every other person. Where it is otherwise, every person subject to the tax is put more or less in the power of the tax-gatherer, who can either aggravate the tax upon any obnoxious contributor, or extort, by the terror of such aggravation, some present or perquisite to himself. The uncertainty of taxation encourages the insolence and favors the corruption of an order of men who are naturally unpopular, even when they are neither insolent nor cor-

rupt. The certainty of what each individual ought to pay is, in taxation, a matter of so great importance, that a very considerable degree of inequality, it appears, I believe, from the experience of all nations, is not near so great an evil as a very small degree of uncertainty.

"3. Every tax ought to be levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay it. A tax upon the rent of land or of houses, payable at the same time at which such rents are usually paid, is levied at the time when it is most likely to be convenient for the contributor to pay; or when he is most likely to have the wherewithal to pay. Taxes upon such consumable goods as are articles of luxury, are all finally paid by the consumer, and generally in a manner that is very convenient to him. He pays them by little and little, as he has occasion to buy the goods. As he is at liberty, too, either to buy or not to buy, as he pleases, it must be his own fault if he ever suffers any considerable inconvenience from such taxes.

"4. Every tax ought to be so contrived, as both to take out and keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the state. A tax may either take out or keep out of the pockets of the people a great deal more than it brings into the public treasury, in the four following ways: First, the levying of it may require a great number of officers, whose salaries may eat up the greater part of the produce of the tax, and whose perquisites may impose another additional tax upon the people. Secondly, by the forfeitures and other penalties which these unfortunate indi-

viduals incur, who attempt, unsuccessfully, to evade the tax, it may frequently ruin them, and thereby put an end to the benefit which the community might have derived from the employment of their capitals. An injudicious tax offers a great temptation to smuggling. Thirdly, by subjecting the people to the frequent visits and the odious examination of the tax-gatherers, it may expose them to much unnecessary trouble, vexation, and oppression."

With these principles in view, it is easy to determine the advantages and disadvantages of any system of taxation; but, as these frequently stand in such even balance with each other, it often is not easy to decide between different systems.

Direct taxation has difficulties and advantages, as follows:

(*a*) It is unequal. If the tax be divided into a poll and property tax, the last, and, usually, the largest part, necessarily falls unequally; since a large portion of property, existing in circulating capital, in loans, and stocks, readily escapes detection and that just valuation on which such a tax should rest. Real estate and fixed capital, from their nature not to be concealed or removed, are compelled to bear the weight of such a tax, and that, too, when their ownership, under debt or mortgage, is rather nominal than real. Palpable wealth is open plunder to such a tax, while invisible wealth lurks in comparative safety. If it be wholly a property tax, resting, as it should rest, on income and not on possession, though in theory the most perfect of all taxes, in practice, it still falls far short of

equality, — of that division in which every man's ability is represented. Its practical failure rises from the difficulty of determining the amount of incomes. They are frequently not known to the persons enjoying them — seldom to the community. The farmer, the merchant, the manufacturer, would often find it impossible to determine their precise income, drawn, as it daily is, in a great variety of ways, not only from profits, but from a consumption of their own products. Neither can men be rightly exposed to the strong temptation hereby given for false estimates, The friction involved in this method destroys its theoretical perfection.

(*b*) The number of officials required for the collection of a direct, is much greater than that required for the collection of an indirect, tax. This is true of all enlarged taxation. The present revenue of the United States might be doubled, with but slight addition to the corps of Custom House officers.

(*c*) Government officials are brought into more immediate contact with the people, and, as many look at immediate, rather than ultimate results, an apparent collision of interests is thereby occasioned.

(*d*) A penurious spirit is liable to be engendered, if each appropriation is followed by an immediate and obvious increase of taxes. Education and national enterprise have to contend at each step with avarice, and the success of enlarged and generous legislation is made more doubtful.

The advantages of this method are:

(*a*) That while it is unequal, — a difficulty it has in

common with all taxation, — it yet falls upon property and those who hold it, and not upon commodities which supply the wants of all.

(*b*) That it places the people in more immediate connection with the government, quickening their interest and supervision.

The difficulties of indirect taxation are these :

(*a*) It is unequal. This defect may belong, and, in most cases, does belong to the indirect method, in a higher degree than to the direct. Any system of taxation on commodities from which a large revenue is to be drawn must, of necessity, be extensive, and include many articles of very general consumption. A heavy tax, which confined itself to a few articles, and to articles of limited consumption, would, by abridging or destroying the market, destroy itself. If, then, the imposts are to be extended to products of common use, though a portion of the tax may still be confined to luxuries, another and larger portion must be divided among the members of community, according to their consumption of articles of daily necessity. It is evident that this consumption has but little relation to property.

(*b*) A tax on commodities imposes an uncertain and indefinite burden. If it be imposed on products, whose market is shared by home and foreign producers, it then adds to the price of the commodity, without securing all of that addition to the treasury of the state. If it be placed on articles exclusively of foreign manufacture, it may provoke retaliation and limit trade. If it be placed on raw or partially manufactured produce, it enhances the

cost of the final commodity, not to its own extent merely, but, having in the interim been several times advanced by manufacturers and traders, by the profits thus accumulated. Such a tax falls on trade and production in the midst of their active processes, and is especially liable to derange them, while the precise extent and cost of such derangement escape computation.

(*c*) High duties tempt to smuggling.

The compensatory considerations are these:

(*a*) Such a tax is of easy collection. The requisite officers are few, and they are not brought into immediate contact with those who ultimately pay the tax, and whose interests are affected.

(*b*) The tax is met in connection with the purchase of an article, and hence comes without additional labor or inconvenience on the part of the person paying it.

To decide upon the method of taxation best suited to its position and purposes, is a function of government, and it is in the peculiarity of its own circumstances that the solution of each problem is found. The effect of the various modifications of direct and indirect taxes, by which they are laid on houses, on rent, on wages, on various products, will be best understood in connection with distribution. A combination of the least exceptionable direct and indirect forms may produce greater apparent perfection, but a perfection oftentimes lost in practice by the greater complexity involved.

In the United States, the division of expenses and of powers, between the general government and those of the states, has resulted in the adoption of different methods of

taxation, by these two departments of authority. So decided are the advantages connected with this variety of methods, that it will not be readily changed. They are doubtless also, in part, the complements of each other. The limited expenses of the general government can be better met by imposts, than could the aggregate cost of the governments of the several states. In the one case, the sum is not so large but that much of it can be secured from luxuries; in the other, nearly the whole must needs have fallen upon necessities. The inequality of the direct tax may at present, in part, correct the inequality of the indirect tax, — he who owns largely and expends little, paying the direct tax of the state; he who owns little and expends largely, paying the indirect tax of the general government. A more perfect justice, in many instances at least, is secured by both, than would be by either alone.

CHAPTER VII.

INTERACTION OF THE FORCES OF PRODUCTION.

§ 1. The three great productive powers we have seen to be natural agents, labor, and capital. It is now necessary to note the dependence of these on each other; and, first, that of labor on natural agents.

The human species are capable of indefinite multiplication. Labor has no limits within itself. A pair of parents may number their descendants, in a single century, by hundreds, and these, in a second century, people a continent. All the eastern world, swept by the deluge, was filled with nations in a period not much greater. The spring of animal life uncoils itself with astonishing velocity. In our own times, under the fresh stimulus of a new country, notwithstanding war, notwithstanding the ordinary ravages of disease, the hardships of border life, and the extraordinary blight of slavery, population has shown itself able, in the United States, to double every twenty-five years, and will shortly engulf the Continent, — making answer all along the Pacific shore with its own broad wave of life. Under higher incitements, a still stronger force would develop itself. But this rate of increase is sufficient quickly to populate all that remains of the globe. Such is the intrinsic power of our second agent in production.

The chief natural agent, — that on which all others are, in a greater or less degree, dependent, and the only one we need now consider, — is land. Of this, there exists a limited amount, not to be enlarged; and from this restricted surface, the best of tillage can only force a finite return. But from land comes food, the indispensable condition of all labor; hence the ultimate limits of labor are found in the ability of the earth to furnish food. It is true, that the extreme capacity of the globe will never be reached; that there will never be a time in which man shall say, not another root can find place in her fertile bosom, not another fruit be added to her bowing branches. But it is wholly possible, that the earth will be so occupied, as to bring to a halt, on its final shore, the column of advancing population, and straiten, through all its coasts, the multiplication of the species. It is not easy to put the last hair on the camel's back, but very easy to add as much as he will long carry. Population may never stretch to breaking the elastic limits of culture, and yet, but too quickly, find itself uncomfortably pressed. It has to do with limited and measurable quantities, and is itself an unlimited and unmeasured force, able to eat up, with increasing and incredible velocity, all that is offered to it, ever suiting its appetite to the supply. Let the boundary be placed where it may, and such a force will find it. The capacity of the globe is this boundary.

Nor is this check alone the distant check of an ultimate plenum. The point being given from which population sets out to occupy the earth, the most available ground, according to the methods of culture then prevalent, and

the markets there afforded, will first be occupied. Afterward, population, if still migratory, will readily pass into neighboring countries, where, once established, produce will find a new market, land a new value, and the growth of the older nation repeat itself on a fresh field. Thus each nation, though born of an emergency and pressure in the parent nation, when once it comes into possession of a virgin soil, finds itself with an open and easy career of growth. But, in proportion as nations are more attached to home institutions and present relations, in proportion as the field of emigration is more distant, and intervening obstacles greater, men will be dissuaded from the effort required for removal, will strive to force the home culture to a higher point, enclosing less arable land, and bestowing more labor on the old. Thus, according to a law that we have already laid down, the returns of agricultural labor begin to diminish; and, in proportion as the channels of emigration are lengthened and obstructed, and each nation is thrown back on its own share of the inheritance, is it found that population, in its geometrical growth, tends to outstrip the too slowly increasing food of the country, and to crowd it with human life beyond its present resources.

Nations have been, and are, perpetually liable to be enclosed by their customs, by their ignorance, by natural obstacles, by the strength of surrounding nations; and, when so enclosed, to find population forced against the barriers of food. It matters not to them, that a large part of the earth's surface is yet unoccupied; they have no means of egress. It matters not, that their own lands could yield more than they do yield; their own knowledge

and habits of culture rule them, — are a wall of concrete facts, that effectually cut them off from the Elysium of abstract possibilities. China has long been so shut up. It does not affect the case, to inquire whether her territory, under a given kind of cultivation, might not support many more than her present numbers. Under that culture which is hers, it has long failed to render an adequate maintenance, and the slightest vacillation of the seasons is sufficient to expose many to starvation. When the famine is in Ireland, we may have the satisfaction of feeling that the inherent powers of that island have never been reached, but should also know, that her resources, as developed by her present social state, have been more than reached. A nomad race, that are not tithing the powers of the earth, may, and perhaps the most frequently of all nations do, feel the application of these principles. The extent of country, which supports this careless and scattered life, must be very great; and hence the limit of population, in this state of civilization, is readily reached; and, in earlier times, a dearth of one or two years was sufficient to force down, on their cultivated neighbors, the hordes of the north and east.

Enlightened nations, in the multiplicity of their resources, are able, by carrying their culture to a higher and still higher state, to bear back the limits of food, and also to avail themselves, in a much fuller degree, of the wealth of their neighbors, and of the general wealth of the globe.

From this discussion, it is evident —

(*a*) That, as each nation becomes ĭsolated and exhausts its resources, it may feel the pressure of population long

before the general limit of the earth's capacity has been reached;

(*b*) That this state will be arrived at most quickly by nations possessed of the feeblest civilization and methods of culture;

(*c*) That this state may be, and has again and again been, reached with a very sparse population;

(*d*) That the more intelligent the nation, the greater will be the variety of its resources, the greater the elasticity of this limit of food, and the less the danger of famine;

(*e*) That the universal tendency of population, however often that tendency may be suspended or overruled, is to exhaust the gifts immediately made it, and, by a too rapid increase, to outstrip their growth.

§ 2. These results arise from the relation of a force of constantly increasing expansive power, to one of strict limits and rapidly decreasing vigor, as these limits are approached. This increasing difficulty which attaches to agricultural labor is the necessary concomitant of growth in population. If any bound is to be set to the fruits of the earth, — and such a bound there must be, if the earth itself is to be bounded, — this bound must be approached gradually, and with constantly increasing restrictions; otherwise, population, no longer slowly checked under new and augmenting friction, would, at its highest velocity, be dashed at once against an insuperable barrier.

These conclusions rest upon the law of agricultural labor, but this law does not rest upon the single assertion,

that the best land is in each country first appropriated. If the reverse of this were true, the law would have essentially the same force as at present. It rests primarily on the wholly incontrovertible assertion, that the early returns of land under labor are greater in proportion to the labor expended, than the later. This, taken in connection with the limited supply of land, must completely establish the law of agricultural labor, in those later and more important states of society and production, in which the territory of a country is fully occupied. Nothing can be more obvious, than that the same acre is not capable of indefinite and corresponding improvement, under additions of labor; otherwise, a square yard were as good as a square mile, an island as a continent.

But the other assertion, which extends this law to the earlier states of agriculture, before land is completely occupied, is true; if not perfectly and accurately true, yet so true, as to be the adequate basis of a general law. Men do, in the main, choose and first occupy the best lands. To assert otherwise, is to say either, that when a greater advantage is presented man still prefers the less, or, that the world has been so cunningly constructed, that the greater good is never accessible till each lesser good has first been appropriated. Both of these propositions are at war with experience. It avails little, to show that some good land has been reserved in swamps. The world is not a swamp, but meadows and uplands. Nor does it avail more, to show that early settlements, while the country is yet heavily timbered, reeking, and pestilential, are frequently on hills and slopes; men but wait for the wood-

man's axe and a healthy sunlight to prepare their way in the valley. The ark, that held the coming world, opened its doors on the rocky sides of Ararat, but only that the rill, from this new fountain of life, might roll rapidly down its slopes, and spread out in broad streams along the valleys of the Tigris, the Euphrates, and the Nile. The pilgrim bark let down its passengers on the sandy and barren coast of Plymouth, but only that they might scatter themselves thence, like prolific seed, through all the fat valleys and uplands of the Western Continent. The general tendency, by which men seek and secure the best, is indubitable. It is only an obstinate substitution of restricted and local, for broad and general, forces, — a consideration of days and years, instead of centuries, that can make it seem otherwise. If we take a river by small divisions, we shall find that it runs in any way we choose to have it; if the eye sweeps along its whole stretch, it runs in but one direction.

The safety of economic theories is, that they deal with masses and general movements, and are not therefore bound to consider, nor are at all affected by that which is limited, exceptional, and peculiar. A theory soundly based on general principles is safe in a community, since there the laws of human nature are necessarily operative; in the individual, it may fail through some personal departure from the general type. All that we need or care to know in reference to any tendency, is, that it is general; it is no concernment of ours, that restricted and local causes counteract and suspend it, — now on this side, now on that. The way will be longer, but the issue of the journey will

not be different nor less certain, because the river on which we float is winding. Population is not less surely liable to feel the pressure of numbers, because a colony destined for the Hudson is landed at Plymouth; because a swamp is redeemed to profitable culture; or a valley made wholesome by clearing and drainage. These are not more than eddies in the stream.

§ 3. This tendency in population to outstrip food has two checks, — the positive and the preventive. War, and the disease which destitution provokes, constitute the first; the prudence and self-control which intelligence and virtue secure, constitute the second. The first of these is closely connected with, and often but slightly anticipates famine, which is the necessary result wherever population is found in advance of present resources. This check belongs to the earlier periods of society, when the methods of culture are limited and inadequate, and when men have not yet been sufficiently trained to anticipate, and adequately provide for the future. From the imminent danger and severe regimen of an early state of society, each step in true civilization bears us. This dark region of savage destitution, where, amid the most powerful latent forces and unopened veins of largest wealth, men perish of poverty, each growing nation leaves daily further behind.

The preventive check, on the other hand, operates only in the midst of comparative comfort, and implies a sagacity able to anticipate the evil, and prevent its approach. A community possessed of intelligence also possesses itself of enjoyments, and retains these enjoyments at every

needful sacrifice. Marriage is optional, and is not entered on till its additional liabilities can be met. It is not made a thing of animal instinct and passion, but of rational prevision and forethought; and no demand is created till a corresponding supply is at hand. Thus the sexual instincts are placed under the same rules of temperance and prudence which control the appetites and passions of the whole man, and life is made, not a thing of impulses, but of reasons, — not a thing of hours, but of years. This check belongs to all high states of society, anticipates and overcomes the evil without serious inconvenience, and applies itself, more and more perfectly, with each step of advance. Savage life, by its deficiencies and vices, creates a barrier, and hurls itself against it, long before the resources of a single country or continent have been discovered, much less exhausted. Enlightened life, with wise forecast, anticipates and arranges its action, in reference to the real limit, before it reaches it.

The strength of life placed in the human race is wholly analogous to the intensity of the same force, found in the various tribes of the animal and vegetable kingdom, by which these maintain their footing on the earth; the pressure of war, which tends to extermination, inducing an increased fecundity. A natural force, that was only able to populate the globe under favoring circumstances, could not resist the violence, or overcome the difficulties which man's ignorance and vice have ever opposed. A force, able to withstand the obstacles of early and savage life, and still crowd its advancing numbers over every barrier, must needs be in excess, when these barriers have been

broken down, and an enlightened science has made the path of progress broad and easy. But this procreative appetite, in the prevision and constraint which it demands, and, in higher states of culture, secures, stands on the same platform with all our appetites and passions, not solely guided by self-regulating instincts, but left largely in the hand of reason. That this spring of life has not been coiled too strongly and tightly for the work it had to perform, is sufficiently evinced by the fact, that the earth, at this distant period, is far from being fully possessed.

§ 4. Having seen the relation of natural agents to labor, we have now to see the relation of these two to capital. Agricultural products give limit to the growth of labor; the number of laborers limits the amount of capital that can be employed; hence the ultimate measure of growth, in all departments, is found in the resources of agriculture. But this assertion has reference, in population, to the growth of numbers; in capital, to the increase of the aggregate amount. There is another kind of growth more important than this, — that of a community of given numbers, in its economic enjoyments. It is not necessary, for a true social state, that the population of the globe should be indefinitely increased, but of the highest importance that commodities, in their relation to laborers, should so increase; that industry should have more and more to bestow on her retinue; that production should show itself able, at every point, to promise and to confer additional rewards on additional skill. All social progression is based upon a possession of the decencies and luxuries of life —

its external manifestations; and, through the instruments of literature, science, and religion, which it furnishes, it is the necessary precursor of all broad and high attainments. It is then a question, not exclusively of economic, but of social interest, how far production can supply the needful basis and instrument of all higher progress.

Suppose the limits of food, in a certain community, under the prevalent method of culture, to have been reached; and that the community is intelligent, and is not willing to fall below its present comforts. Population ceases to increase, and, the number of laborers remaining the same, an ultimate limit, as far as one element is concerned, is assigned to capital. The result of such a state of things is not, that the growth of society in utilities is checked or straitened, but only that the number who can enjoy that growth is limited. Capital may increase till labor is fully taken up; then, as fast as invention, through labor saving machinery, releases labor from old employments, and leaves it open for new efforts, capital may again enlarge itself, and the aggregate of commodities to be divided in the community can go on to increase. Nothing which diligence, skill, invention, and capital, can do, are they restrained from doing. An inexhaustible supply of food could not increase the power of these agents to secure a higher state of external good with given numbers, but only enable them to multiply these numbers. Food increases commodities and labor, but not the ratio of the first to the second, which ratio alone determines prosperity. A want of food suspends the increase of numbers, but not the progress of present numbers in

every form of prosperity. The country being given, the state of agriculture defines the number of those who can there enjoy the highest civilization; the state of the arts, the precise point in civilization at present reached; an increase of food enlarges the platform of life, giving fresh numbers; an increase of mechanical skill lifts up that platform, giving station.

The land furnishes the raw produce of the arts, thereby reducing its ability to furnish food, and still further straitening its powers to sustain life. It is, however, worthy of remark, that the earlier and coarser manufactures, which are inaugurated long before agriculture has approached its limit, consume the raw material much more rapidly than those later and finer manufactures, which mark an advanced state. In these mechanical labor is the chief element, and but a slightly increased demand is therefore made on agriculture.

§ 5. We have seen capital limited by the amount of labor at its disposal. Some have supposed that it finds a much earlier limit in the abundance of its products choking the markets and destroying profits. The one doctrine is, that labor may have all that it can employ of this instrument, and that production is only restricted by the strength and skill of the producers; the other, that there comes a time when products are in excess, and capital must be withheld from profitable investment, in order to restore and sustain the price. If agricultural produce constituted the one-half the market, and manufactured commodities the other half, and traffic took place chiefly or

exclusively between these two, then there would be truth in this statement. The condition of agriculture would define and determine that of manufactures; since the amount of its produce would indicate the purchasing power of one-half the market, and hence, the quantity of profitable sales which could take place from the other half. As long as no more food could be brought for purchase, it would be useless to offer additional articles for sale. There is no motive to make two yards of cotton, when the two can find nothing more to purchase than was before obtained by one.

The truth is, that each kind of product stands over against all other kinds, and may purchase and be purchased by them all. Food is but one item among many, and, though controlling the increase of population, it no more controls the market than any other. A single kind of product may be so increased, in reference to others, as more than to meet the relative demand, and thus the producer be compelled to force a sale, at the expense of his profits. But the more broadly this increase takes place, the more certainly is the equilibrium of relations preserved, and a new purchasing power found ready to meet the new supply. Larger amounts are brought forward, larger amounts secured in return, and everywhere, there are the possession and consumption of more utilities. Each man is advantaged, and only in the growth of common advantages does he find the market so enlarged as to be able fully to reap his own advantage. The skill of one multiplying his products is met by the skill of another with a like increase, and a larger transfer of utilities, with

mutually increasing enjoyments, takes place. If a single kind of production were, by capital and skill, to enlarge itself, — others remaining stationary, — it is evident, that the interest of the producer would suffer; since he could not, for any length of time, secure, in exchange for his own a sufficiently increased share of the unaugmented remainder of products. Not so when many kinds are simultaneously enlarging; these mutually compensate each other.

It is true, that, as far as the article of food is concerned, the multiplied commodities would have no more purchasing power than the previous smaller quantity; that, in reference to all other things, the price of food would seem to have risen, and this, because the labor now expended to secure food is as great as hitherto; and that, to secure other products, less than hitherto. But it is also true, that food differs from most other articles in the definiteness of the amount constituting a sufficiency, and in its inability to advance the state of a community by an increase beyond that sufficiency. If it be so increased, it tends strongly to multiply numbers, and very feebly to raise the existing social standard. Most manufactured articles, in excess at home, command abroad utilities without enlarged numbers; food gives itself to numbers, and not to advancing utilities. It is not growth, but multiplication, — involution on the old basis, — that the want of food restrains.

This progress, occasioned by increased skill and capital, is secured under the direct impulse of self-interest, — the gravitating power of the economic world. Each producer, as he multiplies his own commodities with lessening cost,

not only finds that others are doing the same, and that, therefore, there is correspondingly more to be purchased, but, also, that these perceptible advances secure, for a time, a perceptible increase of profits, a readjustment of things in his favor. The market is not instantly reduced by a new supply; and when reduced, not so reduced as wholly to compensate the advantage of the new addition. The equilibrium of prices has, for a moment, been disturbed in his favor, and, though it must ultimately restore itself, he will, in the mean time, reap unusual rewards. Or, more accurately, the old adjustment of prices is not applicable to the new state of things; and, before the natural forces at work shall readjust these prices, time will be given to reap a harvest of high profits, — the very tardiness of nature working the reward of skill. Especially is this true of all staple commodities, whose inertia is too great in the broad market of a whole country, to suffer sales to be greatly affected by the growth of ordinary enterprise, and which give, therefore, a longer period of unusual profits, to reward and stimulate private skill. Thus is the double motive of immediate profits and of an abiding individual and general good, constantly applied to secure progress.

§ 6. It is in the connection of labor with capital, in seeing that all high production is the birth of their joint powers, and that labor only becomes respectable and formidable as it is sustained and armed by the strong mechanism of skill and capital, that we understand the true effect on production of the luxurious expenditure of

wealthy and aristocratic classes. It especially behooves industry to provide for her own workmen, and to enlarge their share of the commodities produced by their diligence. The state of production is dependent on the skill, intelligence, and social position of its laborers. The higher and the more universal the enjoyments which fall to their lot, the more free, efficient, and successful, will be their industrial efforts. A wise industry must provide for its own. The highest social state, which is the highest productive state, scatters its rewards and inducements among the bulk of men; trying to raise here the tone of sentiment and of life, and to bear up community in its masses to a higher platform. It devotes its leading energies to that kind of production whose commodities meet the necessities and decencies of ordinary life. It multiplies in amount, in variety, in excellency, in beauty, and reduces in price all such products, and places within the reach of the diligent a life of comforts and enjoyments.

This tendency toward the masses, their utilities and welfare, which industry would fain establish, is checked and counterworked by all violent and premature expenditure on the part of particular classes, especially if these are not themselves producers. Capital, or that which might become capital, is perpetually withdrawn from labor to nourish this vanity of station, thereby restricting and weakening its productive force.

He who builds a costly palace, for the time being, employs many men; but, the work once completed, these men are dismissed, to find no more occupation from the sums now expended and finally locked up in a product

that waits consumption. He who builds a factory may employ as many laborers, while the completion of the work is but the signal for the commencement of large industrial operations; and the sums already expended have become fixed capital, not waiting consumption, but to be perpetually replaced by the profits of the business. These buildings worn out, there is an accumulation of capital more than able to replace them, and inaugurate a similar movement. These expenditures become capital, and go on to lend themselves, in increasing amounts, to labor. Capital expends, returns, and reëxpends itself on labor, each revolution preparing the way for the succeeding. Luxury bestows its purse once on labor, and then has no more that it can do.

Nor is this the only difference between these kinds of expenditure. Luxury encourages labor, and cheapens products in those departments of production whose commodities are out of the reach of the masses, and afford no stimulus to the laborer. It aims, not to lift the platform of common advantages, but to raise particular points as high as possible above that platform. It abstracts labor from the production of the ordinary decencies of life, weakening industry and invention in these directions, that they may be made the more successfully to pad the couch, and pamper the appetite of indolence. Industrial expenditure, on the other hand, when not turned aside by the extravagance of individuals, throws all its energy into the multiplication of the products of daily life, and places these, in higher perfection and numbers, within the reach of all. The one pushes forward a limited portion of the race at

the expense of the remainder, taking from the common resources that which, in the selfish hurry of vanity, it bestows on a few. The other advances the masses in even line, making greater expenditure and fuller consumption possible for all. The premature haste of luxury, and the wise delay of a more generous economy, have equally in view the enjoyments of consumption; but, in the one case, it is the consumption of the few, in the other, of the many. It is because the luxuries of one class stand contrasted with the wants of another, that they become pernicious. Let skill and capital make the luxuries of to-day the decencies of to-morrow, and if they so make them for all, it is the complete triumph of their power.

But it may be thought that no motive is provided for the acquisition of capital, if that capital may not be withdrawn and expended at will; that the sole reason why many engage in production is, that they may secure that which can afterward be expended in the parade of luxury. This is true: those who acquire products must be left to control their consumption. Political Economy does not provide the motives from which men seek wealth, but only points out the methods and laws of its acquisition. It is competent to determine what expenditures best promote, and what retard its own highest social state; but it cannot counteract the vanity and selfishness which are the occasion of the one, nor supply the intelligence and enlarged philanthropy which feed the other. While the laws of production never oppose, but always sustain those of morals, they by no means supply their place. The broadest and best production cannot exist, till the higher

and more generous impulses of the human heart have been drawn forth by intellectual and religious culture. Production is so hardy in its laws, so simple and primary in the impulses to which it appeals, that it can precede any extensive social and moral culture, and, by the ripening of its own grosser interests, prepare the way for them. It can live in the atmosphere of selfishness and vanity, — may even have a rank growth there, — but it cannot unfold itself in the broadest enjoyments, in the happiness and comforts of the masses, till a truer, a more humane, and a more religious spirit has sprung up. The vapors of a still dank and reeking world may nourish the rank vegetation of the carboniferous period, but it is not till the pure and azure sky of the tranquil heavens is pitched above it, that the earth is everywhere gemmed with the rich variety of its present flora.

It is high proof of the wisdom hidden in the laws of production, that it can work its forces by the mean motives supplied in the lowest social state; and that it can yet better work those forces by the highest impulses of the most perfected state; that, by the property which their very meanness has acquired, it can place men under new bonds to seek a higher intelligence, and possess a stricter regard of law, and still unite itself to the latest impulse of a Christian benevolence, affirming that in this path alone lie its fullest gifts.

It is true, then, that as long as the vanity of wealth is a ruling motive for its acquisition, we cannot expect, nor do the interests of production suffer us to wish that luxury should be restrained, or any more generous impulses be

forced on industry, than those of the social state which sustain it. Our remedy is not physical, but moral; not in economic regulations, but in enlarged culture. This it is which alone will lead man to create and use capital, not as an instrument either of luxurious indulgence or debasing avarice, but to advance, in common with their own state and intelligence, the state and intelligence of the community to which they belong. To these wise expenditures, which act by new incentives and a healthy emulation upon the masses, belong all those personal expenses which lift men up, not by the amount lavished, but by the fitness, taste, and utility of the thing purchased; that strength, amplitude, and elegance of public buildings; that breadth and liberality of provision for public health, pleasure, and convenience, which mark patriotic impulses, and teach the individual to find his enjoyments in the enjoyments of the many; that complete and costly system of general education, which makes knowledge a foremost part of man's inheritance; that liberal and conscientious Christian benevolence, that dares enjoy nothing which it has not tithed for the spiritual service of the race.

It is true that motives may exist for a generous production, throwing the whole strength of its resources into the common movement, and withdrawing nothing for the waste of vanity and passion. It were a poor comment on Political Economy and on human nature, which, in one of its departments of action, it represents, to affirm that nothing but a restricted and irrational selfishness is an adequate impulse for industrial effort; that no higher motive can be supplied to it or is sought by it; and that all the good, of

which the many in this direction are capable, is found growing out of the pride and patronage of the few. It is equally true, however, that Political Economy does not itself impart these motives, and that it can only point out the higher state of production which will come in connection with their existence. It is fitting that Political Economy should strip the luxury and prodigality of wealth of the pretence of calling forth labor, and sustaining industry. The laws of production are indeed so happy, that something can be obtained from the very vices of men, but also so happy, that much more can be obtained from their virtues.

§ 7. The condition of laborers, and, in the most important respects, the condition of production, are not solely nor primarily determined by the power of the natural agents, and the amount of the capital at their disposal. Both of these may exist in a high degree, and still leave much wretchedness in the lower classes. It is in vain that industry multiplies her products, unless there are present, among all classes, that self-respect and prudence which enable them to realize and retain the advantage. If a certain percentage of the population of any country have so little intelligence, so little to gain, and so little to forfeit, as to be wholly improvident, it is in vain that production goes on to provide more liberal resources and higher possibilities. Population, which, in this class, knows no other check than the positive check of entire destitution, in obedience to a general law of all mere animal life, — a law no longer corrected by rational impulses, —

goes on, under this pressure of unfavoring circumstances, to put forth new energies of life, and is thus ready to eat up, with insatiate hunger, all that is given it. Those who are paupers in their spirit, will remain paupers, in spite of, or, rather, by means of, the most liberal provision, each new external resource acting like a bounty on the class. It is only by a thorough educational process, by restoring such persons to a true personality and manhood, that they can be lifted above the law of all lower life, — held in check by counter physical forces, and resisting extinction by unfolding fresh productive powers, — and placed under the higher law of self-guided and responsible action. If man, by his own fall and degradation, step out of the higher world of intelligent prevision, into the lower world of blind physical forces, he will come under, and be bound down by these lower laws, and nothing can release him from their pressure, till he is again lifted on to that higher platform where they have no force. If any class of animals is pressed with hunger, far from succumbing to the new enemy under the designed reäction of a natural force, they rush to the breach in increasing numbers; they swarm every avenue to life with the spawn of a prolific birth, struggling, by the multiplication of chances, to rescue the species from impending ruin. Judging from the number of births among the extreme poor, this law does not seem to have been suspended in the human constitution, but to stand ready to apply its hard and rigorous rule, when prudence and reason can no longer reach the man gravitating downward into the abyss of his animal nature.

The luxurious vanity of the higher, and the improvident squalor of the lower classes, are frequent and natural counterparts of each other; the splendor at the upper extreme shining too remotely to quicken the dark, despairing life at the lower; and the repulsive garb and aimless inanity of the lower interposing too broad a gulf to secure either the sympathies or to command the fears of the higher. Nor is it to be expected that the last rank of society should have rescued itself from the ignorance of vice, when the first rank has not yet rescued itself from the ignorance of vanity. Intelligence follows the steps of prosperity, and works its way downward. It matters not so much, in the early stages of production, and hence of culture, that capital is grasping and selfish, eager to withdraw itself for individual luxury; for, during this period, much of labor is reckless and improvident, using its advantages, like the food of lepers, only to nourish and strengthen a social disease. It is not, till the higher classes have knowledge and moral training to communicate, that they find within themselves a motive for increased beneficence, and are also able so to prepare the way for the enjoyments of an increased production, as that these shall no longer feed a mean and menial life, but lift it to a higher social state.

§ 8. From this discussion, we gather the following conclusions:

(*a*) An addition to external advantages will improve the social condition, when intelligent laborers are prepared to receive, and, by prudence, retain them; will

not improve it when population merely, is thereby quickened.

(*b*) All educational expenditures necessarily prepare the way for a higher social and productive state, and, when accompanied with increased physical resources, secure immediate progress.

(*c*) A rapid advance of external prosperity is more certain of occasioning a step in permanent progress, than a slower advance; since population is outstripped by the one, and men, coming into possession of a higher form of life, may learn to value, and be led to retain it; with the other, the growth of population may keep pace.

(*d*) A pauperism which is not the result of any sudden pressure, but is the last rank of community habitually lapsing into an indigent and dependent state, is only nourished by a permanent provision, by anything which merely gives it a margin of food. The burden of the difficulty is intellectual and moral; and here must be the remedy. When the intelligence and skill of a community, or any part of a community, have become so feeble as to suffer their numbers to press on their resources, lacking the coherence of rational motive, society will constantly ravel out into pauperism. It must, under higher incentives, be woven again into a firmer fabric. No external forces can supplace the weakness of an inherent life. Such a society demands the tonic of knowledge and religion, strengthening from within the social system.

(*e*) A pauperism which is the result of sudden pressure should be relieved at once, before the mind is

habituated to a lower state, and is willing to make it permanent.

Production is itself a disciplining process, and, for its perfection, demands the full and generous discipline of all wisdom, thereby evincing that it walks with, and is no beggarly companion of, our higher powers.

BOOK II.

DISTRIBUTION.

CHAPTER I.

NOMENCLATURE.

§ 1. Distribution is the department of Political Economy pointing out the principles according to which products are divided among the several classes of producers. These classes are three, — the holders of natural agents, laborers, and capitalists. No more appear in production, and hence no more in distribution. The nomenclature of distribution has best been given by Senior: "It appears to us that, to have a nomenclature which should fully and precisely indicate the facts of the case, not less than *twelve* distinct terms would be necessary. For each class there ought to be a name for the *instrument* employed or exercised, a name for the *class of persons* who employ or exercise it, a name for the *act* of employing or exercising it, and a name for the *share* of the produce by which that act is remunerated."

These several kinds of producers, though theoretically distinct, are frequently not so practically. The holder of

a natural agent may also be a laborer and a capitalist; a capitalist may himself employ his capital, and thus be a laborer; a landlord, or the owner of a mine, may furnish the needful means for carrying on the farm or working the mine, and thus be a capitalist. Indeed, though no division is better made or more firmly established than this between the three kinds of producers, there is often considerable difficulty in deciding to which class a given agent shall be referred. This difficulty, however, is not such as at all to interfere with the practical value of the distinction, or to limit the generality of the principles which determine the division of products between the several classes. If the same person be laborer, capitalist, and landlord, he receives thereby three parts, but parts not less distinct than if they had fallen to three individuals.

Bog land may be purchased at one dollar an acre; it may be redeemed at the expense of forty-nine dollars per acre, and make a fair return at the augmented value of fifty dollars. Are these returns to be termed rent or profits? The answer sometimes given is *profits*, in the hands of the improver; passing from his hands, *rent*. It seems better to term them at once, what all agree in ultimately terming them, *rent*. No further change is wrought in the sources of these returns by their transfer, and if a later convenience demands that this income of land should be termed rent, why not let that convenience rule from the beginning. Also, this income attaching itself to land is immediately removed from the laws of profits, and comes under those of rent. Money so expended is no longer in the form of capital, fixed or circulating, nor can

it be restored to that form. It is, for better or worse, inseparably wedded with, and transmuted into, a natural agent. If we are not to term the returns of a farm just purchased from man, profits instead of rent, why should we term them profits, when the purchase has been made from nature. If I obtain an acre of good land from my neighbor for fifty dollars, the case is considered plain: is it less plain if I obtain a second acre at the same sum, now paid in two instalments — one to my neighbor, and one to nature, as the price of her coöperation?

Labor is of great variety; sometimes almost wholly unassisted by the mind; sometimes, resting chiefly in the toil of the intellect; and sometimes well nigh disappearing in the rapid and brilliant execution of genius. The large returns of the last, some have absurdly chosen to call rent, as if large intellectual resources were equivalent to a natural agent, — an impersonate power bound to service, and in the leash of the man of genius. It would certainly be difficult to decide who is possessed of this lion of the mind, and who is not; who is to be dignified as a holder, and who is to drop into the now degraded rank of laborers. Strength, physical and intellectual, makes labor efficient, but does not alter its character.

§ 2. Profit and wages almost always coëxist in the same commodity, and when the laborer and capitalist are also the same, it has been thought more difficult to determine what the joint product of labor and abstinence should be termed. If the capitalist and laborer are different persons, the product is divided, and the question has a practical

solution; but if the same person, this actual answer is wanting, and there is given an opportunity for doubt. The correct solution of this problem can hardly be deemed difficult. The portion of the value of the product due to the exertions of the individual, and the portion due to the capital employed, are readily separable in thought, and, though existing together, have been secured under very different laws, — those which regulate the returns of labor, and those which regulate the returns of capital. A manufacturer may be his own overseer, or clerk, or business agent, and thus, in the aggregate of returns, may find both the profits of the capital invested, and the wages of this kind of labor. The broker that manages his own business finds, in his reward, two very distinct elements, — compensation for personal skill and effort, and a return of profits regulated by the sums employed and the current rate per cent.

Some have also been disposed to call the returns of educated labor *profits*, and the trained powers from which they proceed, *personal capital*. This arises, in part, from a desire to account for the very diverse rewards which fall to the different classes of laborers, by the introduction of a new element. But this creates the same confusion which arose from calling the price of talent *rent*. Almost all labor has in it more or less of skill; very much labor, skill, which it has cost the artisan time and capital to secure; hence, if we term this personal training *capital*, and its reward *profits*, we shall have inextricably woven into almost all labor a new element, wholly incapable of accurate estimation. It is also evident that the additional

returns which fall to skill and knowledge have little or nothing in common with the laws of capital; that they do not in any way show themselves profits, by being connected with, or the result of, the current rates per cent. On the other hand, they are determined, so far as they are controlled at all by general principles, by the laws of labor, which we shall hereafter point out, and thus are wages.

In our definition of capital, we defined it as a commodity retained for purposes of production, and thereby expressly excluded personal skill. It is equally excluded from our definition of wealth. Capital and natural agents, and not the laborer, make up, in the technical language of Political Economy, the wealth of a nation. If skill is to be included in wealth, it must be transferred, either to the class of natural agents, or to that of capital, and through these, introduced into the possession of a nation. But if we transfer it in its higher, we must also in its lower degrees; and if skill is to go to capital, why should we not, in accordance with the suggestion to which reference has been made, transfer personal qualities, certainly not less necessary and valuable than skill, to natural agents. Thus, the members of the parted man, flying on either hand, — acquired gifts to the right, and original gifts to the left, — what nonentity have we remaining for the laborer? It is doubtful, even, whether the metaphysician's airy idea of personal identity could be filled by it. The nation's wealth is undoubtedly increased, for we have tumbled it into its own coffers; but what master is left to own this sum, of which personal qualities and skill are the largest

half? Is it not better to let the nation — the laborers — remain in all personal powers intact, possess themselves, and own the natural agents and capital at their disposal? In the higher forms of acquisition, we may mark personal wealth, as found in internal resources, but, in the lower field of gain, wealth is best confined to external resources alone. Thus, alone, can we preserve a clear distinction between the three classes of productive agents. We have no longer to divide the returns of unaided personal exertion into rent, profits, and wages, — assigning something to high endowments, something to the personal capital of skill, and a residuum to the barren qualities which are supposed to constitute a laborer.

It frequently happens that unusual returns are made to labor, in different places and different departments of effort. The discovery of gold may give an unexpected value to labor in a distant colony; capital may secure an extraordinary percentage. These extravagant rewards are, in part, accidental, and obey no law; but, so far as they are amenable to any law, it is the law of the particular agent with which they are connected; and thus, to the extent to which they invite the attention of Political Economy, they are subject to the same nomenclature as the more reliable returns of production. The sixteen dollars of the gold-digger, and the twenty per cent. of a new country, are, respectively, as attached to labor and capital, wages and profits. In determining the class to which any returns belong, it is not only needful to know in connection with what they come, but, also, what was the law of their acquisition, — that of rent, wages, or profits.

§ 3. In the first class of productive instruments, chief above all is land. But this term is too explicit and limited to be made to include water privileges, mines, and the other important agents of this department; hence, we must accept, as the name of our instrument, the less compact term of natural agent, and, as the name of the person retaining it, the holder of a natural agent. The verb *to hold* designates the act by which the agent is retained for production; and *rent*, the share of the produce with which this act is remunerated. The words *holder* and *to hold* are not technical terms, nor are any of the various other words with which their place is supplied.

In the second class, we have, as the name of the instrument employed, *personal powers;* as the name of the person employing it, *laborer;* as the name of the act, *to labor;* as the name of the reward, *wages.* Three of these are recognized terms; the first is not so, the thought being here left at large.

In the third class, the name of the instrument is *capital;* of the person retaining it, — in common speech of the person using it, but, in Political Economy, of the person retaining it, the actual use being labor, — *capitalist;* and of the peculiar act, in addition to labor by which it is secured, *abstinence;* and of the return made to this act, *profits.*

In this nomenclature, it is seen how closely labor unites itself to the other instruments, calling them into use, and, in the case of capital, both creating and using it. Hence it is, that, in the terms *capitalist* and *profits*, there is a tacit

and perpetual reference of the mind to exertion, rather than to the negative act of abstinence, which is the sole distinguishing feature of this third class. Indeed, the language of Senior above given, "employ or exercise," as expressing the act belonging to the first and third class of producers, is faulty. The holder of a natural agent does not employ or exercise, but holds his instrument. It is not an exertion that is rewarded in rent, but it measures an advantage which belongs to the holding of a natural agent. Thus, also, in capital, abstinence, which is the peculiar act of a capitalist, and which is rewarded in profits, is not the employing or exercising of the instrument *capital*, but that which transforms what was before products into capital. To employ and exercise, apply strictly to labor alone. This it is which "puts in act and use" every instrument. Though, in general, of the twelve terms now explained, those have been first set aside as peculiar and technical, which designate things most distinctive and most frequently demanded in expression; it is not so with the term *abstinence;* this, though the hinge on which every correct explanation of capital must turn, has been but recently supplied.

§ 4. It should be observed, before proceeding to point out the principles regulating the distribution of products, that the forces which underlie and secure these principles or laws are oftentimes modified or suspended by custom. Society is not left pliant, to be freely shaped by those natural forces to which its pecuniary interests are intrusted, The passions, the avarice, the injustice of men, have

established arbitrary distinctions; given to certain classes exclusive rights, and hedged about their advantages with customs and laws too strong for the many. Ignorance and moral degradation have left certain classes contented with much less than, under natural laws justly administered, would have fallen to them, and have left them open to the plunder of those with whom there was the power of greater knowledge. Institutions, which are the wreck of arbitrary power and ancient violence; customs, which are rooted in the caprice, the pride, and the ignorance of men, enter in to limit the laws of competition, and give us results somewhat different from those due to the undivided and unrestrained action of this force. In consistency with this it is, that natural agents are not left open to the free acquisition of all, but are straitened by laws of inheritance, by the primogeniture of England, and the metayer system and serfdom of Europe. So, also, the caprice of fashion, and the vanity of wealth, come in to give certain establishments a prestige, and certain goods a price, altogether fanciful. The remuneration of the physician and that of the lawyer are largely subject to custom, the competition of numbers not reducing fees, but only diminishing the chance of securing those fees. Ignorance on the part of one class, as that of laborers, may greatly limit their resources, the number of directions in which they can turn their efforts, and the length of time in which they can remain without employment, and thus place them more completely in the hands of capitalists, than the laws of competition, operating on a similarly situated, but more intelligent community, would do. The knowledge and

skill of each class must help to determine how far it shall secure the advantages which are opened to it, and how far escape the losses into which the efforts of other classes tend to crowd it. Many of these exceptions are of minor importance; others are but the condition on which competition begins to act, — the element amid which it enters and exerts its control, — and all leave its great laws unaffected in their practical value.

CHAPTER II.

RENT.

§ 1. Rent arises from two causes — the limited supply of natural agents, and the difference in productive power which exists between them; these causes act conjointly and separately to occasion rent. If natural agents were of equal value, if different lands were equally fertile and equally well situated, but the supply restricted, there would still be a time when these agents, all appropriated, would confer a peculiar advantage on their possessor, and bear a rent.

It is better, for the present, to confine our attention to land, and, having pointed out the principles that determine rent and its amount in this agent, it will be easy to see how far these apply to the other natural agents. On the supposition of equal advantages in the various soils, it is the decreasing returns, which, land being all occupied, shortly begin to be made to all additions of effort, that occasion rent. Husbandry of ordinary skill secures from an acre a certain return; if, on the same basis of skill, the effort be doubled, if the soil be twice or thrice ploughed, harrowed, or hoed, there will be a larger, but not a double, return. If this exertion were again to be doubled, the crop would fall still further short of a corresponding increase.

Population, being placed in the midst of these equal gifts of nature, would begin to appropriate them, and, so long as any part was unoccupied, no rent could be secured, since there would still remain, for the taking, advantages the same as those enjoyed by the present holders of land. This holding, being yet at the option of all, could confer no peculiar power on any. The produce of such lands could only secure in the market a price sufficient to compensate the labor expended in raising it. Food remaining at this minimum price, population would rapidly increase, the land would shortly be wholly taken up, and, under the first more moderate and profitable form of culture, be making all the returns of which it was capable. To secure a more rigorous culture, and thereby a larger supply of food and raw material, an increase of price would be requisite to reward this additional exertion, as we have already seen, not sufficiently rewarded in the new products thereby obtained. The demand for food must be intensified, and show this intensity in a higher price, before agricultural labor could be forced up the slope of increasing difficulties. But since there are not two prices in the same market, not only must the new produce bear a value proportioned to the exertion by which it has been obtained, but the old produce, which has cost no more than its usual effort, must now have the same value. As the result of this, there will remain to the holders of land a net return, on all produce raised by the least expensive tillage, equal to the differences between the first and the second or increased price. This difference will represent the advantage now accruing to them from holding a natural agent,

and, as these agents are all taken up, this difference they can demand and secure for the loan of this agent. As fast as the demand for food increases, and the price rises, the difference between the two prices will increase, and rent go up, — the appropriated natural agent conferring more and more of advantage.

Thus the fact, that land is limited, and that this limit is not instantaneously, but slowly reached, with increasing exertion, is, by making a difference between the earlier and later stages of labor, a cause of rent. Difference of opportunity is the sole basis of rent; he who is in the possession of the higher opportunity demands for it a recompense. This difference arises, both from the limited amount of original gifts, and from the variety in their intrinsic worth, in their fertility and position. This elasticity of tillage, by which it gives way, but with increasing difficulty, before advancing population, is the brake by which the motion of the train is regulated, — is the rubber bed, by which its movement is made pleasant and safe.

We are not here estimating the changes produced by any new methods of culture, either of manures or instruments.

Growing skill has already been pointed out as an antagonistic element to the general law of agricultural effort; but it does not, except by retarding the advance of population upon food, modify the law of rent; since skill would aid equally both the earlier and the later culture, and still leave the same relative difference between them, on which difference alone rent depends.

§ 2. The second cause of rent in land is the difference in its fertility and in the advantages of its position. Position, as determining the ground rent of tenements, may give rise to great inequalities of price, within a relatively small territory, but cannot, as affecting the market of produce. Of this sufficient has been said, under the head of production, and, for the present, we may consider position as an element entirely akin to fertility; fertility and position uniting, now by addition, now by subtraction, to determine the preponderance of advantage belonging to any farm. There is but little first class land. This taken up, second class land will come into demand. But the produce of such land, as costing more labor, must bear a higher price than that which, up to this point, has been borne by the produce of first class land. Hence, a rise of price goes before, and is the cause of, the extension of culture to poorer lands, and, also, this rise of price is the occasion of additional returns in the tillage of old lands, thereby giving to them a rent equal to these new gains. Each extension of culture will enlarge this rent, and, whether this culture is passing from old to new and less fertile lands, or from a less to a more rigorous method, on the same lands; or, whether these two movements are concurrent, the result will be the same in establishing a difference between lands, and a rent proportioned to this difference.

The gradations in difficulty of culture and in fertility of soil are slight, the extremes being united by a multiplicity of means, blended at every step of transition. We may, however, in illustration of the law of rent, suppose the

steps which intervene between the most and the least advantageous tillage, to be marked and equal. If, in any country, there be first class land yielding forty bushels of wheat to the acre, and second class land yielding, under similar culture, thirty-five bushels, and also third, fourth, fifth, and sixth class lands, yielding respectively thirty, twenty-five, twenty, and fifteen bushels per acre, we shall have, with sensible gradations, a corresponding scheme of rent. The sixth class land can only be cultivated when the price of wheat is such, that fifteen bushels can pay the labor expended on one acre. But, according to the supposition, the labor employed on land yielding forty bushels per acre is no greater; hence, we should have, in the hands of the holders of this land, twenty-five bushels as the yearly value of this natural agent, and this value would measure the sum for which they would be willing to resign its use, or measure the rent. Numbers two, three, four, five, would rent respectively for twenty, fifteen, ten, and five bushels of wheat per acre, and number six, only compensating the labor expended on it, could bear no rent. The supposition and the result are precisely similar, if we suppose the diminished returns to arise, not from the occupation of less fertile land, but from increased labor expended on old land. There is still the same inclined plane, and the same extra force in price requisite to force up culture.

When the space between any two steps in this process is a perceptible one, the price will considerably augment itself before the new difficulty will be encountered, the new land brought under culture; but, this once done, and

the returns of produce beginning to be enlarged, there will be a partial depression of price.

We have supposed land to be entered on in the order of its fertility, and the natural forces at work will obviously occasion this, so far as men possess any standard of better and best. No reason can be assigned, why the poorer soil should be taken in preference to the more fertile, — for, with the transitory and capricious forces of fear and fraud, Political Economy has nothing to do, — but the truth of our law does not depend on the order of movement above pointed out, inevitable as that order is. If number six were first entered on, it could bear no rent; and when number five should come to be occupied, if this occupation did not result in the entire abandonment of number six, number five would at once bear a rent of five bushels per acre. And thus throughout, a difference really existing in the quality of lands, as soon as these lands were occupied, no matter in what order, there would be a corresponding rent.

§ 3. The following is the proposition, expressing the law of rent as applied to land:

Rent arises from the difference of advantage existing between holders of land; this difference arises, first, from the limited quantity and diminishing power of land; secondly, from an original variety in its fertility; the rent of any land is measured by the difference between the value of its products and the products of the poorest land under paying cultivation.

It is not meant to be said that all rent is this, but only that this is the true rent, to which actual rent more or less

nearly approximates. A custom often prevails, of letting land at the halves; this may give the tenant, according to its fertility, either more or less than the true rent.

§ 4. A tax laid upon rent is borne solely by the holder of land, since he cannot indemnify himself by raising the price of its produce. This arises from the fact that a rise of price would instantly enlarge the circle or increase the intensity of tillage, and thus, by crowding the market, again reduce the price. If a tax be laid on the profits of any manufacture, the price of the goods manufactured immediately rises to the full extent of the tax, and, as by this rise profits are only restored to their former level and to what is still their level in all other departments, no additional stimulus is given by the enhanced price to that particular manufacture, but rather the reverse. Not thus with a tax on rent; if the price of produce were thereby increased, a new margin would be given to cultivation; a new culture would be possible under this higher price, and a culture, which being last, would furnish no rent, and pay no tax, but which, immediately overstocking the market, would reduce the price to its former level, leaving the holder of land paying rent to deduct the tax from that rent. This arises from the fact that the last land pays no tax, and regulates the price of all produce.

This inability of the holder of land to escape, even in part, the tax laid upon his income, has made him, with some economists, a favorite object of taxation, and not without great reason, in those countries in which these original gifts have been monopolized, being largely retained

by law in the hands of a limited number of holders. It is certainly fit that such holders, having an undue portion of the original forces placed at the disposal of all men, should in part share these gains with the public, and support a government to which they are so peculiarly indebted. But in the United States, where land is open to all, — is constantly changing possessors, and represents original sacrifice and labor as much as any other species of property, — the reasons do not exist for this form of taxation.

A tithe laid early in the history of a country on the produce of land, has the same effect on population and production, as would the loss of one-tenth of the fertility of the soil. The margin of cultivation is correspondingly less extended. The last land being now compelled to furnish both the returns of the labor expended and the tithe, tillage stopping short at an earlier point, correspondingly straitens population.

Such a tithe, imposed at a later stage, when population had fairly occupied the ground before it, by its sudden action, would depress the habits of life, and, by the length of time for which it must necessarily be endured, would tend to make the depression permanent. Such a tithe suddenly removed would give a new margin to population, which might result in a higher habit of life, or in greater numbers, or in both, according to the culture and self-control of the people.

Rent, in any country, will increase rapidly, if the difference in the quality of its soils is great, and the demand for food such as to cause these to be all occupied. Rent, under such circumstances, will be high, both on account of

the large relative advantage belonging to the best farms, and because produce will bear a higher price, being controlled by the difficult culture of the poorest soil. A uniformly fertile soil, if all occupied and forced into high cultivation, will occasion the same results.

§ 5. The natural agent next in importance to land are mines. These conform to precisely the same laws. If any metal were secured only at a single, or even at a few mines near together, this strictness of limitation would act as a monopoly, leaving the price of the metal very much at the will of the holder. But the metals and minerals are obtained from such a variety of places, so distant from each other, that they come fully under the ordinary laws of competition. There is a certain demand for any metal; this demand can only be met by the working of a certain number of mines. The poorest of the mines so worked must make sufficient returns to reward all the labor and capital employed. It cannot do much more than this; otherwise, a mine of still inferior quality might be profitably worked. Doing this, and no more, it can pay no rent, and all other mines of the same kind will pay rent according as they are more productive than this, and, by their possession, confer a peculiar advantage. The sphere of competition between mines will be narrow or broad, according to the preciousness of the metal or mineral extracted. Coal is so bulky, that the mines of a single country will regulate among themselves its value; gold, so light relatively to its value, that any mine on the globe may modify that value.

Such is the law of rent, arising from the variety in fertility, which belongs to the leading natural agents — those furnishing produce. The second class — those furnishing power — are more variable in their principles. The chief among these, steam, is practically unlimited, and secures no rent, save through the machinery — the steam-engine — by which it is applied. This engine, representing capital, obeys its laws, and the returns which arise from its use, or which are represented in the sum paid for its use, are properly profits.

The second in importance among these agents, water privileges, conforms to the general law of rent. These privileges are not like the various kinds of land, good to the full extent of their resources, but unless able steadily to yield a certain force, may be of little worth; if so able, of great worth. A partial failure, by involving the suspension of business, may nearly destroy the value of what would otherwise be the best privilege. The various kinds of manufacture, requiring a great variety of force, and some of them able to suspend their operations during the summer months, naturally divide these privileges into several classes, according as they are able to serve the purposes of an intermittent and limited, or a more constant and enlarged, manufacture. At one extremity is the saw mill of the mountain streams; at the other, the woollen or cotton factory of the larger creeks and rivers. Between these, every power finds profitable employment.

The price of any article with the prevalent demand makes it possible, under certain disadvantages of position and power, to manufacture it, capital still meeting with its

ordinary returns; under greater disadvantages, this is not possible. Now the worth of any water privilege, and hence the rent it can bear, is equal to the difference of advantage — position and force both considered — between itself, in the most profitable manufacture in which it can be employed, and that privilege which, employed in the same manufacture, can only yield to labor and capital ordinary returns, and hence can bear no rent. This difference is of the same character with that between better and poorer soils, nor is it difficult to determine it. The returns for the year of any manufacturing establishment being given, and that which is due to capital and labor of inspection and direction, being deducted, the remainder will express what belongs to position and power or to the privilege.

A water power may not be worth the occupation, may be occupied without rent, may bear rent, under an advancing state of manufactures, precisely as land, under advancing culture.

CHAPTER III.

WAGES.

§ 1. The discussion under wages naturally divides itself into two parts, — first, the principles determining wages, or the share of products that falls to the laborers; second, those determining the amount which each class of laborers receives. Our first inquiry, then, is, what defines the share of the joint products of any community which falls to labor.

Familiar words, which we all think we understand, are often those which occasion most confusion. From their variety of application, and the imperceptible manner in which they glide from one meaning to another, we are left unobservant of the change, and suppose that true in one signification which is only true in another and quite different signification. To this class belong the words *high* and *low*, as applied to wages. In common speech, they bring to the mind the idea of money price, — the one implying that, in dimes and dollars, labor receives a greater, and the other that it receives a less, than the ordinary compensation. But this, in the discussions of Political Economy, is the least important of their meanings, since it by no means defines the true state of wages — of the compensation received by the laborer. It matters little, how much

money has been received, unless this money has a corresponding purchasing power. It is in the food and enjoyments commanded by the money, and not in the money itself, that the compensation consists, and hence, by the amount of these, wages are determined as *high* or *low*. Much money may command but little food, and, if so, it may nominally constitute high, but actually constitutes low, wages. Also, in our discussions prior to the considerations of money, we have confined ourselves to barter, — a direct exchange of commodities, — since the principles of Political Economy are wholly independent of the action of money, as a medium of exchange, and are more readily apprehended without its introduction. The second meaning attached to these words is that by which they express the portion of products falling to labor, and which constitute its real compensation. So used, they define the state of the laborer, whether of ease or of privation, and mark, as far as possible, that which is actual — is absolute in wages. The laborer, in this sense possessed of high wages, whatever may be their money measure, is possessed of high enjoyments, and a position inviting to prudence and effort. This use defines the actual state of laborers, the most important of productive agents, and hence the state of production.

A third use is that by which these words designate, as between the laborer and capitalist, the relative portion of each. Labor is almost always united with capital, and the aggregate returns remain to be divided between the two. These are often aided by natural agents; but these agents, according to a law already pointed out, either give their

aid for nothing, or at once secure for themselves a definite portion, which cannot be withheld; and it is only in reference to the remainder that capital and labor are left to adjust their claims. This remainder once found, their joint return limits them both, and what falls to the one is necessarily taken from the other.

The terms *high* and *low* are sometimes employed to express the relative share which falls to labor, and, as so used, define the forces under which the division has taken place, — the encroachment of wages on profits, and of profits on wages. This is an exceedingly important use, but one which, unless kept wholly distinct from the preceding, occasions great confusion and error. Wages and profits cannot be both relatively high, yet both may be absolutely high, since the joint return to be shared by them may be large. From the same cause, wages may, at the same time, be relatively low and absolutely high. This use of these terms does not determine the real state of laborers, but the relation of laborers to capitalists; and this it is frequently desirable to point out.

To escape confusion, if we wish to speak of high and low wages, as measured in money, we shall say a high and a low price of labor; if of real wages, we shall term them directly *high* and *low;* if of wages in reference to profits, we shall employ the terms *relatively high* and *relatively low*. Our nomenclature is thus at once full and distinct.

§ 2. A second difficulty to be pointed out in entering on this discussion, is that which arises from the want of any

standard of comparison, by which the amount of labor undergone in the various kinds of production may be determined, or a comparison, between wages in different countries, and between different kinds of exertion, be effected. Labor may be estimated both by the time occupied, and by the amount accomplished. The first of these methods, even where the kind of labor in the cases compared is similar, affords but very general and loose results. A day, month, or year, are not definite periods in the calendar of Political Economy. The number of hours constituting a day's labor is different in different communities; and alike various, the time taken from the year and given to holidays in Protestant and Catholic nations. But this is but secondary among those causes which render comparison so unsatisfactory. If the number of hours of labor included in these terms were the same, the actual available effort put forth by different persons in the same time, engaged in work in all respects similar, is very different. An unskilled workman may secure, nominally, a lower price for his labor, than a skilled workman; and yet, in comparison of the work performed, receive the largest wages. Still more is it impossible to secure results approximating accuracy, when we compare labor, in different occupations, by the time occupied. Loose, as this measure of labor by time is, its practical convenience is so great, that all lesser differences are overlooked, and, in rendering its compensation, labor is usually so estimated. The movements of social life, though subject to law, do not depend on any such nice balance of forces, as to call for mathematical accuracy. It is sufficient, for their perfect success, that an

approximate measurement of labor, striking roughly at its just recompense, be secured; there is no net weight in the payment of wages. As the result of this, social laws are but the more firm and reliable in their action, since there must be a greater strength in the combination of circumstances which suspend, or seriously modify them. They are made to work with and over the ordinary variety and loose estimates of common life.

The second manner in which labor is estimated, is by the work done. This is more accurate than the last, and yet not accurate. Those articles which are everywhere of nearly the same quality, as a bushel of wheat or of corn, are yet secured by very different amounts of labor, according to the fertility of the soil of which they are the produce. No agricultural product can afford an accurate measurement of the labor which has secured it, since the assistance rendered by the natural agent employed is ever changing, ever varying the toil of the farmer. In manufactured commodities, there must be a standard of quality, enabling those of the same kind to be compared with each other, and also an equality in the aid furnished to labor by machinery and capital, before the articles produced can enable us to measure and compare the exertion from which they have sprung. It is evident that, between distant times and places, when the inquiry becomes most interesting, these commodities can render least assistance, since the variety in the circumstances of their production, and hence in the labor which equal quantities represent, will be proportionally great. If there was any one commodity, which everywhere, and at all times, required, for equal

quantities, equal exertion, such a commodity would be a standard, by means of which the labor of different times and commodities might be compared, and its relative price determined; the change which had taken place in the cost of all other articles would at once be made apparent, by marking the different quantities in which they exchanged, at the several times and places, for this article of stationary value. Yet, even then, our comparison, though greatly aided, would not be perfectly accurate, since, though we should have a fixed point to which others might be referred,—an invariable quantity—a unit in our table of measurement,—we should, no more than before, be able, in any kind of labor different from that to which the standard belonged, to determine the intensity of exertion required by it, and hence, the difference between that labor and the labor measured in the standard. Measuring one form of labor, is not equivalent to measuring all forms; if we knew the precise amount of labor represented in an ounce of gold, we should not, thereby, know the amount represented in the silk goods bartered for it. We should only know, that the labor and profits of the one, were roughly judged equal to the labor and profits of the other.

But there is no commodity containing unvarying amounts of labor; all our estimates of the several kinds of labor, as compared with each other, and the compensations severally received, are general and approximate, without any common standard, or possibility of a reduction to a common denomination; nor is anything more requisite to secure firm and uniform action in the practical world, and to inaugurate the laws which govern this department. That these

approximate estimates must remain, is evident, when we recollect that labor is not intrinsically homogeneous — is not pure physical force, but is the mingled result of force, habit, instincts, and judgment. So far as a comparison can be affected, it will usually be found that the apparent discrepancy in the price of labor, in different places, is greater than the real, and that the same degree of efficiency and skill everywhere secure wages, not widely different. Nominal wages in one country, twice or thrice those in an adjoining country, are usually the indices of correspondingly superior exertion and skill.

The price of labor, especially when this price represents, not the time expended, but the amount accomplished, is very far from being a safe criterion by which to judge of the condition of the laborer. The laborer is principally interested in the amount of wages from the aggregate exertion of the year; and this, where labor is very efficient, and the demand firm, may be large, though the price for each distinct job may seem small. On the other hand, indolent and unskilled labor may realize but little from prices in themselves high. A high price of labor makes for the interest of the laborer, but still more, that efficiency upon which the year's returns mainly depend. Here, the interest of the capitalist and the laborer are the same. A large amount of wages, the result of skill and industry, is in harmony with large profits. It is only a high price of labor, which is attendant on indolence and ignorance, that restricts the capitalist, both in the amount of the business done, and in the returns of that business. It was necessary to premise this much, in order to understand the nature

of the agent, labor, and the method of the laws which control its compensation.

§ 3. The immediate or proximate cause which, at any time, or in any place, determines wages, is the amount of the wages-fund, or of capital set apart to pay wages, as compared with the number of laborers, between whom it is to be divided. This assertion calls for little explanation. The wages-fund includes all that is destined for, or, in other words, all that reaches the laborer; and the reward of the individual is evidently the whole reward divided by a number representing the whole labor, his own labor being the unit. We may suppose that there are no returns to labor or capital, except at fixed intervals of six months, and that, at the commencement of each of these periods, from the funds just realized, sums are set apart for the several purposes in which they are afterwards actually employed. It is evident, that the only portion of these sums, in which the laborer would have any interest, would be that designed to pay wages. The commodities realized and containing their full quota of labor, and now set apart for the consumption of the capitalists, are nothing to him; those which are fixed capital, and to remain as fixed capital, are nothing to him, save as they increase that production whose products he is to share in the six months, succeeding the present. All in which he has any immediate interest is the fund set apart, for the current six months, to pay labor, and this he must share with all who perform that labor. Nor is the case altered, if, as an artisan or small land-holder, the laborer employs himself. In

that case, he advances to himself, from the returns of previous labor, the comforts and enjoyments of the present six months, expecting at the expiration of this period to replace them, or, anticipating the returns of present labor, and obtaining credit, he expends his income before it is secured. On either supposition, the funds realized by him, as the results of labor, constitute, for the six months in which they are obtained, a part of the wages-fund.

It is evident that the state of the laborer for any six months on the above supposition, is determined by the periods which have preceded. The proximate cause and measure of wages is the wages-fund, but the amount of this at the beginning of each period has already been determined. What are the causes which have occasioned and measured its amount?

First among these is the productiveness of labor. It is this which determines the amount of commodities, produced by and for the whole community; and the value of the portion which, in the division, shall fall to the laborer. The one-half, one-third, or one-fourth, will be great, according as the whole sum is great. The skill, intelligence, and virtue which belong to the laborer, the efficiency of the machinery and natural agents, and the amount of the capital by which they are aided, unite to enlarge the common production, and to augment the enjoyments of those who have been leading agents in the movement. Chief among the causes on which the productiveness of labor, and hence, thus far, the condition of the laborer depend, is his intelligence — an intelligence manifested in, and sustained by, virtue. This draws with it skill, capital, machinery, and that multiplication of products which is their result.

The second of the causes measuring the wages-fund, is the previous habits of capitalists and laborers, determining the amount which, in the division of their common returns falls to each. The first cause settles the absolute amount of products resulting to all; the second, the relative amount resulting to the laborer. The one gives the ratio which the portion of the laborer bears to the whole; the other, the absolute value of that portion.

§ 4. If the processes of production have been for six months in full and undisturbed operation, there will be, at the expiration of that time, a large accumulation of products to be divided among the holders of natural agents, the laborers and the capitalists. The principles which govern this division are not at all affected by the supposition that it takes place at the end of definite periods, though, in practice, it is silently taking place in the daily payment of wages, purchase of material, and consumption of private life. Nor need we here consider the portion of these common returns, which government by taxation takes to itself. The sum which each of these three classes pay to government is correctly and conveniently regarded as a part of their private expenditure, in return for the advantages which government confers. The portion of these products which falls to holders of natural agents, as rent, is, under any given set of circumstances, fixed by laws sufficiently pointed out, and will enter in as a part of the price of the raw material, consumed in the six months' production. Rent being deducted, there remain wages and profit still unseparated. The principles which govern their

division will fix the wages-fund, and through the price of labor, will fix the portion of the capitalist, and the rate of profits. Wages and profits are the complements of each other; that which defines one in its amount, defines the other; and the discussion of either, involves the discussion of both. A clear solution of the principles which govern the division of products between labor and capital, is among the most important and difficult of the problems of Political Economy, and necessarily requires patient and careful thought.

The returns of capital are expressed by a rate per cent.—a number showing the products received each year on every hundred of the products of the same denomination, reserved or loaned as capital. This rate per cent., in which the profits of capital show themselves, will be the same, or nearly the same, in all departments of production; since, were it otherwise, capital would rapidly transfer itself to the most profitable employment, till, by competition, its returns were reduced to the general level.* The inequalities which practically exist are slight, and do not demand consideration in this connection. We shall also suppose, for the present, that capital is advanced in the several kinds of production for the same period, and, at a later point, mark the effects occasioned by the practical inequality in the times in which its returns are realized.

In a given community, whose circumstances are for the moment fixed, and which is just entering on the production of the next six months, the amount of capital seeking employment, compared with the number of laborers through whom it can alone be employed, proximately determines

wages and the rate per cent. Equal amounts of capital do not call for precisely equal amounts of labor without reference to the kind of production in which it is engaged. Occupations which involve a large fixed capital, or a large consumption of raw material, give employment to less labor in proportion to the capital invested, than those in which the value of the product is more entirely the result of labor. But in all capital which is loaned, which renders, in any way, a profit, which is properly capital, and not hoarded wealth, there is a demand for labor, and, in proportion to the intensity of this demand, will be the price of labor. At any given time, given amounts of capital and of labor are in the market, and the price of each is determined by the same cause which, proximately and for the time being, settles all prices — the relation of the supply to the demand. What is peculiar, in the case of labor and capital, is their mutual dependence; that one cannot be employed without the other; that the presence of the one, constitutes the demand for the other; and that the deficiency of the one, indicates the surplus of the other.

A given amount of capital, seeking given investment, calls for a certain amount of labor. If the community in which this capital is present, is able to furnish just this amount of labor, and no more, then, the two forces for that state of society are in equilibrium. The skill, habits, and social condition of the working class — themselves results of competition and the history of the past — as compared with the position and resources of the capitalist will decide what each will be willing to take, what each can demand that he shall receive. In this case, the problem

has virtually been settled in the past, by the skill and character of labor, its own competition and the state of capital, and receives no new modification in the present. If the community is not able to furnish the amount of labor demanded, there will be a rise of wages, springing from the competition of capitalists in their efforts to secure the labor actually offered. This high price will be permanent or transient, according to the effect which it has on the habits of the laborers. If they are determined to retain the new enjoyments, and exercise the necessary prudence, they can be retained. Without this determination and prudence, a new stimulus will be given to population, which will shortly eat up and waste this possible progress, and leave the laborers to fall back to their old rank. A rapid and universal rise of wages, by familiarizing the lower classes with a better state of things, exerts on them a powerful redeeming influence. If the community is more than able to furnish the labor wished, there springs up a competition between laborers for the employment offered, and wages fall. The depressed habits and enjoyments of this new and less fortunate state, may call forth increased prudence on the part of the laborer; and the enhanced profits, increased abstinence on the part of the capitalists, till the equilibrium is again restored, and former comforts resumed; or, through familiarity with an inferior position, its motives and feelings may become habitual, and the lower classes sink permanently in the scale of social life.

§ 5. We have now seen, that the immediate cause, determining at the commencement of any six months the

rate per cent. and wages-fund, is the ratio which the capital and labor, seeking employment for that period, bear to each other. But the actual state of any community, whatever it may be, whether for the advantage of the laborer or of the capitalist, or simply transmitting previous forces in undisturbed action, is itself a result, due to the previous conduct of laborers and capitalists; and we wish to know, what that is in the past which has occasioned it? That in the character and conduct of the laborer, on which his position most depends, and which, working all along the past, is ever settling the fortunes of the present, is intelligence — an intelligence that recognizes and includes right action in the lower, still more in the higher sense. We have already spoken of skill, a form of intelligence, as multiplying the amount of products, and thus the wages-fund: it also makes the laborer less dependent on the capitalist, and enables him to demand more successfully a larger relative portion of the common returns, and to resist more successfully any diminution of that portion. Ignorant laborers have but few directions in which they can find employment, and, hence, are liable to be much more severely pressed by the competition of numbers. Not able to change their service; not able even for a limited period to be their own masters, whenever there is any want of occupation, they are delivered into the hands of the capitalist and must suffer the full forfeiture of weakness. On the other hand, intelligent and skilful labor is able to open to itself many new resources, and to escape from the pressure of one department into the open places of another. In other words, when capital is limited, ignorant labor

cannot so well develop all its powers and make it, in small amounts, available in so great a variety of directions, as intelligent labor; hence, the one feels more immediately and severely the depression of numbers than the other. In the contest with capital, intelligent labor best understands, and most successfully claims, all its rights.

But in the conduct of the laborer, the most important principles are the self-respect and prudence, which come in connection with intelligence. It is the ratio of population to capital, that is of chief interest to the working classes, and this ratio is largely at their own disposal. It is from the competition of their own numbers that they most suffer, and this competition they themselves create. Prudence and self-respect occupy the ground no faster than it freely lies before them, and deem an offspring, which they cannot support and which has no fair opportunity to support itself, a reproach. The complete, and what must ever be, the ultimate remedy, is with the laborer; but nothing save thorough intelligence with its accompanying self-respect will induce him to apply it. The remedy once employed, no one will be conscious of its existence. Marriages will be a little later and a little wiser, but the idea of self-denial and privation will no more be suggested, than by the economy and prudence of most American artisans. With few exceptions, it is only the poorest classes that think it their birthright to marry when they will, and multiply children as they will.

§ 6. On the part of the capitalist, that which especially influences the wages-fund is the strength of the motives

to abstinence. These are furnished by the state of the society and government within which capital is employed. Under a tyrannical government, whose exactions are made by no rule, but fall where they are expected to be most successful, capital, in the processes of industry, assuming an open and inviting form, is especially exposed to plunder; and, thereby, the motives to abstinence, or to a use of that which has been secured by abstinence, are greatly weakened. Capital is constantly withdrawing into hoards, and ceasing to render its appropriate aid to labor. It is a prime requisite, that government, both in reference to itself and others, should afford that safety and inviolability to private property, in connection with which alone can spring up a free and luxuriant social life.

The motives furnished to abstinence also depend largely on the state of the useful and elegant arts; on the number of things offered to gratify desire, and demanded to sustain rank. In rude times, the distinctions of rank consist largely in the number of retainers; and services are the products by which wealth is estimated. Such times give comparatively little encouragement to industry. In later periods, the command of services is considered of less importance, than the command of commodities; wealth accumulates and reveals itself in the several kinds of products; labor receives the aid of capital, and is able to find something of independence in the necessities which now attach to its products.

But the laborer is not interested alone in the number of things offered for purchase and inviting the acquisition of wealth, but also in their character. If these are such as to

call forth a luxurious and prodigal self-indulgence, the pride and vanity which they gender in the capitalist may well be, and are usually, but the counterparts of the ignorance and servility of the lower classes. When rank measures itself in luxury, there is generally somewhere a profound abyss of poverty, — a zero point in enjoyments, from which the scale of selfish consumption moves upward. Poverty and wretchedness are but the foils and background of wealth and vanity. The selfishness which is engendered by indulgence, readily excuses itself from its duties to the many, and is too strong for moral ties. Neither have the laws of economic science power, to their full extent, to benefit the masses, till generous and conscientious impulses regulate the action of the wealthy. Those laws will work, and work good amid great moral perversion, but they only work their highest good, when sustained by moral perfection. Those laws, though resisting the disorganizing power of selfishness with more toughness and stoutness, than those regulating any other part of our action, and, indeed, finding in the eager impulses of gain much of general good, do not ally themselves with, or find their fullest good in, the vanity-fair of selfishness; but look for the largest and best production — a production designed for all — to the rational and generous expenditure of capitalists. The Elysium of a true Political Economy is not the Elysium of luxury, since luxury has reference, not to absolute and general, but to relative and individual, enjoyments; is only luxury as it places the few in the sedan of pleasure to be drawn by the many; is only luxury as it prematurely gathers in and devours the common good, but in that higher

state in which its laws are joined to, and administered by, a law of love; in which it confers its products freely upon all, and above all, on the laborer, its own chosen instrument. Political Economy should be reserved from the imputation of finding its highest good in the miserly meanness, or the prodigal selfishness of the few.

Though consumption is the only motive to production, though this is all that invites men to abstinence, the laborer is yet greatly interested in the kind of consumption which secures abstinence, and is cherished by it. Luxury accumulates capital, that it may withdraw it again in the consumption of individual vanity. The community receive a benefit from its acquisition, but not from its ultimate use; this redounds to a private and public injury. Not so, that expenditure which is broad, democratic, and benevolent; which aims at education, at invention, at science, at beauty, and moral excellence; that which is ever issuing in the common good, and makes individual enjoyments but the image of those to which it is struggling to raise the enjoyments of all. Such expenditure may present, to many minds, no motive for abstinence and, for them, an inferior motive has been provided, that they may still toil on, though blindly, selfishly, and somewhat weakly, in the interests of production. Capital does something when it feeds a retinue of servants; more, when it transforms servants into artisans, and purchases their commodities; still more, when it employs its resources and the intelligence which should accompany those resources, in watching over the social and intellectual interests of all. That, then, in the previous conduct of the capitalist, which helps to

determine the economic state of society, and through it, the rate per cent. and wages-fund, is the strength of the motives to abstinence, giving rise to capital; the methods of expenditure, determining the power of profits or capital when consumed to modify or improve the condition of the laborer.

§ 7. Intimately connected with the conduct of capitalists, and affecting the given economic state, are the kind of employments in which capital is invested, and the length of time in which the returns are realized. Occupations in which the raw material undergoes a slight modification, must give, according to the capital employed, a less proportion of the returns to labor, than those manufactures in which the final value is due, less to material, and more to labor. A community, therefore, whose products are rude give less employment to labor than one with the same capital whose commodities are highly wrought and elaborate. The time for which capital is advanced is still more important. If six per cent. is its yearly profits, and the full returns are realized every three months, less than one and one-half per cent. is to be deducted for the use of capital, the remainder going to labor. If the returns are realized in two years, more than twelve per cent. must be deducted, and, what is much more important, capital will pass into the wages-fund eight times in the one case, while passing in but once, in the other, and considerably more than eight times as many laborers could be employed by an investment in one direction, than by an equal investment in the other.

We gather up this discussion in the following propositions:

The rate of wages depends on the amount of the wages-fund, as compared with the number of laborers.

The wages-fund depends; first, on the productiveness of labor; secondly, on the ratio of division between wages and profits; or, more concisely, on the rate per cent.

The division between wages and profits, at any given time and place, depends on the ratio which the demand for labor, arising from capital, bears to the labor there present.

This ratio depends on the previous conduct of laborers and of capitalists, and on the method in which, and time for which, capital is invested.

The condition of the laborer, as determined by his own conduct, is dependent; first, on his intelligence widening the field of competition; secondly, his prudence lessening the number of those entering upon it: as determined by the conduct of the capitalist, is dependent on the strength of the motives presented to him for abstinence, and on his methods of expenditure.

Laborers act on wages to reduce them through a competition for employment; capitalists, to raise them through a competition for laborers.

§ 8. From this discussion it will be seen, that, as far as capital is concerned, the condition of the laborer is the best, when it presents a demand for labor, taking up with avidity all that is in the market; and that the condition of the laborer is improving, when the ratio of capital to labor is increasing. In proportion as capital lends its full aid to production, and the laboror is so situated as to secure a

large share of the common fund, will in this respect be his utilities. But though a small rate of profits may show a favorable ratio of capital to labor and high wages, it by no means necessarily shows it. Though wages and profits cannot be both, relatively to each other, high or low, they may both be absolutely high or low. The amount of wages is not nearly so dependent on low profits as on a high state of productiveness. Capitalist and laborer secure their largest returns by seeking their common interests, by adding to the powers and resources of production, far better than by struggling with each other in the division of scanty products. One, two, or ten per cent. added to profits takes but a small fraction from wages; a single invention may, in a very important commodity, treble the products falling to the laborer. Active and skilful production is usually accompanied both with high profits and high wages, and wise and liberal action, uniting the two classes of producers, is far more powerful in securing the interest of each, than any possible contention and mutual plunder can be. The growth of the common fund is the leading interest of both, and this demands a cheerful concurrence of effort. The common fund may be increased tenfold; all enlargement of particular portions, without such common increase, is comparatively a pitiful matter. That intelligence, then, on the part of the laborers and capitalists by which production is quickened, is more important, as deciding the condition of either class, than the causes which determine its relative portion of returns.

When we take in the additional consideration of the price of food, we find, that, though labor and capital are

furnishing each other every assistance, this is not sufficient to secure the welfare of the laborer. High productiveness in all other directions may be compensated by the high price of food, and the increased difficulty of obtaining this gives, as we have seen, an elastic though impassable barrier to both labor and capital. The absolute increase of both wages and profits, with growing skill, finds a partial compensation in the enhanced price of agricultural products; rent alone goes on steadily to augment with every advance of population. The land-holder obtains a larger and larger portion of agricultural products, and this portion has also an increasing ability to command all other commodities, both, from the advanced price of food, and the decreased price of manufactured articles.

In a community, then, which is to be broadly and protractedly prosperous — we refer to a community complete within itself, relying on its own resources — agricultural production must be kept in the advance. A thorough and renovating culture, aided by every mechanical appliance, and giving more and more power to the soil, must stand foremost among practical interests and speculations. Nor is this sufficient. Population must be steadily kept in the rear of such a culture. Here we are again thrown back on the intelligence of the laborer. Agriculture is almost wholly in the hands of the working men, of the working classes; and, if it is to advance generally, it must be through their intelligent efforts, and, certainly, nothing but the wisdom and prudence of the masses themselves can relieve the several rewards of production from the constant pressure of population. Numbers, slightly in advance of the existing state

of production, must occasion constant friction, expending itself on human comfort and human life. Numbers, just in the rear of production, may look to a pleasurable, and safe, and indefinite increase. Much play has been given to the social machine, yet, there are severe remedies of disease and famine which render a broad departure from the law of prudence and industry impossible. Vast masses of ignorance are perpetually scourged by misery, and the only condition on which numbers can ever be granted is a true intelligence at once virtuous and industrious.

§ 9. We have now to consider the effect of machinery on wages. Labor-saving machinery, as it takes the place of laborers, might seem, at first sight, to come into competition with them, and thus to reduce their wages. This would be the case, were prices to remain the same after, as before, the introduction of such machinery. But as the cost of production determines the exchange value of commodities, no sooner is that cost diminished, than there begins to be a corresponding diminution of the price of the commodity, and, as the result of this diminished price, a largely increased demand. This demand calls for an equally enlarged production, and, as no machinery entirely dispenses with human effort, there is again a fresh demand for laborers. Though it might be difficult to anticipate with certainty, how this new demand, occasioned by machinery, would compare with the old demand, dispensed with by machinery, in practice, it has been found to be much the larger, and that invention makes way for, rather

than takes the place of labor. Rapid and sweeping, as have been the inventions which have marked some manufactures, as those of cotton and woollen goods, there has yet been in each a constantly increasing demand for labor. The circle of consumers increases in a geometrical ratio, as the price of the article consumed diminishes. The number of those who have a yearly revenue of ten thousand dollars or upward is small; of those who have a revenue of one thousand dollars, very much larger; and those who have a revenue from two hundred to five hundred dollars constitute a large part of the community. A price, which places a commodity within the reach of the first class only, brings but few customers; when the price falls to the means of the second class, the demand is greatly increased; and when, to those of the third class, it becomes universal. Thus it is, that machinery, dividing the price by one number, multiplies the sales by a much larger number.

The laborer, not only does not find the demand for his services diminished by machinery, but that, with the same wages, he can command a larger supply of the products, into whose production this cheaper element has entered; that his utilities, in common with those of others, have been cheapened by the general introduction of machinery; and that capitalists, having provided for their enjoyments at a cheaper rate, have a larger remainder to expend in production, and thus in wages.

As the changes occasioned in the condition of the laborer by machinery, demand time to be fairly inaugurated, and for the compensation to be fully realized, if it were to

be introduced at once into all departments, it might occasion serious though temporary evils. But against any such results, we are protected both by the slowness of invention, and the labor involved in the construction of machinery. In practice, this agent is introduced so gradully, as to occasion but transient and trifling disturbance. Laborers are not left without employment, or compelled disadvantageously to change their employment, nor is such an amount of labor drawn at any one time into the construction of machinery, as, even for the current year, to diminish the gross sum of immediately useful commodities, and hence the consumption of the laborer.

That machinery, which is strictly labor-saving, and is employed in agriculture, may tend to dispense with labor, and under some circumstances, to depress wages. An improved plough does not so much relieve labor as make it more efficient; but a mower, a threshing machine, a horse-rake, without increasing the amount of produce, render less labor requisite in securing it, and substitute the exertion of animals for that of man. Such machinery will not usually have its full effect on price, since the most difficult tillage, which we have seen regulates price, is generally less assisted by them, than the smooth tillage of rich, alluvial soils. But even where price is reduced to the full extent of the improvement, the effect is not wholly similar to that resulting from a corresponding reduction in manufactured articles. These are mostly capable of indefinite consumption, of enlarging enjoyment, in a great variety of ways, any reduction of cost, therefore, opens up a new and larger field for sales than that before occupied. Food, on the

other hand, with a given population, is sought only in given quantities, and though wastefulness and luxury may make some, they cannot make a large difference in the amount used; hence, on any reduction in the price of food, the market is not proportionately enlarged; and, there does not spring up an increased, but there remains the diminished, demand for labor in this department of production. Also such a reduction in the cost of food would tend to quicken population and multiply laborers; though this might be counteracted, in part, by the difficulty of obtaining employment now pointed out. From these causes, it might happen that labor, for a considerable period, might be thrown entirely out of agriculture by the introduction of machinery, and left to seek employment in other directions. This would be a proportionate gain, if there was everywhere a brisk demand for laborers; if those so relieved could be immediately taken up and productively employed; but if there was no such demand, it would depress the working class by a reduction of wages, and correspondingly enhance profits.

It also might occur, in extensive tracts owned by single individuals, that a large and loose culture, by means of machinery and cattle, could be made more immediately profitable to the holder than a more laborious and personal husbandry; but this culture, in its application, would exclude many laboring families, who had previously secured their own subsistence and some rent for their landlord.

These considerations do not deserve the mention, as in any way counterbalancing the great and general good wrought by machinery; and, in our own country at least,

there may not have been a single instance in which they have occasioned serious individual suffering. Laborers owe as much to the cheap and enlarged production which belongs to machinery as any class, and, whatever might be the nominal price of labor, — and this would probably be lower than at present, — those utilities which constitute real wages would be reduced many fold by the setting aside of labor-saving machinery.

CHAPTER IV.

VARIATION OF WAGES IN DIFFERENT EMPLOYMENTS.

§ 1. This subject has been so fully and successfully treated by Adam Smith, that it has become the established custom of his successors to draw largely upon his pages.

Setting aside those differences which arise from the arbitrary restrictions of society, we have, as sources of the variety of wages, "certain circumstances in the employments themselves, which either really, or at least in the imaginations of men, make up for a small pecuniary gain in some, and counterbalance a great one in others." These circumstances he considers to be — "first, the agreeableness or disagreeableness of the employments themselves. Secondly, the easiness and cheapness, or the difficulty and expense of learning them. Thirdly, the constancy or inconstancy of employment in them. Fourthly, the small or great trust which must be reposed in those who exercise them; and fifthly, the probability or improbability of success in them."

The first cause of difference is the agreeableness or disagreeableness of the occupation. All labor is a sacrifice, at least in part, of ease and inclination, and it is for this sacrifice that compensation is sought. But it is by no means equal in all employments. Some cross the ordinary

inclinations and desires of men in a much larger degree than others, and though the natural variety of tastes may in part, it does not wholly, compensate this intrinsic difference in the agreeableness of the various kinds of labor. This variety inevitably shows itself in a corresponding variety of wages, since the most agreeable occupation feels most severely the pressure of numbers, reducing its compensation; and, the least agreeable, least severely, leaving its wages at the maximum. Among the things constituting agreeableness or disagreeableness in labor are its ease and severity. The amount of physical strength put forth in the same time, at different kinds of work, is very different, and, other things equal, the less exertion is preferred to the greater. A second consideration is the wholesomeness and unwholesomeness of labor. The making and mixing of paints, polishing steel, and night work, are injurious, and, so far as the injury is understood, and no protection is afforded, there is a reluctance to enter on these duties, and a consequent rise of price. Another consideration is the cleanliness of labor or want thereof. Most persons prefer a degree of personal neatness, which does not render them obnoxious to the senses, and are not willing to forego it without corresponding compensation. The worker in iron usually obtains higher wages than the worker in wood; the one must be habitually dirty, the other may be habitually clean. The confinement or liberty which are incident to labor will also affect its price. A man will hunt for low wages, and will labor on a farm for less wages than he will work in a factory. Public opinion also affects labor. The butcher generally receives

larger returns than other laborers, and the maker and seller of ardent spirits often adds to the profits and wages of labor the price of public indignation and a bartered conscience. The danger which attaches to an occupation is sometimes placed among the disagreeable circumstances which enhance price. But this must largely depend on the nature of the danger. Much danger invites the adventurous spirit. The recruiting drum is often followed at very low wages, and the sailor receives perhaps no additional pay for the additional risk of his employment.

§ 2. These various circumstances, giving character to an occupation, are modified by the other considerations which remain to be spoken of, and, unless existing with decided force, produce but slight and imperceptible effects. These considerations have the most force in connection with manual labor. Intellectual labor is, in all its forms, agreeable, and the human mind, in its tastes and tendencies, furnishes a variety equal to that existing in the demand. The difference in compensation here is mainly due to other principles. Labor, when employed in connection with capital, is more affected by public opinion than by any of the other circumstances specified. The slave trade, the liquor business, a gambling house, and a lottery, must all afford more than the ordinary returns.

The second of the things specified, as causing a variety in wages, is the facility with which a business is learned. To this is attributable the difference existing between skilled and unskilled labor; between the wages of the day laborer and those of the artisan; and between the

wages of these and those of the professional man. The justness of such a difference is seen in the time employed and expense incurred preliminary to a trade or profession. This is an investment on which a return is expected, and is made in higher wages. The method in which these additional returns, due to the expense and delay of preparation, are secured, is by the reduction of numbers which these obstacles at the entrance occasion, and the consequent weakness of competition. We shall, however, here see the strong effect of custom in sustaining prices; the evident justness of the artisan's claim for a higher remuneration than that which belongs to unskilled labor also strengthens him in making the demand, and aids him in securing a concession. The practical extent, however, to which even a just claim can be realized, depends on the ability of him who makes it to enforce it, and this ability is present only where the number of workmen does not exceed the demand for their kind of labor.

In many of the trades, the additional compensation is somewhat greater than the loss of time in learning the trade would require; and this, especially in those trades least readily accessible, either through the time required for acquisition, or the fewness of the opportunities presented. The artisan oftentimes enjoys a natural monopoly, enhancing his wages beyond their due proportion. Trades, if acquired at all, must usually be acquired early in life, before the workman is responsible for the maintenance of a family. It is generally, not the foresight of the child, but of the parent, that apprentices him to a trade, and, as this is attended with a loss of time due to the parent, and

often with other expenses, it is natural that day laborers, who most require the aid of their children, and are the most improvident class, should not often be willing to make this sacrifice. Later in life, when the responsibilities of a family have been incurred, the child can no longer redeem the omission of the parent; thus, superior advantages may belong to a trade, and access be free to all, without having these advantages wholly destroyed by the competition of numbers. Indeed, if the additional wages of an artisan were just equal to his loss of time, there would be no inducement for any to learn a trade. It would be necessary to accept a present sacrifice for a future good, and that good no more than sufficient to compensate the present loss. Interest is certainly against such a measure, though taste might sometime prompt to it. Improvident as man is, a present real sacrifice will effectually bar the way of approach to a considerably greater future good.

The respect which attaches to an artisan above a day laborer somewhat strengthens the inducements in favor of a trade, though this respect is itself largely dependent on the increased remuneration. Peculiar skill in all trades enhances, and in some greatly enhances, wages, as by a monopoly price.

§ 3. In the trades, a loss of time is the principle preliminary expense; in the professions, there is, in addition to this, a large expenditure. The apprentice is boarded by the master; the student must board himself. We might expect, therefore, that professional wages would be higher

than any other. But a variety of considerations come in to modify this expectation, and different countries and times have presented great differences in the returns of educated labor. Adam Smith thought them, in his time, much below their just amount, while later writers have judged their own times differently. Professional returns are often very much higher than, in some instances, would belong to the sacrifice incurred. If we were, in America, to take only those who are properly and thoroughly physicians and lawyers, educated to their professions, we should doubtless find the average compensation much more than sufficient, "within a reasonable time," to replace the expenses of education, and the loss of time estimated in unskilled labor. In the ministry, other considerations than those of Political Economy govern price. The minister frequently obtains his education at reduced expense, and is expected to make, and oftentimes does make a pecuniary sacrifice in entering on his professional duties. The large, additional wages which fall to skilful professional labor are the price due to a natural monopoly. The number who can, and are willing, to secure the education which prepares them for competition is small, and the number who possess the natural elements of success still smaller; hence, nowhere have we a natural monopoly more strict, than in the highest efforts of professional skill.

The considerations which counterbalance the sacrifice which precedes educated labor, are, as they should be, great, and, though they may crowd some professions with worthless members, we find for this a large compensation

in the talent and intelligence which they place at the disposal of a community. Knowledge in itself constitutes a reward, and the student can hardly demand a full pecuniary return for the time spent in its acquisition. Respectability and station always attend on its possession; and, on its eminent possession, renown. Most enlightened communities have provided institutions, for the instruction of its youth, more or less eleemosynary. These considerations all enter in to invite educated labor, and may, in some places and for some persons, unduly reduce its compensation.

Custom and law help to decide the fees of both physicians and lawyers, while competition determines the number of those fees which shall be obtained. All salaries bestowed upon educated labor, either by government or private corporations, transcend, rather than fall below the returns due to the investments of education.

§ 4. The third cause of variety in wages is the constancy of employment. The amount of wages for the year is that in which the laborer is principally interested, and if labor is of such a character as to be necessarily intermittent, its compensation, for the time being, must be proportionately great. In a cold climate, the mason can do but little in the winter; hence his summer wages are more than those of kindred trades. The porter is sure of but few jobs, and must charge proportionately for each. There are, however, two modifying considerations. Men enjoy leisure, and where this is afforded, are willing to receive a less compensation. The time redeemed from a

regular occupation may be made to furnish some returns in an incidental business. This consideration of constancy in employment is as applicable to capital as to labor. A hotel, open for the summer months, affords a good illustration.

A fourth consideration, occasioning variety in wages, is the trust demanded. Men do not readily commit great pecuniary interests to another. The number of those who inspire the requisite trust, moral and intellectual, are few; and there is a corresponding demand for their services, and a willingness to pay the wages that command the desired qualifications. Large salaries are also thought to lessen the inducements to dishonesty. The judge should be well paid; the engraver of bank bills should be well paid; all important trusts should be guarded by integrity, the high salary commanded, and the temptation it removes.

A final consideration advanced by Adam Smith, in this connection, is the probability of success. This influences capital more than labor, but is not without its effect even on the last. A skill, adequate for most manual labor, can be acquired by all, in the period of time allotted for that purpose; but, in some kinds of effort, entire success is so largely dependent on peculiar original gifts, as to dissuade many from entering upon them. The engraver and architect and machinist do not, as the result of effort merely, meet with equal and entire success, and the few who do succeed secure a proportionate reward. Here may be referred the reward of unusual talents, in all directions.

In different employments also, the probability of secur-

ing work is unequal, and, where labor employs itself, in connection with its own capital, the chances of realizing an adequate reward are still more various. The gold digger may lose all the labor that he expends, and, therefore, in the high wages which he sometimes realizes, only finds a compensation for the risk of failure. He who takes a large job by contract expects more than ordinary wages, as a return for the danger of loss, though this loss may never, in any instance, have been suffered. No one would accept the anxiety of such contracts, if there was no opportunity open to him of obtaining more than ordinary wages. Men often have, however, such an overweening confidence in their own ability and good fortune, and judge their chances of success so favorably, as to counteract the influence which a safe estimate of probabilities would exert. Especially is this true, when the wealth to be gained comes suddenly and in large amounts. The imagination is stimulated, and, overlooking or underrating the obstacles, the individual promises himself immediate success, and this too, when, in the case of another, his judgment would be sufficiently cool and accurate. Lottery tickets find no lack of purchasers, though it is known that the chance of a prize is of less value than the sum paid for it. Nor are those who have abundant funds more likely to make the venture than those whose every dollar is needed. As the result of a gambling love of hazard, and a confidence in our own good fortune, it usually happens that, in employments involving peculiar risk, and, in individual cases, making large returns, if the aggregate reward be compared with the whole sum of labor, the

individual portion will be found to fall below ordinary wages. Mining impoverishes labor as often as it extravagantly rewards it. Where the difficulties are well understood, and the imagination less appealed to, this class of occupations secures wages in some degree proportioned to the risk.

Though the five now enumerated are the leading, there are some additional considerations, occasioning a variety in the reward of labor. When commodities are brought into competition with similar commodities, made by those who are not dependent, or not chiefly dependent, on this manufacture for their subsistence and enjoyments, they are liable to fall in price below the point at which they can afford the ordinary compensation to labor. A state prison may glut a limited market with articles manufactured by the criminals, and depress the wages of those who had before occupied it with their wares. Those who, with a regular employment, occupy their evenings or leisure hours with an incidental manufacture, may be able to afford these additional products at a price below that which can be received by those who are solely dependent on it for their subsistence. In all cases of this kind, however, if the secondary occupation becomes permanent, the equilibrium in prices will be restored by the removal of labor from one department to another.

§ 5. The wages of women, in most employments, are much inferior to those of men, for precisely similar services. For this, several reasons may be given. Usage has greatly restricted the number of occupations in which

women may engage; hence, in these few, the competition is proportionately intense. Women frequently are not solely dependent on their wages for support, or, if themselves dependent, have none dependent on them; hence, many, by being able to work for less than a supporting remuneration, have brought down the wages of all. Both of these considerations are not able fully to account for the marked difference which almost everywhere exists in the recompense of the two kinds of labor. The demand for female servants may be very great, and their wages not approximate those of hired men, for whom the demand, at the same time, may be lax. Teachers, as a class, are solely dependent on their salaries for support, and yet, for the same labor, the female usually receives a less recompense than the man. Having made all reasonable allowance for any intrinsic difference there may be in the kind of service rendered, there still remains a residuum which cannot be explained, save as the remnant of a barbarous custom, and an irrational prejudice in favor of men.

In this discussion on the inequality of wages, we have supposed none but inherent obstacles to exist, interrupting the transfer of labor from employment to employment. Additional obstacles may exist in voluntary associations, in long established customs, in legal restrictions.

Wages may also be affected in any trade, by a combination on the part of its members, and a self-enforced restriction as to the number of apprentices to be received. By such voluntary associations, competition has sometimes been so reduced, as perceptibly to enhance prices.

Laborers are in a much less favorable position to organize effectual combinations for the increase of wages, than are capitalists for the increase of profits. Their numbers are greater, they are less known to each other, and their immediate necessities are much more imperative, rendering any long rejection of employment impossible. Much less danger, therefore, is to be apprehended from any union on the part of workmen, than on the part of capitalists; and voluntary combinations, for the protection of a particular trade, have only existed where the numbers and improvidence of the mass of the people have inundated all the lower ranks with misery, and made the intelligence of the few unavailing amid the folly of the many. For a particular trade to gird itself around by voluntary restrictions, and thus make the prudence of the members avail for their own profit, seems but a needful act of self-defence.

Custom and legal restrictions may be the most prolific and unfortunate source of inequalities; by closing up every avenue of escape, they double the disasters to which any department of action is liable, and enhance a prosperity already sufficient. The natural obstacles which exist to the transfer of labor are always very considerable; the present advantages of skill must be lost, and a new trade learned; old habits broken up, and new risks incurred. Slight and transitory inequalities in wages are not sufficient to secure this sacrifice; and the slow and reluctant manner in which a community changes its occupations, when under the pressure of strong forces, shows that this point has been sufficiently guarded by nature. A

supply of skilled labor cannot be afforded at once; there must be the apprenticeship, and it is only the development of a real and abiding force which can materially affect the number of young men choosing a particular calling. Law and custom may enter in to increase or diminish the number due to the natural demand; but, as a general rule, they must act blindly, and, so far as they supersede the natural law, they must act injuriously.

That community, in which the workmen are most enterprising and intelligent, has in it the most versatility and power, and is the least automatic. Here, the transfer of labor will take place most readily, and men and talent will be most developed by the exigencies of each new case. Immobility in this, as in other respects, is indicative of decay and old age. Constant and easy transfer of labor is not usually consistent with the development of the highest mechanical skill; hence, in new communities, where the intensity and variety of the demand have developed great enterprise and mobility, we may find less perfection of workmanship than among an older and more staid people. Equality of wages implies a free transfer of labor from occupation to occupation; but there is always, according to natural character, more or less of tenacity in the associations and habits of men, which, enhanced by the difficulty of replacing skill in the old department with skill in the new, prevents all rapid flow. For this reason, transitory causes may make a wide difference in the remuneration of labor; permanent causes alone safely affect and correct the supply of laborers

As between different countries, wages may vary, owing

to the difficulty with which population transfers itself from country to country. Climate, customs, and language, afford so formidable a barrier, that between nations radically distinct, few overleap it. This is doubtless well; each nation is left to work out for itself the problem of social thrift, and the intelligence and prudence of one are not immediately made of no account by the inundating barbarity and recklessness of another. If China were to discharge her laborers bodily on any civilized nation of limited resources, the working class would be ruined. The obstacles to transfer are so great, that each nation is made accountable for its own action alone, and, in most countries, wages will be primarily determined by the action of its own homogeneous population. A crowded, dependent, and oppressed country may sometimes, through the action of this principle, avenge itself on its conquerors. Irish laborers may crowd and surfeit the English market.

§ 6. We shall conclude the discussion of wages by pointing out the effect upon them of a direct or indirect tax. If those commodities are taxed which are consumed by the laborer, or a direct tax is levied upon his income, as the burden falls in common on all laborers, there is no opportunity to escape it by any rise in prices. If the whole, or any portion of it, is removed from the laborer, it must be at the expense of the capitalist, and by a readjustment of the division of their mutual fund. But a new apportionment can only be effected by a change in one of the elements which control it. If laborers are to have more, there must be either a decrease in their numbers, or an

increase, in reference to those numbers, of capital. In each case, it must be the result of their own prudence. If, then, the laboring class is pressed below its wonted standard of comforts by taxation, only a fresh effort of prudence can restore them to their lost social rank. It is plainly just that labor should bear a portion of the expense of the government which protects it; but when that government has forgotten to cherish its most valuable and dependent agent, that agent can nevertheless protect itself, and throw back the burden on capital, by rigorous self-control. Indeed, without self-control, the laboring classes will become the pack-horse, whose capacious panniers will bear the whole burden of misery.

The wages of skilled and educated labor, which come in liberal salaries and large incomes, seem a very appropriate object of taxation. The agents which this kind of labor employs, being immaterial, are not open to taxation, and hence, owing to the absence of those means by which wealth is ordinarily acquired, a large revenue derived from educated labor may exist under a property tax merely, without contributing to the common burden. Farmers and manufacturers are taxed on their farms and buildings, and the instruments by which their income is realized; when these instruments cannot be reached, it is sufficiently just that the income realized should take their place. If a mechanic, with buildings pertaining to his trade, should pay a yearly tax, it is fit that a lawyer, with a net revenue much exceeding his, though without such buildings, should pay a corresponding tax.

CHAPTER V.

PROFITS.

§ 1. The term *profits* is used in popular speech with a much broader signification than in Political Economy. In the first, it stands for the whole complex return that recompenses capital, the labor of its superintendence, and the risks that pertain to its employment. In the last, it represents but one of these, the rate per cent. which expresses the yearly value of use of the capital. The wages of the labor of superintendence and the cost of insurance are distinct items. This rate per cent., in the several methods of employing capital, will be very nearly equal. If it were not so, capital would rapidly transfer itself from the least to the most profitable employment, till the equilibrium of profits was restored, and this with much greater facility than in the case of labor. Capital, accumulated in the reservoirs of banking institutions, will flow out in any direction, according to the demand of labor; and it is not necessary that the same labor which formerly accompanied it should be transferred with it to the new use. Fluent as water, it can move wherever labor has occasion for it. With some exceptions, therefore, the rate of profit will everywhere be the same.

We have already referred to the effect of public opinion on profits, as being the same with that on labor.

Having restricted the rate per cent. to the use of capital, and shown its general equality, we have now to determine its amount. This is solely dependent on the principles which we have shown to determine the division between labor and capital. The productiveness of labor does not affect the rate per cent., though it does affect the amount of capital on which this rate per cent. is given, and hence, the portion of the capitalist. Aside from the rent entering into the material employed, capital expends itself solely on labor, and it is labor, also, — that labor which furnishes the raw produce, under the greatest disadvantages of soil, -- which, without reference to rent, regulates the price of the material. All the fixed capital, the tools, and the buildings, all the material in its several stages, are resolvable into labor, and capital, in its expenditure upon these, becomes a wages-fund. If, therefore, the products of labor are doubled, the wages of labor being also doubled, and these being advanced by the capitalist, double profits still leave him with the same rate per cent. This is determined, not by the amount of the products divided, but by the portion of those products falling to the one and the other.

That in which the capitalist is interested is the cost of labor, or wages proper.

That we may definitely determine what the recompense of labor and what the cost of labor are, — what the positions of the laborer and capitalist respectively are, — we must know the efficiency of labor; thus, on the one side,

defining its amount; we must know the products of a given kind, or kinds, in which it finds its recompense, and the exchange value of these products; thus, on the other side, defining its cost. The amount of products of a given exchange value, which a given amount of labor secures, being known, we thence determine, in each state of productiveness, the shares falling to labor and capital, and, through these, the rate per cent. Wages and profits, as now defined, we have seen to depend on the ratio which the labor and capital seeking employment bear to each other; and that this ratio is determined by the previous conduct of laborers and capitalists.

Contempt will deter men from employing capital, and those who neglect the censure will, in a wicked traffic, obtain the reward of sin. An appearance of inequality will be given to profits by the great variety existing in the element of risk. This must be fairly compensated in the returns of business, since men, whatever excitement they may find in personal danger, take but little pleasure in risking money. Insurance, thus varying with each new employment, will give to the aggregate returns a seeming inequality. Each increase of risk, finding less to balance it in personal confidence, is here much more accurately measured than in the case of wages. Profits also seem unequal, from the different degrees in which the wages of superintendence enter into them. A small capital is relatively accompanied with much more of this kind of labor, than a large one. A huckster, with his apples, may realize a return of several hundred per cent., and not more than pay the labor expended; a wholesale merchant may find

the wages of this kind of labor reduced to one-half or one-fourth per cent. on the capital employed. In the last case, the returns are almost all profits; in the first case, almost all wages. Twenty per cent., with a capital of ten thousand dollars, may give no higher profits than seven per cent., with a capital of one hundred thousand dollars. He who has a very large capital, if he can find a business that will absorb it all, is willing to accept returns relatively small, since the superintendence of a single individual may be sufficient, and the risk is uniform. If that capital must be divided into twenty or thirty parts, that it may pass into the retail business, — the labor being proportionately multiplied, a greater number of persons to be trusted, and the risk more various, — there must be a large increase of returns to secure the same profits as before. A real inequality may arise, sometimes, against a large capital, from the difficulty of employing it; sometimes in favor of it, from its commanding new and profitable openings, not within the reach of a smaller one. Among capitalists of a limited business, combinations affecting profits are very possible.

§ 2. Capital is in itself capable of indefinite and rapid increase; but as, in the later stages of its growth, the motives for its acquisition gradually diminish, there comes, or may come, a time in which it, and the economic interest nourished by it, are stationary. In the most favorable state of society, in the truest and most healthy growth of all man's interests, there is a point at which economic forces must cease to occupy that prominent position which

now belongs to them, and to be the leading means by which the race is borne onward. As long as there is progress in science, there will be the unfolding of new powers, and new applications of known powers; there will be the opening of new directions in which capital can profitably employ itself; and economic interests can never become perfectly stationary, yet the rapidity of movement which now belongs to them, when a hemisphere, nay, almost a world, is yielding its virgin forces to their occupation, will be greatly reduced.

The limits which natural laws assign to a single nation, within a restricted territory, are the same which they assign to all nations within the larger territory of the earth; and, though the movement by which the capacity of our common inheritance is reached is far more hesitating and protracted than that by which a single people fill and press upon their boundaries, yet the limitations of the one are the same with those of the other. If the inhabitants of the British Isles, who are now sending laborers and capital to every continent, were to confine their operations within their own boundaries, there would at once be a great retardation in the acquisition of wealth, and, ultimately, an almost complete suspension. As things now are, a large part of English products and enjoyments would be taken away by such a supposition, since the produce and raw material of all climates contribute to her present prosperity; but, if all gifts of the earth were found within the narrow limits of these isles, and no loss of commodities inflicted on any part of their population by such a restriction, the suspension of growth in her indus-

trial agents would only be the more rapid and complete. So large and various a demand would press, to its limits, so restricted a surface. If the utilities of life were more evenly distributed through all classes; if the lowest and the highest ranks had more nearly approached each other, on a platform of common comforts; if the luxuries of the few had become the pleasures of all, — then, in this more desirable and perfect state of society, the cessation of economic growth within a limited territory would be the earlier, but not so complete and absolute. These statements will be seen to be true, if we rightly apprehend the relation of the three agencies of production to each other.

On the supposition of a populous community, intelligent and opulent in all its members, confined to a restricted territory, and yet a territory yielding the materials of all previously existing comforts, it would shortly be found that, under a large and unremitting demand, all products of the earth had greatly risen in value. The soil, forced by an extreme culture, would occasion high prices in produce, and high prices would occasion large rents. Food being the prime necessity of laborers, if this, in the same quantity and quality, would be retained, and the former standard of living, in other respects, preserved, then there must be a rise of wages. But these cannot be raised without that prudence which limits the growth of population. If, therefore, the standard of living is held firm, population receives a decided check, and the earlier and more decided, according as this standard is high. But, the number of laborers remaining the same, and capital going on to augment itself, there is increased difficulty in employing it. It bids high

for labor, and there is a rise of wages, with a proportionate fall of profits. This rise of wages renders it but the more difficult to add to the supply of food, and through it, to the number of laborers. But the constant fall of profits, as capital continues to gain on labor, must ultimately suspend the growth of capital. The minimum of profits is reached, the gains being so small as not to invite or recompense abstinence. Here there is a relatively stationary state. The brake has been applied, through agriculture, to labor, and through this, to capital. The holders of natural agents are left, according to their fertility, on high vantage ground. Laborers, if the movement has been suspended early enough, are receiving high wages, and not simply a high price. Capitalists, as capitalists, are meeting with slight returns, though otherwise sharing the general prosperity, and the three interests, by the prudence of laborers, remain balanced against each other, without any independent movement on the part of any. This state, though termed stationary, may be one of universal and eminent prosperity; nor, owing to certain counteracting agents, which we shall presently point out, would there be an absolute suspension of movement.

§ 3. The last step by which this state is reached, is the sinking of profits to their minimum point, or to the point at which they furnish no motive to additional abstinence. This point will be very different in different communities, and the lowest in the most intelligent. It mainly depends, in any country, on the safety of property, on the forecast of the inhabitants, and the variety and amount of products

which given profits can command. If property is not secure, the danger preëminently attaches to capital; the element of insurance becomes very large, and there must be a corresponding magnitude in the returns. The growth of industry can, by no means, be more aided or prolonged, than by the safety afforded by an enlightened government. Economy in government has also the same effect; for, as taxes fall on profits, they diminish the motive to their acquisition, and hasten the minimum point. The forecast of a nation, that by which it estimates the future highly, as compared with the present, and the interests of posterity, as compared with its own, is wholly dependent on its intelligence. To intelligence alone is this forecast of the future given. As abstinence looks to the future for a reward, the readiness with which it is undertaken will depend on that culture which teaches men to estimate rightly a future good. So, too, the higher the civilization, the greater will be the variety of those commodities inviting wealth. The more enlightened the community, therefore, the lower the profits which will call forth its efforts.

But there are several things which serve unfavorably to defer this stationary period — the luxury of the higher classes, commercial crises, embarrassing all industrial movements, and war. There are others which serve favorably to defer it — moneys which are expended, without immediate reference to production, on the educational and higher interests of community, on public parks, works, and monuments. These withdraw, for the time being, something from capital; but the space is shortly closed up, and a delay in lowest profits is the only final

result. There are also some forces which retard the stationary state, and prevent its ever being complete. Among these, are all improvements in agriculture, by which the same labor is rewarded with greater returns; all division of labor and labor-saving machinery, by which the capital employed is increased, without a corresponding increase in the number of laborers, by which new methods are discovered of using capital, without going into the labor market. In an intelligent community, it is evident, that no bounds can be set to these forces.

In the restricted community which we have supposed, these would be, and in the earth, when it shall be fully occupied, these will be the agencies deferring the limits of production; but that which at the present time especially removes them, is foreign commerce, by which the undeveloped resources of other countries are made to nourish the most intelligent and populous nations — by which produce is brought in from abroad, and capital is transferred abroad. In this way it is, that, while the general movement is hastened, the individual movement is greatly retarded, or wholly suspended. At no previous time have the resources of the globe been so rapidly developed and occupied as at present. Population is marching across this continent with astonishing rapidity, and is preparing to enter on all unoccupied territory, and yet, with the tillage and skill of our present prospective civilization, the goal is very distant.

§ 4. One thing further remains to be more distinctly pointed out, before passing from profits, — the effect of a

long period of advance, especially in connection with a high rate per cent. If profits, in any country, are twenty per cent., a capital of one thousand dollars, advanced for a year, will meet with a return of two hundred dollars; but, if advanced for six months, it must meet with a return of only ninety-five dollars and twenty-three cents, and the rate per cent. for shorter periods be reduced correspondingly below twenty per cent. If the capital is, however, to be advanced for two years, it must secure a profit of four hundred and forty dollars, and the rate per cent. for all longer periods must be similarly increased. The time, then, for which capital is advanced, equally with its rate per cent., must affect the price of its products. The following table shows, in decimals, the part which profits, at five, ten, and twenty per cent., constitute of the whole price:

	6 months.	1 year.	2 years.	4 years.
.20	.086	.166	.305	.517
.10	.045	.090	.173	.316
.05	.023	.047	.092	.176

From these numbers it will be seen that the rate per cent. cannot well be high, and the time of advance long, in any country, and it still be able to command foreign markets. If the rate is five per cent. in one country, and twenty per cent. in another, other things equal, the time of advance in the last must be reduced to six months, while it remains at two years in the first. If the rate is twenty per cent., and the advance four years, something more than half the price goes to profits, and something

less than half to wages. If the advance be the same, but the per cent. five, about five-sixths of the price goes to labor, and one-sixth to profit. In the first country, the cost of labor being the same, an article would cost fifty dollars, which, in the second, would cost but thirty dollars. Hence, in all manufactures demanding long advances, those countries must command the market in which profits are low. "As a general rule, the average period is longer or shorter in one country than in another, in an inverse proportion to the general rate of profit. In the general market of the world, a country in which the rate of profit is low has over one where it is high an advantage which increases at compound interest, as the period of advance is prolonged. The rate of profit in Russia is supposed to be about twice as high as in England. We will suppose that rate to be five per cent. per annum in England, and ten in Russia. A commodity produced in Russia, by an advance of ten pounds, for twenty years, would sell for nearly seventy pounds. A commodity produced in England, by the advance of twenty pounds, for the same time, would sell for less than sixty pounds. The difference in the rate of profit would far outbalance a doubling of the first expenditure. Profits are supposed to be lower in Holland and in England than in any other part of the globe. The English and the Dutch, therefore, have almost a monopoly in those trades in which the returns are distant. Abstinence, with them, is a cheap instrument of production, and they use it to the utmost. In their commerce with other nations, they generally pay in ready money, but give a very long credit. They purchase raw produce, and sell manufac-

tures. In many instances, they even advance to the foreign countries the first expenses of production. The indigo of Bengal, the wines of the Cape, the wool of Australia, and the silver of Mexico, are, in a great measure, produced by the advance of English capital. The accumulated interest on such advances would be an intolerable addition to the value of the returns, if the rate of profit were high. This circumstance occasions a tendency to uniformity in the proportion, in different countries, in which the produce is shared between the capitalist and the laborer. Where profits are high, the capitalist's share is kept down by the shortness of the period for which his capital is advanced. Where they are low, it is kept up by the prolongation of that period."

It will be seen that the price of products is much more rapidly affected by any increase of the rate per cent., when the advance is long, than when it is short. If the time is six months, a product which, at five per cent. profit, would cost twelve dollars and twenty-five cents, would, at twenty per cent. profit, cost thirteen dollars; but if the time be four years, then the product which, at five per cent., would cost twelve dollars and twenty-five cents, at twenty per cent., would cost twenty dollars and fifty cents. More than half of this enhanced price would go to the capitalist, without making his position better than in the first case, where five-sixths of the price went to labor. As consumers of commodities, the capitalist and laborer are both interested in securing a brief time of advance; and the laborer, also, from the additional demand which the same capital so employed gives to

labor. On the other hand, if profits are high, they add but slightly to the price, and take but slightly from labor; indeed, as they usually imply an active and productive state, they are often consistent with high wages and general prosperity.

BOOK III.

EXCHANGE.

§ 1. Exchange is that part of Political Economy which treats of the principles regulating the barter of products, and of money, the instrument employed. The discussion of value is fundamental in this department, and the laws which determine value are fundamental in all exchange.

Distribution goes on with production, and both are frequently completed at the same instant. The capitalist pays the laborer as the labor is expended, and the commodities remain to him as restored capital and profits. So, also, exchange accompanies every step of production, and the same act is often one of production, of distribution, and of exchange. The commodities manufactured by the laborer and capitalist are not usually those which they wish to consume, but are to be exchanged for them; nor frequently are the commodities — we have not yet introduced money in our discussion, save as an ordinary commodity — in which the laborer is paid, those which he consumes. Though separate in their treatment and in the laws which govern them, the three parts of industrial science are simultaneous in their development and practical workings.

This department is not without its own exclusive agents. A large portion of labor and capital is directly employed in the transfer and traffic of commodities. The merchant, the mariner, the porter, while transferring values, increase, by their labor, the values so transferred, and are themselves producers, claiming a share of the products. As the utility of a thing is not simply dependent on intrinsic qualities, but on the availability of these qualities, the porter may add not less to the utility of an article than the manufacturer. No inconsiderable part of the fixed capital of any civilized nation is represented in roads, in railroads, canals, docks, in the permanent improvements of navigation, in wagons, cars, and ships. Nor are machinery and invention anywhere more efficacious in reducing the cost of products, and multiplying the enjoyments of all classes, than here. The merchant is among the illustrations of the division of labor, and the resulting reduction in cost. He does that cheaply for a whole community which must, otherwise, be done by each of its members, at a great expense. A large importation of needful and customary commodities by one, is made to take the place of a much more laborious and partial supply, secured by each individual. Though scarcely observed, the time saved and the additional utilities furnished are very great. No class is more effective in the interests of production than this class.

Here, too, we have money, one of the most facile, most frequently employed, and productive of instruments — the very language of commerce. Important, however, as is its office, there does not belong to it that necessity and omnip-

otence which it has ever possessed, in the minds of its worshippers. No questions in Political Economy require more careful thought, are more practical, than those of value and those of currency. The last is truly the life-blood of industry. If vitiated and reduced by fraudulent coin or worthless paper, no innate forces of production can compensate or correct its destructive influences; but if the honest and reliable medium of exchange, the most essential condition of a healthy economic growth is met.

CHAPTER I.

VALUE.

§ 1. Political Economy is a discussion of values, and we have seen the agents by which these are produced, the principles according to which they are distributed, and we now need to understand the laws regulating their exchange, one for another. Utility and difficulty of attainment are present in all values; but we wish further to know what it is in each product which measures its value. It is not its utility; the highest utility — that is, the highest ability to gratify human desire — can exist without imparting any value to the thing, or it may exist in a high degree in a commodity, and yet that commodity be possessed of but a small value. Value in use, which is the acquired or intrinsic ability of anything to gratify human desire, is not a measure of its exchange value.

The value of anything is its purchasing power. The price of anything is its power to command gold or silver, or that which constitutes the currency of the country. Value may be expressed in any commodity whatever; price is expressed in one commodity only. Value, to be fully determined, demands a universal expression. We need to know, not how the product will exchange for one, but how it will exchange for any one, among all products.

The purchasing power of a community is seen in its command of utilities, and its command of one utility furnishes us no data from which we can arrive at its command of another. It is usually through a resolution of values into price, that we compare them with each other. We arrive at the exchange relation of one commodity with others, through the medium of a third commodity, in which the values are all expressed. We usually stop short, in determining the exchange value of a thing, when we know the amount of gold for which it will exchange, or its price, though it is evident that this alone is no adequate test of its real value, and, did we not tacitly understand how much, in turn, this gold would command of material enjoyments, we should not so regard it. With one of the steps — that by which gold is compared with products in general — we are familiar, and, omitting it, need only, for the solution of value, to know the price of the article. This is the enthymeme of daily exchange, the price of every product making us but the more familiar with the exchange value of gold, and this existing as a tacit premise in the mind, we settle general value by settling the value of the particular commodity, represented in price. It is evident that the value of a product is affected, not merely by those causes which act upon itself, but also by those acting on other products. Assuming labor, for a moment, to be the sole cause of value, a product may be raised in value when more labor is demanded for its production, and also when, the labor remaining the same in this department, some other articles are cheapened in their production. In either case it will exchange for larger amounts,

and has an increased value. It may often be difficult to determine to what a given change in value is to be ascribed, whether to a fall on one side, or a rise on the other, or to both these, or to an unequal fall of both, or rise of both. Any forces which act partially, or unequally, disturb value; and only these. Since the value of one thing is expressed in that which it commands of other things, a general rise in value is impossible. If it command more of them, they in turn command less of it, and have fallen in value in reference to it. It is impossible to express a rise without, at the same time, implying a fall; that which has been added to one side has been taken from the other. In this respect, value differs from price. Gold may rise, in reference to all other things, with a corresponding and universal fall of price.

From this it will be seen that anything which, operating equally, affects all products in the ratio of their value, cannot change value, since it has not changed that relation of products upon which value alone depends, and which alone it expresses. A rise of wages, or of profits, or of both, so far as they affect all departments equally, do not affect value, the ratio of exchange remaining the same.

§ 2. The principles which determine value are not the same in all products. Difficulty of attainment, though a much more important cause in estimating value than utility, does not, in all cases, furnish a measurement. But as these two are the sole causes of value, we should naturally look to them, in their joint action, for a measure of its amount. Difficulty of attainment is resolvable into labor

and abstinence, since these include all the danger incident to their employment; and in this cause of value, we shall find a very general measure of value. Though it is impossible to make labor the only, it is the chief measure of value.

The first and most numerous class of products, whose value is governed by one principle, are all manufactured products, capable of indefinite increase. Here we are to look solely to the second cause of value for its measure. It is a question, not how great is the utility, but what price in exertion must be paid for that utility. The value can, indeed, never rise above the utility, since, for labor to this extent, there could be no motive; but it may, to any degree, fall below it, as the labor requisite to obtain the products is diminished. The utility of an object, its ability to create sufficient desire to secure purchasers being granted, it is evident that no one will be willing to give for it commodities which cost greater exertion than that by which the purchased commodity can be gained. Two products, which are to be exchanged for each other, will be compared, in reference to the difficulty to be overcome, in securing further supplies of each. If more is demanded for a product than equals the exertion necessary to secure it, there is no motive to give this more, in preference to putting forth the exertion by which the commodity may be obtained. Men wish that the difficulty of attainment, or — if we use the term *labor* to express the entire difficulty overcome, as it does by much the largest share of it — the amount of labor represented in the commodity purchased, shall be equal to that represented in the com-

modity sold; and, if there is any marked inequality, they find no motive to give, and, in a large mercantile community, will not give the greater for the less. It is only when the supply is limited, or the demand immediate, that we are able to fall back on utility, or the amount of desire in the purchaser, and strain the price up to that desire.

Competition is able to force down price, and finds its gain in forcing it down to an exchange of equal labor, but cannot permanently, and has no motive to force it essentially below this. He who gives more labor for less labor, to that extent, throws away labor, and forfeits an advantage. When products are so exchanged, that equal amounts of labor compensate each other, the advantages of trade are divided equally between the parties, and these are the advantages which arise from peculiar facilities, natural agents, and a division of labor. Labor, for our present purpose, represents all that is represented by difficulty of attainment, including those disadvantages which attend upon its several kinds, and, in the rough equalizing of amounts, these are included in the estimate. It is evident, then, that if any permanent advantage were given to either party, in the exchange of products, such advantage could only be retained by some monopoly, either of law or of natural agent, — some restriction, by which a free transfer of labor should be prevented, and the action of general principles suspended. The tacit supposition of every such discussion is a large commercial community where natural forces have unrestrained action. There, equality of labor in products must be the law of their exchange.

If all exchange were barter, in each instance, to settle

the difficulty of attainment and strike an equation, would be a thing neither accurately nor readily done; but, through price, the problem is made a simple question of figures, at once resolvable. When any new commodity is introduced in the commercial scale, and its difficulty of attainment expressed in price, this may be inaccurately done; indeed, the interest of men prompt to too high an estimate, but competition immediately beginning to act, serves to correct and re-correct this price, till shortly it becomes a very true representative of the labor expended, and actual and rightful value become the same.

The difficulty of attainment which measures value in the case of manufactured articles susceptible of increase is, not that which has actually been overcome in securing any given commodities, but that which must be encountered in again securing them. The accidents and misfortunes of the individual cannot be redeemed in the price of his products. The purchaser is willing to recompense, in the price, the present difficulty of attainment, but not the obstacles, misfortunes, or ignorance of the past. If new machinery has been invented, he avails himself of the consequent reduction of price, and leaves the holders of the old goods to suffer the loss. It is while price is sinking, during the transition from the old to that of the new methods, that enterprise receives its largest rewards, and mechanical conservatism its severest castigation.

§ 3. We have seen that, in the first class of products, difficulty of attainment, the second cause of value, measures value, and that the chief element of this difficulty

is labor; but this is not a sufficient analysis of the forces which combine to constitute value. That which affects value must be a force acting unequally on the several kinds of production. If the climate of a whole country should suddenly become unhealthy, the products of that country would continue to exchange, at the same rates for each other; but if a single district was exposed to any permanent and marked malaria, the products peculiar to that district would rise in price. With this principle in view, we shall see that value is not affected by wages. These may be high or low, and, as they are high or low for all departments, value is not thereby altered. The cost of each of two products has been correspondingly enhanced or diminished, and in the exchange the quantity of neither is affected. This, however, is only true of wages paid for the same kind of labor. Wages for different kinds of labor are not the same for the same amounts, and, therefore, affect unequally the kinds of production into which they enter. Any rise or fall of wages which runs through all kinds of labor has no effect on value; but the original inequalities of wages, and these, as at any time, enhanced or diminished, to a corresponding extent modify value. That which is various in the difficulty of attainment attending the several kinds of production, is the amount of labor required. Each commodity represents a different amount, and this enters in to determine the quantity of any other commodity which can be secured in exchange. An article which can only be produced by two days' labor must command two articles, each produced by a single day's labor, and this exchange value will remain the same,

whatever price labor bears. The amount of exertion represented is the prime difference between products, and that, therefore, which preëminently determines value.

Nor do profits, the price of the abstinence by which the wages-fund is maintained, with certain limitations, affect value; these profits, having the same rate per cent., are relative to the cost of commodities equal. Products which cost the labor of one hundred days will have double the value of those costing the labor of fifty days, but the abstinence demanded by the wages-fund, in the one case, is also double that in the other; hence the additional cost imposed upon each by profits, is in the ratio of their previous values, and they must still exchange for each other in the old amounts, and their value as expressed in each other, remain the same. Profits on the wages of one hundred days are double those on fifty, and must still keep the value of the one article double that of the other. Thus, in all products, profits, at a single rate, and for equal periods existing as a uniform pressure throughout, leave the relation of exertion the same as before, and, as there is no such thing as a general rise of value, leave value unaffected.

The pressure of the air affecting equally all the surfaces of a body, does not modify its weight.

But there are certain inequalities in profits, and these occasioning varieties in production, affect value. Capital, even more than labor, is affected by risk, and as this attaches variously, the rate per cent. is modified with a corresponding modification of value in the commodities produced. So, also, capital is constantly advanced, for

very different periods, and as this difference in time is equivalent to a difference in the rate per cent., the variety which exists, in this respect, among products, is transferred to their values. Owing to these inequalities, we cannot leave out the element of abstinence from that difficulty of attainment which decides value.

§ 4. A rise or fall of wages does not affect value, nor a rise or fall of profits, so far as these enter equally into the cost of products. Owing, however, to the unequal use of buildings and machinery, in the several kinds of production, profits are not a uniform element in cost, but are relatively greater or smaller, according to the degree in which any particular commodity is the result of mechanical or of manual power. In the several kinds of manufacture, great variety exists in the aid furnished by machinery; in many, it performs much the largest part of the work; in others, but a small portion. This inequality occasions an inequality in the amount of abstinence, entering into the cost of production; this inequality again appears in the value.

In difficulty of attainment, or cost of production, labor and abstinence both enter; but, as the last of these elements tends to an equality in all products, being but a fixed rate per cent. on the other element, it, to this extent, drops out of value, making its appearance only when the insurance against risk is disguised under the name of profits, or when the times through which labor is extended, and capital as a wages-fund has been advanced, are unequal. If labor only was employed in production, profits, setting aside variety in time, would wholly disappear from

value, though still remaining in the cost of production. In price, however, they always appear, since only when they are kept a distinct element, are the constantly returning inequalities of time readily introduced. If, in each of two cases, the labor expended in securing certain products has been one hundred days, equivalent to one hundred dollars, and the time of advance four months, the value of the commodities, in each case, will be one hundred and two dollars, and in exchange we balance them according to this joint expression of wages and profits. It is evident, that the goods received, and hence the value, are not affected by this introduction of profits, though we have, by this division of price into two elements, a column under which an increase or diminution of time, or risk, at once appears. Regarding gold as a product, it is the fact, that one hundred and two dollars have cost one hundred days' labor, that causes it to exchange for goods containing the same amount of labor. Abstinence remaining the same, labor cancelled labor, and alone determined the value of each product in each.

If either wages or profits, or both, were to increase, the gold contained in one hundred and two dollars would still continue to exchange for the same amount of goods, profits being alike in both, and the labor of the one still balancing that of the other. But, in price, wages and profits both appearing, the rise of the one would cause a new division of the one hundred and two dollars, and a rise of both, in the production of this commodity, while leaving the nominal share of each the same, would increase its purchasing power. Price keeps distinct the elements of cost, though

those elements, by cancelling each other, frequently do not affect value. The product of a day's labor necessarily involves a day's abstinence; the product of one hundred days, one hundred days' abstinence; and, so long as this concomitant of labor is universal and the same, we have no occasion to compute it. Practically, however, there is perpetual variety. Wages may be advanced for the day, or for several or many days, and this element of profits must be perpetually present in our computation. An inequality of profits in the price of commodities is occasioned by the introduction of machinery, as capital is thereby substituted for labor, and profits for wages. This substitution taking place unequally, price is unequally affected by the existing rate per cent., or by any rise or fall thereof, and the value of commodities suffers, from this cause, further modification. This is best seen in an illustration. Suppose that certain products are the results of one hundred days' labor and the abstinence of four months. Price will then, at one dollar per day and six per cent. per annum, be one hundred and two dollars. The products will exchange for any others representing the same exertion and the same time. Let us also suppose, that in another manufactory, for whose products these have hitherto been exchanged, there is introduced a machine performing the labor of ten men, and demanding the attention of one man, and that the original cost of this machine is one hundred dollars, and that it will last ten years.

In the first case, two men may have been employed for two months, or fifty days, in producing the commodities, and the two remaining months have been occupied in the

sale of the goods, and securing a return thereon. In the second case, one man, with the machine, would accomplish, in ten days, what before had occupied two men for two months. The time, therefore, would now be reduced to two and one-third months, and the cost of the previous products of one hundred days' labor would, as they are now manufactured, be reduced to ten dollars and forty-six cents, viz: ten dollars for labor, twelve cents for interest thereon, seventeen cents for interest on the value of the machine, and seventeen cents, or six per cent. per annum, wherewith to replace the machine, at the expiration of ten years.

In these two prices, one hundred and two dollars, and ten dollars forty-six cents, profits stand in different ratios. In the first, fifty parts are wages, and one profits; in the other, thirty-five parts wages and one profits. These products would, regarding each as a unit, now exchange for each other in the inverse ratio of their cost; or, nine and seven-tenths of the second kind for one of the first. Let wages now be doubled, and no alteration ensues; the price of the first becomes two hundred and four dollars, and of the second twenty dollars and ninety-two cents, — twenty dollars for wages, twenty-four cents for interest, thirty-four cents for interest, since the machine would now have cost twice as much as before, and thirty-four cents to replace the first expense. The ratio of exchange remains the same, nine and seven-tenths. Let profits double, and value is at once affected. The price of the first product becomes one hundred and four dollars; of the second, ten dollars and sixty-seven cents, — ten dollars for labor,

twenty-four cents interest thereon, thirty-four interest on machine, and nine cents, or thereabouts, to replace first cost. Profits, in the second case, now constitute one share in every seventeen, whereas they before constituted one in every thirty-five, and the ratio of exchange between the two products is nine and five-tenths. Before, ten of the one kind of products purchased ninety-seven of the other; now, but ninety-five.

The inequality occasioned by machinery would be much greater, were it not that the time occupied in production is greatly abridged by its use. Whenever, therefore, unequal amounts of fixed capital in machinery, tools, and buildings, enter into production, the value of the products will be affected by the given rate per cent., and altered by any alteration in that per cent. It is also evident, that, in proportion as this machinery is less durable, and must be more frequently replaced with labor, it saves less labor, partaking more of the character of labor, and hence has less effect on labor.

Ground rent and unequally distributed taxes are among the occasional elements which find their way into the cost of production, and through it into value. Ground rent, whenever it exists as a heavy charge, is compensated by some peculiar advantage conferred, some labor of transfer escaped, and cannot, therefore, be said to enter into the cost of production. So far as the ground occupied makes no compensation in advantage conferred, it can hardly bear more rent than it would be able to render when employed in agriculture, and only to this extent can it enhance value. If all grounds, therefore, were equally productive,

ground rent would not affect value, and it can only do so to the extent of their inequality in fertility. Taxes which fall upon a portion of production are immediately represented in the value of the products so burdened, and that which the legislator had failed to distribute is distributed by the action of natural forces. The commodity taxed comes to all consumers at a higher rate, to the producer in common with others, he, however, experiencing the additional disadvantage of a retrenchment of the market by a rise of price.

§ 5. The value which we have now seen to attach to the first class of products, including the vast mass of manufactured commodities, is measured by the comparative difficulty of attainment, by the comparative cost of production. There are certain elements of wages and rate per cent. which belong to the actual cost of production, which, from their equality in all production, do not affect the ratio existing between the cost of articles, and hence do not affect value. Yet value, in this class, may ever be, and is usually obtained by a comparison of the actual cost of production, commodities exchanging for each other in the ratio of this cost. In the case of agricultural, the second class of products, — those capable of indefinite multiplication, but with a constantly increasing expenditure, — the measure of value is essentially the same, though the difficulty of attainment, or cost of production, is now not common to all, but belongs only to that limited portion obtained with the most exertion, and whose culture yields no rent.

There cannot permanently be two prices in the same market. As soon as the produce of the easiest culture is not able to meet the demand for food, there must be a rise of price sufficient to meet the expense of entering on poorer lands, or a more laborious tillage. The former tillage and the better lands will, at this price, enjoy an advantage and yield a rent. The price is governed, not by the cost of culture under these happier, but under the more unfavorable circumstances; since this culture must now be remunerated, in order that it may be sustained. Thus, continually, as the demand enlarges, there is a rise of price, that thereby a supply may be obtained, adequate to meet the new necessity, — the price requisite to recompense the cost of the last supply of food demanded necessarily constituting the price of all. In this class of commodities, their value depends, as hitherto, on the cost of production, or those variable elements therein, already specified; but it is no longer the cost of production of all the commodities consumed, but of the most expensive part of each class of grains and roots that actually finds consumers.

Rent, then, does not enter into value. It is not the cause, but the effect of increased values. It is the residuum of advantage that is left behind, in each step of tillage. It is paid in the price which grains raised on the best grounds bring, but it does not cause them to bring this price. A less favorable agriculture has raised the cost of production, and left to these products this margin for rent. While, therefore, price pays rent, rent does not enhance price, but arises from the impossibility of two

prices for the same article, existing at the same place and time. We may then regard the measure of value in the first two classes, comprehending, as they do, nearly all products, as essentially the same, — the comparative cost of production. What has already been said of amount of labor, variety of profits through risk, time, and machinery, is equally applicable here, though labor is now more than ever the chief element of cost.

§ 6. The value dependent on the cost of production may be termed the natural value, and is to be distinguished from the actual, or market value. Besides the permanent causes which measure value, and of which we have spoken, there are certain transitory causes, occasioning a constant vacillation of price, and, for short periods, very violent transitions. The average price of a long period will correspond very nearly to the natural value. This is the point through which the vibrations of price take place, and to which, on each relaxation of force, it tends to return. Natural value may, in some commodities, seldom be the market value, while it is ever curbing and drawing back that value to itself.

These causes are represented under the terms of *demand* and *supply*, — the amount of any product that is immediately desired, and the amount that can be immediately furnished. If there is more wished than can now be furnished of any commodity, there is a competition among buyers to secure it. Under this competition the price rises, but, with each rise of price, there is a reduction in the number of those who wish it. The wishes of men are not absolute,

but have relation to price. Ten men have a desire for an article while the price remains at one dollar, while but two have such a desire when it rises to two dollars, and but one when it becomes three dollars. At this last price, there is an equality between the supply and demand, and price tends to rise till this equality is secured. The ordinary sales of goods resemble the more rapid and forced sales of an auction. At the lowest value there are many bidders, but the value rises till there is left but one bidder for the one article. Here an equation is secured, and the rise stops. So, too, when the supply is in excess of the demand, the market becomes sluggish; sellers attempt to quicken it by lowering the price. At each fall, the circle of purchasers is enlarged, till, at length, the practical, immediate demand is made equal to the supply. This is the equation of supply and demand, and upon it depends the present market price.

Different commodities are very differently affected by these causes. The prices of some are constantly vacillating under it; others are seldom affected by it. The more rapidly a commodity can be produced, and the more durable it is, the less will it be affected by this vacillation of the market; the longer the time needful for its production, and the more perishable it is, the more it will be affected. If, as the demand becomes urgent, new and adequate supplies can at once be provided, price has no opportunity to rise. If the demand suddenly falls away, and the article can be kept without injury, it may be laid aside till a change takes place in the market. If, on the other hand, no urgency of demand can extort a supply, short of four

months or a year, price may be forced up to a very high point. If fruit must be sold to-day, or be lost, in the last emergency it will be offered for any price. Manufactured commodities, usually more durable and rapidly furnished, are less affected by changes of demand than agricultural commodities, all of which require considerable time, and many of which are highly perishable. The demand is here more imperative, while the supply is more uncertain, more open to accident. Hence, in this department, the vacillation of price is much more rapid and extended than in manufactured products.

Some commodities are exposed to a violent change in the demand. In time of war, the implements of warfare may bear an extravagant price, and, in a protracted peace, be of little worth. Those who guide fashion avail themselves largely of this principle. No sooner has the market had time fully to supply itself, and price to be reduced to its ordinary level, than the fashion is changed, and the price restored by a new monopoly. Those who are at the head of the movement ever find the demand in advance of the supply, and reap a heavy harvest; those who are in the rear find the supply of an antiquated article by far too great, and are suffering perpetual loss. The loss undoubtedly largely compensates the gain; but frequently they do not fall to the same persons. He who makes the wake sails safely, while he who follows is ingulfed.

There is, in this very rise of demand, and with it of price, a tendency to check the movement which it inaugurates, and to restore the level which it destroys. Each rise of price quickens all producers, and, if great, crowds

them to their utmost effort, that these prices may be realized. But this new supply checks the rise and restores the level. At the same instant, also, that high prices invite producers, they restrain consumers, and struggle, on either hand, to restore price to its natural value. So, also, when prices have fallen, production is checked and consumption is quickened.

These forces rapidly increasing, as the rise or fall of price becomes great, shortly overpower and reverse the movement. Natural value is the gravitating point, and thither self-adjusting forces push the price.

Here, as elsewhere in these discussions, a free market in which each is alive to his own interest, is the tacit assumption. In the ordinary retail business, there may be, and usually is, not merely two, but many prices in the same market. Indolence, ignorance, fashion, and the vanity of seeming carelessness on the part of the purchasers, together with fraud on the part of sellers, may occasion a great variety of price. Some are willing to pay for the privilege of purchasing on a certain street, or at a particular store; and most form habits of purchase which preclude an extensive survey of the market. Time, also, is always required for any increased demand to be felt through the market, and there will, while price is in a state of transition, be a variety of sales which do not tally exactly with the existing state of things. Also, a movement here, as elsewhere, is seen to acquire a momentum, which carries it beyond the forces at work. These, however, are no more than wind ripples, which do not modify the great tidal movements.

§ 7. The third class of commodities — those not capable of increase, or of but very limited increase — is measured in value by the principle of supply and demand. Here belong many works of art, paintings and marbles; all products of genius that cannot be multiplied; superior gems, and rarities of every kind.

If a residence in a city, through position or otherwise, possessed of peculiar beauties and facilities, is to be sold, what determines its price? The supply is limited; there is but one such residence; the demand is variable, depending on the price. If it were to be offered at fifty thousand dollars, there might be one hundred persons who would wish it; if for one hundred thousand dollars, twenty persons. But for the very reason that one hundred wish it at the first price, it will not be offered at that price; nor yet at the second, since twenty still wish it on these harder terms. If but one man is willing to give five hundred thousand dollars, while a second man would give a fraction less than this, it will rise in value to half a million, since, at this price, the equation of supply and demand is struck; there is one building and one purchaser, and no competition to force the price higher. Competition cannot altogether cease till the demand is reduced to the supply, and price must therefore, if the seller is determined to obtain the utmost, rise till this point is reached. Here it is utility, or the ability to gratify desire, that seems to measure price. The aim is to reach the highest desire which any one has for the product, and to fasten the value at this point. By means of competition, this is nearly though not absolutely done. It cannot be affirmed

that the purchaser might not have been willing to give more, but it can be affirmed that no one else was willing to give so much. The space between the first and second utility, the first and second desire, may not have been all travelled over, since, the moment the second is left behind, there is no competition to carry the price forward. The purchaser, by a too eager desire, may place himself still further in the hands of the seller, but, in truth, from that point the seller is as dependent on the purchaser as the purchaser on the seller.

Monopoly values are very nearly allied to those of the third class of products. Those enjoying the monopoly of any branch of industry, by limiting the supply, force up the price beyond that due to the cost of production, and might do so, till the utility of the commodity to the last consumer was reached. It is not, however, for the interest of the monopolist to raise price to this extent. The constant diminution of purchasers more than compensates for the large returns on that which is sold. A reduction in net gains of one-half might much more than double the consumers, and hence it is usual for monopolists to furnish what they themselves conveniently can, and suffer the price to adjust itself to this supply; and this adjustment will be effected when, by the rise in value, the demand has suffered the same reduction.

§ 8. The most important of the products whose value is regulated by the action of supply and demand is labor. Wages, as already seen, are acted on through the competition of numbers, either on the side of laborers or capital-

ists. It has been said that durability relieves a commodity from any rapid depression through the deficiency of demand: it should also be pointed out that this very circumstance may subject certain products to a protracted depression in value. Houses once built are not soon removed from the market, and if the supply, therefore, is excessive, it may remain in excess for many years.

If two commodities are the joint results of the same process, we have a case of value involving both cost of production, and supply and demand. The sum of both values must be such as to repay the cost, and if one value is large, the other may be proportionately small. What is to decide the value of each? With a saving of lumber, lath and boards may be furnished at the same mill. If, with a certain demand for boards and the price resulting therefrom, the lath cannot be sold at a rate to render their share of the joint value, then a higher price must be placed on the boards. This will somewhat restrict the demand for them, and consequently lessen the number of both. Under the diminished supply, price will here also rise, and this process must continue till, by their mutual rise, the boards and the lath together pay their joint cost. As the demand acts upon either of the two commodities, this commodity may be multiplied till, by the attendant reduction of price in itself and fellow, the cost of production has been reached. The supply of one commodity must be checked, either when increasing or decreasing, at the point at which the value of the other, acting as a supplement to its own, reaches the common cost.

In agricultural products, the demand for the several

kinds of grains may be different, and hence the culture forced farther in one kind of produce than in another. In this case, the difference between the most favorable and least favorable culture will be greater in one grain, as wheat, than in another, as corn. If, then, all soils were in their capabilities arranged in a scale having two points, — the one expressing the highest fertility in wheat, the second the highest in corn, while the intervening space marked the variety of adaptation in these respects, — wheat would, on the present supposition, in actual culture, pass beyond the middle point, and occupy ground more favorable to corn than to itself. The kind of soil, then, at which two grains meet, marks their relative demand and value. We close this chapter with a recapitulation of the principal propositions involved in this discussion of value.

§ 9. 1. *The value of a commodity is its purchasing power — its ability to command other commodities. The particular value of a commodity is its power of purchase, expressed in a particular product: price, its power of purchase expressed in money. There can be no universal rise or fall of values. Each rise implies a corresponding fall, and each fall a rise.*

2. *Utility and difficulty of attainment always occasion, but do not always measure value. Value may, to any degree, fall below, but cannot rise above utility; value may rise above, but cannot permanently fall below difficulty of attainment.*

3. *No one product is invariable in its cost of production. Hence, there is no product with which, comparing other products, we can determine their changes. There is no fixed point; changes are constant and general, and, though the relative difference is obvious, the precise causes which have occasioned and measured it are not so.*

4. *Products are, in reference to the causes which determine value, divisible into three classes. The most numerous class is composed of those which may be indefinitely multiplied without increased cost, and includes nearly all manufactured articles; the second, those which are multiplied at increased cost, and includes agricultural products; the third, those incapable of indefinite increase, and includes the remnant of products, both manual and natural.*

5. *Market value is the value at which products are for the moment exchanging; natural value is the value to which the market value tends to return, and through which it oscillates.*

6. *In the first class, natural value is measured by difficulty of attainment, and is the comparative cost of production. Price expresses, in each case, the actual cost of production, and contains some elements, which, being the same in all, do not affect value, or the comparative cost of production.*

7. *Cost of production is made up of wages and profits, as habitual elements; of taxes, scarcity values, and ground-rent, appearing in any material or instrument employed, as occasional elements. Comparative cost of labor, or value, depends on amount and kind of labor, as its chief element, and on the variety in time and risk of capital, as a secondary element. The occasional elements are the same in value as in price.*

8. *Wages do not affect the comparative cost of production. High wages do not advance either value or price. Difference of wages affects the products between which this difference obtains. Rate per cent. affects value, so far as there is inequality, and this inequality exists in three respects, — in risk, in time, in buildings and machinery. Increase in risk and time enhances value. On a rise in the rate per cent., those products rise in value into whose manufacture there enters more, or more permanent machinery. High profits do not occasion high values or high prices.*

9. *If the amount of the labor is the same, and the time and risk of capital the same, whether wages and profits are high or low, the commodities so produced will exchange for each other.*

10. *The amount of labor is always the leading element in value, and the more so as the rate per cent. falls.*

11. *The equation of supply and demand is the law of market value.*

12. *In the second class of products, cost of production is still the measure of value, though it is no longer the cost of all products, but only that of the most costly part of each kind really demanded. Rent, though paid in price, does not enhance it.*

13. *The third class of products find their measure of value in the equation of supply and demand. Scarcity value rests on utility.*

14. *In cases of joint production, one of the commodities — usually that for which there exists the greatest demand — rises or falls in price, till the joint prices meet the joint cost.*

CHAPTER II.

FOREIGN TRADE.

§ 1. Foreign trade presents so many modifications of the principles of exchange, applicable to the markets of a single country, as to require special treatment. The immediate motives to trade are its gains; but these are far from being its leading financial advantages. There is a broad variety between different parts of the earth, and different nations, in the kind of commodities produced, and the facility with which the same commodities are produced. Setting aside carriage, each nation is benefited, to the extent of this difference; nor is the merchant, in a well established trade, able to secure, as returns, but a fractional part thereof — a part sufficient to reward the labor and risk undertaken in the transfer. By trade, each nation avails itself of the advantages and resources of the whole earth, and enters in for a share of the blessing bestowed on every soil, clime, and people. It feels also the stimulus of every form of industry; not only rival industry, but that which, crowding its markets with new utilities, new enjoyments, invites and draws out its purchasing power. Commerce keeps in lively motion all the wheels of industry, and supplies both the motives and means to a large share of production. And yet all these immediate industrial

advantages are but secondary to those social and intellectual advantages which it confers, and also to those higher productive resources, the necessary results of this quickened intelligence. That petty jealousy which restricts intercourse is its own punishment, and that, not so much in what is immediately lost, as in what would otherwise have been gained. The ignorance of such a nation, however, is too often sufficient to conceal its loss, and disarm its rebuke.

§ 2. *In any country, it is not the absolute, but the relative cost of its products, which determines its foreign trade.*

This is a radical proposition, and gives us most that is distinctive in this branch of exchange. The articles obtained abroad, in exchange for those carried, are brought to the home market, and the question there is, not whether the products so obtained have actually been manufactured by less labor or more labor than that which has been given in exchange for them, but whether at home they would have cost less or more labor. If they would have cost less labor than that which has been given for them, then a loss is suffered; if more, a gain is secured. Setting aside carriage, if, in France, certain silk goods costing ten days' labor were carried to England, and there sold for cotton goods costing eight days' labor, and then returned to France, it does not follow that the voyage has been a losing one. If the cotton goods could have been secured in France for eight days' labor, there is indeed a loss of two days' labor; but if they would have cost twelve days' labor, there is a gain of two days' labor. If cotton goods

in England are, relative to France, manufactured cheaper than silk goods, then a mutually profitable trade could take place between these countries, in these articles, though the absolute cost of both cotton and silk be much greater in France than in England. The French merchant buys in England to sell in France; and it is, therefore, the French, and not the English market, which determines his profit, — the home cost of that which he brings back, compared with the home cost of that which he took away. If we had three scales, expressing the relative cost of products in England, France, and the United States, respectively, we should be able to see what kind of exchanges could be profitably undertaken between them; nor would a cost of labor, varying, in these three countries, in the ratio of one, one and a half, and two, at all affect the result. It would be possible, though certainly not probable, that, in a certain product, a country might command the markets of the world, though its absolute cost of production were greater there than anywhere else. From this proposition, certain important conclusions follow.

High wages, or profits, or both, in any country, do not affect its foreign trade, or limit its ability to compete with other nations of a lower wage or profit. If England brings goods into an American market, manufactured by labor receiving a less compensation than our own, she cannot, for that reason, undersell us; for, if her merchants were for this reason to receive less in return, they would find that this smaller return would not, in an English market, bear a price based upon American wages, but one reduced to the standard of their own labor.

Which of two nations shall undersell the other, in the ports of a third, is a matter of relative, and not absolute cost: she who pays the most for labor, may undersell her who pays the least.

That country whose labor is most efficient secures all its foreign commodities at the least cost. It is the articles which America produces with peculiar facility that she exports; and these, commanding foreign products, not according to the labor they have cost in America, but according to what they would have cost in the country where the exchange takes place, may give a return cargo, representing a much larger amount of foreign labor, than the outward bound vessel contained of home labor. Whatever was the original cost of production in these foreign commodities, we have purchased them as cheaply as if manufactured by our own most efficient labor, and this often with the additional reduction of a profit.

As the advantage of trade between nations depends on the relative superiority at different points, foreign commerce can only be the most efficient means of the common good, when each nation aims at the most thorough development of its own peculiar resources. An effort, on the part of any nation, which aims to equalize its success in all directions, and make it a competitor with every other nation in each respect, so far incapacitates it for profitable foreign trade, and forfeits the command of the world's products, given it in its own best capability, when fully drawn out.

§ 3. We have already had occasion to introduce the equation of international demand, but have now arrived at

a point, at which we can more clearly see the principle involved therein. A portion of foreign commerce is the transfer of commodities, which can only be successfully produced in the countries from which they are exported; cotton, coffee, tea, and sugar, are of this class. If any one country has a monopoly of such a product, the value which it will have in foreign markets must depend on the principle of supply and demand; a scanty supply may keep it perpetually above the cost of production; a large supply may reduce it to that standard. This last will also be the result, when several countries compete with each other, in the world's market, for furnishing such a commodity. Whenever the tract, on which a plant can be reared, is large enough to furnish the world, unless its production is straitened through some governmental restriction, the price must shortly sink to the cost of production. In all these cases, the countries which consume the commodity reap their advantage, not in reduced values, but in a new utility, a gratification, for which they might be willing to pay much more than it costs them.

Another large portion of foreign trade is in articles which, though they may be, and perhaps are, produced at home, are produced with relatively greater difficulty than abroad. It is in these products that the gains of international trade are most readily susceptible of measurement. This subject is best seen in an example, though one purely hypothetical. If ten bushels of wheat, in France, represent the same labor as ten gallons of wine, and command in the market this quantity, while in America they only represent the labor of five gallons, and purchase this

amount, then, in reference to wheat, the culture of the vine is by twice more advantageous in France than in America; and the culture of wheat, in reference to the vine, by twice more advantageous in America than in France. If a trade were commenced in these articles, the whole advantage — setting aside carriage — expressed in wheat, would be five bushels in every five gallons of wine; and expressed in wine, five gallons in every ten bushels of wheat. Confining the expression to the last commodity, how shall this advantage of five gallons be divided between the two nations? If the demand for wine in America is equal to that for wheat in France, equally, and henceforward ten bushels will command nearly seven and one-eighth gallons — the fraction is something more — in the one place, and seven and one-eighth gallons, ten bushels in the other, securing a gain of forty-three per cent. in the price of wine in France, and of wheat in America; for, if not, suppose that the American obtains nine gallons for ten bushels. In this case, by the reduced price on the one side, and the increased price on the other, the demand for wine in America would be greatly in excess of that for wheat in France; since, according to the conditions of our supposition, they are equal at ten bushels for seven and one-eighth gallons. As a result of this excess of demand on the one side, and want of it on the other, the French merchant would wish to stop the trade much quicker than the American merchant; and the latter, to induce further exchanges, would be compelled to offer more favorable conditions. Suppose these to be ten bushels for eight gallons, trade would again proceed on

this basis for a time; but, as the demand is not yet equalized, there would come a time when wheat, in reference to wine, would be heavy, and a further fall be necessary. The only price that could put the forces in equilibrium would be ten bushels for seven and one-eighth gallons, and this, when the market, by successive falls, had found its true state, must be the final price.

Suppose, however, that the demand for wine is greater in America than for wheat in France. In that case, if the exchange started as before, the value of wheat in wine must rapidly decline, not simply till it had reached the point of equal division, but considerably below it. It must decline, till, by the enhanced value of wine, the demand for it is so reduced as to equal the demand for wheat, in the meantime enlarged by a corresponding fall of price. If this equation is secured at ten bushels for six gallons, at that price there will be no motive, on either side, to offer better terms, and no ability, on either side, to demand better terms. The American cannot require more wine; for, if he does, there comes a time, before his complement of wine is secured, in which his wheat is not wanted; to take less, would be causelessly to reduce profits. The demand for wheat remaining the same, the more he wants of wine, the more he must pay for it; the less he wants of it, the cheaper he can get it.

From the equation of supply and demand, we see that the advantages of any trade are divided between two nations, in the inverse ratio of their demand. This is true, not only in the exchange of two articles, but in the mixed exchange of all articles; inversely, as the balance of de-

mand will be the balance of profit; she who has the larger and most urgent wants, must draw out her neighbors with a corresponding bonus.

No nation can entirely expel another from the markets of a third, till she has so lowered the price as to cut below the last remnant of advantage remaining to the expelled party, under the equation of international demand. America could not, on the above supposition, be driven from the wine market of France, till ten bushels or more of wheat were offered for five gallons of wine.

§ 4. If any improvement occurs in the production of an article previously exported, the gains to be divided between the two parties are increased. We will suppose that, by the application of new methods in the culture of the vine, the price of wine is so reduced in France, as that twelve gallons now exchange for ten bushels of wheat, while the relative condition of the two kinds of tillage is unaltered in America. In that case, the gains are raised from five to seven gallons; and the division will proceed on the same principles, being equal if the demand is equal; otherwise, the portions will be in the inverse ratio of the respective demands. A foreign nation may therefore secure the same, or even a larger share of the results of any improvement, than the nation whose improvement it is. This improvement, if it is to affect the exchange, must be confined to one of the commodities. If wheat and wine were both and equally cheapened by it, it would not alter the conditions of the exchange. Also the cheapening of any commodity, as wine, might vary the previously exist-

ing relations of demand between it and wheat, and thus affect the international division. That the exchange may remain the same, not only must the demand for wine increase, but so increase, that, at its reduced price, as much wheat shall be sent to the market in pursuit of it as before; otherwise, the demand for wheat would not be met, or would be left in excess. If America does not purchase the cheapened article to the extent of the same number of bushels of wheat, the price must fall still further to induce the exchange, and a larger share of the advantage than formerly be surrendered by France.

If we introduce now the element of carriage, we shall find that, in many bulky articles, this either destroys or goes far to compensate the advantages of traffic; that much is produced at home which, were it not for this burden, would be brought from abroad. A trade, which still remains profitable, will be reduced in its returns to the extent of the cost of transfer, and this cost may be divided between the parties in the ratio of the previous division of profits, — that is, in the ratio of the parts which we have seen to fall to each, on the supposition that there was no expense of carriage, — that is, in the inverse ratio of the demand. This is likely to be, but is not, necessarily, the method in which this burden will be shared. The price of both commodities will be raised by it, and, if the demand for each is equally affected by this rise, the relation between the two demands will remain the same, and the ratio of division the same. In that case, each will bear the cost of carriage in the ratio of its share of advantage; if that share be one-fourth, one-third,

and one-half, then its portion of the expense of transfer will be one-fourth, one-third, and one-half. But, as the value of each article is raised, wine may command less wheat in France than before, or wheat less wine in America.

The demand for these articles may be unequally affected by the rise; the demand for wheat may be more retrenched than that for wine, or the reverse. In either of these cases, the equation of international demand must reädjust itself; and according to the new division of advantage will be the division of cost. Each case may therefore be affected, to a slight extent, differently, by the introduction of any new expense, like that of the transfer into the supposition.

In the traffic of wine and wheat, if the demand was equal, we saw that the exchange would settle in each country at ten bushels for seven and one-eighth gallons. If now the price of transfer, in the case of wheat, is one bushel in every ten bushels, and, in that of wine, one-half gallon in every seven and one-eighth gallons, ten bushels, arriving at France, will be reduced to nine bushels; and if the carriage were to stand against the French merchant, the exchange in France would be nine bushels for seven and one-eighth gallons. On the other hand, seven and one-eighth gallons, landed in America, would be reduced to six and five-eighths; and if they are to obtain the same value as before, — the merchant ordering wine meeting the charge thereon — six and five-eighths gallons will procure ten bushels of wheat. But our supposition was, that the demand for wine in the one country was equal to that

for wheat in the other; and, therefore, the advantage of traffic should be equally divided; but the charge of carriage on wheat, in proportion to its value, being greater than that on wine, if France is to pay the whole of the first, and America only the second, the equilibrium is disturbed,—France losing one bushel in every ten, and America one-half gallon in every seven and one-eighth. Wheat has risen a little more than eleven per cent., while wine has risen something less than eight per cent. The demand, therefore, tending to an equality, only at an equality of advantage, would have gone down for wheat, and advanced for wine; hence, the price of the latter must be advanced, and that of the former be reduced, till, meeting in an equal division of the new burden, the equilibrium is restored. Carriage may be considered as so much added to the cost of production, and as so much reducing the gains of trade. Before, these were five gallons; they will now have fallen to three and three-fourths gallons, and these gains are again to be so divided, that the fall in the rate per cent., according to the capital invested in each kind of production, shall be the same. This fall in profits, or rise in the value of wheat in France, and of wine in America, will be in round numbers nine per cent.; and ten bushels, which before commanded in France but seven and one-eighth gallons, will now command less than seven and three-fourths gallons; and seven and one-eighth gallons, which before commanded in America ten bushels of wheat, will now command ten and nine-tenths bushels. Wheat has risen in reference to wine in the one country, and wine, in reference to wheat in the other; but

the equality of demand remaining, the rate per cent., through which this new burden is met, is the same for each, namely, nine per cent. If there should be any variation occasioned in the demand, either through the higher prices now arising, or any other cause, the rates per cent. dividing the cost of transfer would be to each other in the inverse ratio of the demand, — these demands universally measuring themselves in the portions obtained of the common gain. The awkwardness of fractions will vanish when both commodities have their value expressed in money, with its accurate subdivisions.

CHAPTER III.

MONEY.

§ 1. The laws of production and distribution are not affected by money, as an instrument of exchange. All that has hitherto been said, without reference to money, is equally true when this new element is introduced. Money is only an instrument by which a process, previously the same in kind, is made more perfect and rapid. The principles of barter, or the direct exchange of product for product, control the phenomena of Political Economy, equally with, as without, this new medium of transfer. Having seen the agents of production, and the laws of distribution, in their action under these principles, we are now prepared to understand the nature and office of money.

Money, in any country, is that product, or those products, in the form which custom or law assigns them, which have become an established medium of exchange.

In cultivated nations, some one or more of the metals have constituted the basis of the currency, usually aided, in a greater or less degree, by paper money — an indebtedness certified on paper. The currency of a country is its circulating medium, in all the variety of its established and legalized forms, — is its gross amount of all forms of money. Among all instruments, none meet a greater

variety of wants, and save more labor, than money. It substitutes a general for a particular purchasing power. He who is possessed of a particular article, and wishes to exchange it for another, must not merely find a person possessed of the second article, but one both possessed of it and wishing to barter it for the first. Each has only the limited purchasing power of his own commodity, still further restricted by the necessity of finding another whose desires are the precise counterpart of his own. An intermediate agent, like the merchant, would, indeed, in part relieve this embarrassment; but it is only through money that each comes into possession of an agent possessed of a general purchasing power, that can command everything everywhere. It is sufficient for the seller, that his own product is anywhere wanted; this want, through the merchant, represents itself at his own door, or in his own community, and, to the extent of the value of the product, he receives that which commands any utility he may choose. As the wheel of exchange revolves, he puts on anything he will, and receives a ticket which, to the amount on its face, allows him to take off from that wheel anything that he will. His particular commodity gave him an order on some as yet unknown person, who should possess what he wished, and was willing to receive this product in return. This order is now changed into a general order, and may be presented to any person at pleasure.

Money also generalizes the purchasing power, not only in place, but in time. A perishable commodity is exchanged for an imperishable medium, and the power of purchase locked up in this form may be retained at the

pleasure of the holder. It also condenses and makes divisible that power. A crowded barn may have a less command of utilities than a moderately filled pocket-book; and the house, which was one in the sale, may now, in the money which represents it, divide itself many hundred times, and roam in all directions in search of enjoyments. Money, in the hand of the holder, is a pliant agent, that unites or divides its forces as the exigency demands. It is an industrious agent, which works at all times. If a man had wheat, there would be but a naked chance that he should find some one willing to loan it, and return it with interest; probably he would be compelled to keep it, with waste and damage; transmute it into money, and from that hour it may earn, and, like a faithful slave, will pay in its wages. If there were a hundred commodities, all in equal demand, the chance that he who possessed one could make a loan, would be represented by one; while his chance who possessed money, and thereby commanded them all, would be represented by one hundred. Hence, almost all loans take place in money.

Money is the constant medium in which values are expressed and balanced. Through money, the whole exchange of products, in all their varieties, comes under the measurement of one table, and everything resolved into dollars and cents is rapidly weighed with every other. Without this, no accuracy, no uniformity, no general market price, could well be secured in the transfer of values. How one product should exchange for any one of all products, would present a distinct problem, in many instances difficult of solution. We have now but to resolve this

question in one direction, and accuracy here avails for accuracy everywhere. When we know how much gold a thing has cost, or will command, we tacitly know its complete purchasing power, in products familiar to us. Mercantile education is largely no other than this — an extensive resolution of all values into that of money, and hence, by ready inference, of values into each other. The price of a commodity fixed, it instantly takes its place in the thoroughfare of commerce a well understood and calculable member. Money acts on exertions as the thermometer on temperatures, or the barometer on atmospheric pressures, — it measures and definitely relates them; it makes them arithmetical.

§ 2. Corresponding to these functions of money, must be the qualities of that product which is to discharge them. That it may condense value, it must itself be possessed of a high value; that it may render value divisible, it must be capable of any needed division, without a reduction in value; and, in order that it may be convenient in the handling, and bear its value on its face, it should be capable of receiving any desirable form, and retaining any impression. Important as are these qualities in a circulating medium, it is yet more necessary that its value should be uniform, or, since this is impossible, subject only to slight fluctuations. The measurement and comparison of values, at one time, may be affected by a product itself liable to wide changes, but cannot, as between different times. Though the traffic of the hour might be safely carried on in such a medium, it could not meet, with even tolerable

success, the exigencies of the year, or of a series of years. The property of many persons, and of many institutions, is, for a series of years, expressed in the currency of the country; and if the product, which is the basis of this currency, is to be constantly cheapened, — that is to say, its command of all other products constantly reduced, — this property, though not in name, will, in reality, be correspondingly reduced. Those whose wealth is invested in real estate, or in any form of commodities, would suffer no loss, while those whose property is monetary obligations, would find it liable to constant fluctuations. A debt, at the time in which it was incurred, might have one value, and at the time of payment, a very different value. These considerations make the causes regulating the value of money of the highest importance. Vacillation here is vacillation everywhere, and by the fitful freaks of currency the whole stream of commerce is broken and fretted.

The precious metals, gold and silver, have been found, in the highest degree of any known substances, to combine the qualities requisite in a circulating medium. Their high value, their durability, the ready manner in which they receive and retain the legal impress, and their comparatively uniform value, all point them out as the most substantial and pliant basis of a currency.

§ 3. Money is a product, and, like all products, finds its own value under the operation of the principles already pointed out. The legal stamp does not occasion the value; it only marks it; and if it marks it either above or below

the true value, — that value which the natural forces at work have already assigned the metal contained in the coin, — only the utmost despotism can establish or sustain this factitious value, and that only within a very limited circle, and for a restricted period. The two measuring causes of value are cost of production, and supply and demand. Values, as dependent on supply and demand, are usually subject to much wider and more constant fluctuations, than those arising from cost of production. Anything, whose supply was not large and strictly limited, might have sufficient value to constitute a medium of exchange. If the quantity of gold now in the world were left to us, but all further supplies cut off, it would, for the time being, retain its present value, as defined by the cost of production. Shortly, however, as the quantity came to be diminished, by loss and wear, and the demand for it, in the currency and the consumption of luxury, to be increased, its value would come under the action of the equation of supply and demand; and though, by increased value, it would still meet and discharge all the functions of exchange, this necessary and constant rise would be an element of perpetual disturbance and error. Even irredeemable paper might, within the limits of a single country, have circulation, if its quantity were, by arbitrary power, so limited as to be kept constantly within the demand. If this second measure of value is to be the basis of a currency, it is by no means necessary that the medium should have any intrinsic utility, or utility for any other purpose; it is sufficient that it has utility in this one direction, and that this utility is forced into a high value

by the constant action of demand on supply. A few shells, of which there were absolutely no more, might come to have more value than gems; and gems, by becoming a part of the currency, might be greatly increased in value.

This limitation might be either natural or artificial. If natural, then the medium, from the very nature of the case, as the demand increased, must be exposed to constant rise, and thus, though meeting all the exchanges of the day, through the increased power given to it by the rise, it would be unable, as between different periods, to affect an honest transfer. If artificial, as in the case supposed of paper money, such a currency could have no general, no foreign circulation, and, through the misjudgment of rulers, would fluctuate, and, through their hope of gain, would become worthless, almost as soon as established. For these reasons, no commodity, whose value is primarily the result of supply and demand, is fitted to be the basis of currency. Gold and silver are not so, save as by the transitory edicts of governments they may become so. Fluctuation is the unavoidable result of such a measure of value. The market fluctuations of all products arise under its action.

§ 4. Cost of production, on the other hand, may afford a very uniform value. If a metal is obtained from a large variety of places; if these are either possessed of nearly equal fertility, or constitute a scale, in which the difficulty of attainment passes up by slight and nearly regular intervals, while the demand is such as to keep the labor of

production constantly employed on the more difficult and uniform mines; then, it is evident, that a cost of production, either in itself uniform, or ranging, in its higher state, at about the same point on the scale of difficulty, would occasion a nearly uniform value. Gold and silver are so obtained. The sources are many, and though the fertility of some of the more favored mines may make them the means of large revenues, the demand is still so great, as to force the production into those which are more difficult and more uniform in their returns. All great fluctuations have arisen from the introduction of new and unexpected elements. The discovery of America, by the large amount of the precious metals already accumulated therein, and the greater fertility of its mines, greatly reduced the value of gold and silver. As soon, however, as these new resources became practically measured and wrought into the general estimate, a value nearly firm was restored to these metals. New explorations have, down to the very present, occasioned new fluctuations. But, as the world shall be more thoroughly known, and its surface harvest gathered, the cost of production will tend to greater uniformity, with a corresponding steadiness of value.

The value of gold and silver rests on cost of production; but it is that cost which belongs to agricultural products, — the difficulty encountered in securing the most expensive portion of these products actually called forth and justified by the demand. The multiplicity of mines reduces the shades of difference, and more rapidly checks any increase or diminution in value. By any rise in value, mines are rapidly brought into the circle of those that pay; by any

fall, are as rapidly thrown out. The more multiplied the sources from which gold and silver can be obtained, the existing scale of fertility remaining, the greater will be the constancy of their value. The temporary fluctuations, therefore, occasioned by the first yield of new fields and new mines, when they have spent themselves, leave value on its new basis as firm or firmer than before.

A great, a broad, and permanent equality of difficulty in obtaining gold and silver, if not resting upon the whole, yet resting upon some portion of the supply, has been the basis of their relatively firm value. Of the three classes of products divided according to the law of their values, it is the second, or agricultural class, that, in long periods, presents the most uniform value. Invention cheapens them less, and, when the demand is at all large, as in the case in hand, it is along a slight slope of insensible differences that the value is rising and falling; a slight vertical movement tells largely on the supply. There are other considerations which lend firmness to the precious metals.

The large amount of gold and silver, now constituting the currency of civilized nations, acts between the supply and demand, like a heavy balance-wheel between the force and resistance, reducing all sudden impulses, and retaining an equable and working state, when the power is for a moment withdrawn. The yearly waste and the yearly supply are both very small, in comparison with the accumulated hoards of centuries, and any increase of one or diminution of the other, for a limited period, can only affect, by a very slight fraction, the relation of gold and silver to the uses of the world. The gold and silver of

the arts, and of luxury, the plate and the ornaments, constitute a reservoir, from which, on any augmentation of value, a supply will immediately begin to flow, and to which, on any reduction of value, a return stream will bear away, from the clogged wheels of currency, the superfluous and disturbing element. The small annual stream, then, which keeps good the supply of the precious metals, has a double safeguard, in the reservoir which the arts afford, whereby to make equal its spring tide and summer flow, and also in the very weight of that wheel of currency on which it acts.

Intimately connected with their amount, and an occasion of it, is the durability of these metals. The element of supply and demand cannot be much varied in commodities which are so durable, since the great mass of it is simply brought forward from the past. If, by the yearly gain, we mean the absolute gain, after a deduction of all waste and loss, on the relation of this gain to the yearly growth of demand in the currency and the arts, would rest the permanency of value, and the elastic demand of the arts would enter in, to reduce and deaden the oscillations of the currency.

What we may term the fluency of the precious metals is also an element of stability in their value. Their condensed form enables them to be readily and rapidly transferred, in any needed quantities, to any desired point; and hence, every part of the civilized world acts upon every other, each correcting the vacillations of every other. The field is so large, that local causes help to nullify and destroy each other—the wants of one portion finding rapid

correction in the superfluities of another. The equilibrium of the world's currency is the equilibrium of water, in which all parts exert and share a common pressure, and a deficiency at one point begets an instant and concentrated movement from every other.

The stability of value is also secured in money, by the fact, that any rise or fall in value rapidly checks itself. We have already seen that a rise or fall in the price of any commodity acts on the supply, enlarging or reducing it; not only do gold and silver, when used as money, obey this common law of all products, but, from the nature of the office which they perform, there arises a second check to any oscillation of value. The higher the purchasing power of these metals, the less the quantity required to perform a given amount of exchange, and hence each rise of value necessarily reduces the demand for them, as constituting currency, and this cessation of demand tends to check a further rise. So, also, if they fall in value, a larger quantity must be employed to accomplish the same exchanges; the demand must rise, and the fall be rapidly checked. On either side, a double retardation exists to any change in value.

Another cause of stability, similar to the last, is, that the demand for an enlarged currency will arise when business is most active, and exchange the most universal and constant. But this very activity of business, which creates, in part reduces the demand. One dollar, in a brisk market, may, in a single day, be used in twenty transfers, and thus be the medium of circulating twenty times its own value. In a sluggish market, it may not change hands but

once, twice, or thrice, and thus accomplish but a tenth or twentieth of its former labor.

Money has the industry of those that use it, and, in an active community, a currency of half the aggregate amount may keep in movement more trade than double the sum in a city sluggish and indolent. Hence, the very briskness which gives rise to the demand, by forcing the present supply up to its full efficiency, in part meets it; and the lull of business, on the other hand, is attended with little or no deposit in the stream of currency.

These causes are sufficient not only to make gold and silver the most reliable of all values, but, when the exploration of the globe shall have become more complete, and the accidents of new continents and rich surface gleanings be no longer possible, they will be sufficient to make them practically an entirely adequate measure of value and medium of exchange.

§ 5. Money, always the representative of value and that in which all value is expressed, has oftentimes become identified in men's minds with wealth. They have been ready to suppose that an accumulation of the precious metals preëminently rendered a nation rich, and that their deficiency was both the result and occasion of hopeless poverty. This, like avarice, is a fallacy of the senses, and has been strengthened by the fact, that individual wealth shows itself in the possession and ready command of gold and silver. A lurking belief in the peculiar efficacy and intrinsic value of money above other products, has made nations reluctant to suffer its exportation, and desirous to

encourage its importation. Hence this branch of trade has, in times past, been especially the object of legislative restrictions, and it is but recently that men have been willing to leave the distribution of the precious metals to natural forces, — forces which strew them evenly over the globe, and, by their very equality, make them like the fertilizing deposits of the Nile.

Scarcely any other product is of so little value as gold or silver, if accumulated in any country, by special or legislative effort, beyond the share which trade would naturally have furnished. Unlike most products, these metals, save a limited utility in the arts, meet no desire. Their first use is for currency, their second for luxury; and in both of these uses a limited supply is as efficient as a more abundant one. Currency, far from being benefited by forcing full its circulation, immediately depletes its plethoric channels by a corresponding reduction of value, and the apparent gain is to the senses only. We have more weight, but less value in the same weight; more coins, but less worth in each coin. Nor is this all; not only is there a corresponding loss of value by pushing the supply beyond the demand, but a currency, cut off from the world's exchange, resting on its own narrow basis, becomes far more liable to fluctuations. The artificial barriers may at any moment give way, and then, like head waters, gold and silver rush out, with great injury of existing interests, the unit of calculation in debt and credit being entirely altered. So, also, the gain for purposes of luxury is not so real as it seems. Gold plate does not depend for its value on its intrinsic superiority, but on the estimation of men; and

just in proportion as it is multiplied, will men cease to esteem it, and will it fall in value. No product which ministers to the necessities or ordinary enjoyments of life fails, by its multiplication, in a proportionate degree to benefit men; yet every needful product has been neglected for the acquisition of gold, which obtained, has lost a large share of its utility. Gold, like manna, is good up to the immediate consumption of the nation, but all beyond this perishes in the hand that holds it. Gold acquired to any amount, the real wealth of a nation, its command of enjoyments, must still depend on what the gold can purchase. In proportion as the pursuit of gold has been general, to the exclusion of other commodities, will these commodities be limited in quantity, and, in reference to it, have risen in value, and the utilities which the new gold can purchase be less than those which were open to the purchase of the old. Nor could this be relieved by the exportation of gold, since this theory especially aims to prevent such an exportation. The old mercantile theory, pushed to its limits, must destroy production, and, in every degree, must straiten it.

It is a settled principle, then, of foreign trade, that gold, neither in the form of bullion nor of coin, demands any special regulation or restriction, and that, even with greater power and precision than most products, it finds out its own best market, both for seller and buyer. If the currency of a country is deficient, gold will be proportionately high, and neighboring countries, in whom this deficiency implies relatively a surplus, will find it for their interest to meet the demand. The uniformity and success of each

currency must depend largely on the uniformity and success of all, and when gold has a greater purchasing power than any other product, this fact shows that, in the country from which it comes, it is relatively in excess, and in that to which it is carried, in deficiency. The trade in this product then becomes, immediately and ultimately, most profitable to both parties; and only when it is so, will this traffic be preferred to that in other commodities. The product, in which the trade can be undertaken to the greatest advantage, will be the product for which it will first seek, and in which, so far as possible, all exchanges will take place, and other products will enter into trade in the order of the profits they respectively afford. There is no reason, from the peculiar office which they perform in the currency, why gold and silver should not stand in their own lot among other commodities; but there is an additional reason for this policy in the fact, that the permanency of currency itself is thereby best secured.

The cost to each nation, of the gold and silver constituting its currency, is not necessarily the same as its cost in the country producing it. We have already seen that nations pay for commodities secured through trade, not according to the efficiency of labor in the country importing them, but according to the efficiency of their own labor, — according to the cost of the products given in exchange. This principle is, to its full extent, applicable to the purchase of gold. It matters not to the buyer how efficient or inefficient, how much overpaid or underpaid, may be the labor of the countries where lie the mines. He pays for the precious metals in certain commodities of his

own, and the question of greatest interest with him is the amount of labor which these cost him. Their purchasing power does not depend on their cost to him; this may be reduced without at all reducing their exchange value, but on what would be their cost in the country furnishing the gold.

Also the traffic in the precious metals is, equally with every other, subject to the equation of international demand. The nation that has created the greatest demand for its products will secure its imports, and, among others, that of gold, at a correspondingly reduced price. The country whose goods are in high demand commands the markets, and, within certain limits, controls prices. Here, again, the skill and efficiency of labor show themselves, and any nation that has pushed one or more branches of industry to a high state of perfection, finds itself able to measure the cost of most of its consumption by the cost of these, its best and cheapest products. It is with them that it rules foreign markets, and obtains gold, or what it wishes, not with an even division of the advantages of trade, but on such terms as the demand for its commodities enables it to exact. The relations of trade may be such, between the countries furnishing, and those seeking gold, as either to enhance or reduce its cost to the purchasers. Owing to the influence of the equation of international demand, gold may be purchased of a country which is itself a purchaser, at a better rate than in a direct trade; and a circuitous exchange may oftentimes afford larger profits, and bring the cost of the same product, to different nations, more nearly to an equality, than a direct exchange. Gold

and silver will most frequently enter a country through that nation which is its largest customer; and in every case, as it is not the least, but the most advantageous trade that is sought for, every nation will obtain gold and silver where, with the existing demand for its goods, they can be secured at the least cost. The precious metals, like other foreign products, may be slowly cheapened by the greater efficiency of home labor; but their relation in value, either to the exported or imported commodities, will not thereby be affected. An efficiency acting on all departments leaves the relation between them the same, and currency, though not absolutely permanent, will be relatively so.

§ 6. A portion of foreign trade consists in exporting goods, and, to the extent of the proceeds, purchasing a return cargo. Another large portion, between the most commercial nations, does not rest on any such direct purchase of goods with goods; but commodities are imported by each nation, according to the existing demand, and thus a double indebtedness is occasioned. These two classes of debts are made, as far as possible, to cancel each other, without any transfer of the metals. The goods imported into the United States from England, occasion here certain foreign liabilities, and those exported to England, a corresponding class of English debts. A class of brokers, or intermediate agents, buy and sell the bills, mutually drawn on England and the United States. Those on England, debtors in the United States repurchase, and forward to their English creditors, and thus the English debtor and

creditor are paired against each other. By a precisely similar process, the American debtor and creditor are introduced, and nothing remains to be adjusted but that remnant of indebtedness in one country, to which nothing is found to correspond in the other.

If the purchases in America equal those in England, they mutually compensate each other; and, in the traffic of bills, the supply and demand, in both countries, will remain in equilibrium, without any advance of price on the part of the bills of either country. Exchange is then said to be at par, and there is no tendency in trade to an inequality. If such a tendency arises, the indebtedness on the one side being greater than that on the other, in the broker's mart of bills those of one country are in deficiency, and rise in value; those of the other country are in excess, and sink in value. Exchange is now said, to the extent of the per cent. expressing the rise, to be in favor of that country whose bills have risen. The rise of price, in bills drawn on one country, necessarily involves a corresponding depression in those return bills whose excess has disturbed the equation. If the exchange between the United States and England is one per cent. against the former, then, in England, the bills on the United States will be at one per cent. discount, and, in the United States, those on England at one per cent. premium. As most bills have some little time to run, this state of exchange need not necessarily occasion any transfer of coin. The broker may buy in the bills, expecting that a more favorable exchange will arise, which will enable him to cancel his home by his foreign bills.

The very state of the exchange tends to aid him in this, and to restore itself to par. On all exports from the United States, at the above rate of exchange, there would be realized an additional one per cent., since the bills representing the indebtedness would sell at an advance. All imports, on the other hand, would suffer a corresponding loss in the discount on the bills by which they were met. Hence, to the extent of the adverse exchange, exports would be encouraged, imports discouraged, and an effort made to restore the equality. This force would be sufficient to overcome all transient and superficial causes, and the exchange would restore itself by its own action, and without any transfer of coin.

If, however, after successive delays, the exchange fails to restore itself, and it becomes evident that remittances must be made, the adverse per cent. will rapidly rise, to meet this new expense, and a more violent effort at restoration thus be set on foot. The first variation in the rate of exchange springs from the natural and inevitable fluctuations of trade, and readily corrects itself; the second and more violent indicates a permanent derangement. This may be an excess of trade on the part of the indebted country, or a want of equality in the value of the currency of the two countries, — the currency of the one being too replete in reference to that of the other. If the difficulty arises from the first cause, the necessity of payment being forced on the indebted country, will either restrict its demand, or its ability to obtain credit. If from the second cause, coin, passing from one country to the other, will tend to restore their respective currencies to an equality of

value. If, for any reason, the metallic currency of one country has become fuller, in reference to the amount of exchange to be performed by it, than that of the country with which it is trading, there will relatively be a rise of price in the first, and a depression of price in the second. This, in the first country, will favor imports, and check exports, inducing an adverse exchange, which can only be corrected by sending coin abroad. This accumulated currency will continue to overflow, till, by the reduction of its amount, its value has risen to the general level, the price of other things fallen to their appropriate value, and, under the depleted currency, exports and imports again been balanced, and the exchange again restored to par.

What has now been said of the exchange with one country, is equally true of it with all foreign countries. In this case, nations are not treated separately, but, by what is termed an arbitration of exchange, the debts of one country are set over against the credits of another, and obligations are cancelled by an indirect and double or triple, instead of by a direct and single, exchange. The exchanges of a country, then, vary, not according to its transactions with a single foreign nation, but according to the balance to be received or paid by it, in its general transactions with that community of civilized nations, which are with each other mutually debtors and creditors.

§ 7. The range of values over which it is found convenient for the coins of a currency to extend, is so great, that a single metal cannot cover them all, without forming coins either too large at the one extreme, or too small at the

other. For this reason, it has been found convenient to use two metals, differing widely in value, that, where the lowest coin of the one series ends, the highest coin of the other series may commence, and thus, with coins of a convenient size, a scale be secured, having the range of both metals. In such a currency, the two metals become the complements of each other; the first performing the work to which the second cannot easily attain; the second, that to which the first cannot readily stoop.

A second and important advantage in a currency, including both gold and silver, is its tendency to increased stability. The resources from which it draws are doubled; a transient pressure in gold is relieved by the presence of silver, and in silver by the presence of gold; the accidents which overtake one will hardly overtake both, at the same time and in the same degree; any fluctuation in the value of one will be made obvious by its relation to the other, and can, in part at least, be corrected by a new valuation: in fine, all the causes of stability, arising from the quantity and multiplicity of sources from which the medium of currency is obtained, would operate more strongly when that medium was composed of two metals, than when of one.

But while there are these obvious advantages, there is a serious disadvantage if both metals are to have in the currency an equal legal sanction. Government, in exercising its undoubted prerogative of establishing a currency, will be called on to settle the relative value of the two metals, gold and silver. This is not readily determinable. But if, the preliminary difficulty being overcome, this relation is accurately settled, it is not certain to remain the same.

Gold and silver, though of comparatively unchangeable value, do change, and this in different degrees. If the relation, therefore, be established, at fourteen ounces of silver for one of gold, the progress of a few years may vary their relation, and one ounce of gold may now be worth fifteen ounces of silver. In this case, two results will follow. All who can obtain silver will pay their debts in silver; since, being valued too high, in reference to gold, it is a cheaper medium with which to meet an obligation. Fourteen ounces of gold would purchase, in the market of bullion, — since this market is regulated by the cost of production, and not by the legal rate, — two hundred and ten ounces of silver; and this silver, turned into coin, would be equal to fifteen ounces of gold, in paying debts — a net gain of one ounce of gold. A second result, nearly akin to this, would be, that the gold coin would be constantly gathered up and melted; since, in the form of bullion, its purchasing power is greater than in that of coin. Whenever, by the inevitable changes in the cost of production, one of these metals should become cheaper than the relative value legally assigned it, it would be the sole medium of meeting indebtedness, and tend to displace the other from the currency.

The method which best secures the advantages, and best escapes the disadvantages of two metals, is that which makes one of them a legal tender for all amounts that can be paid in it, and the other, silver, for those small sums not expressed in gold coin. By this device, debts and credits are permanently expressed in one metal, and the first difficulty is obviated. We have, in this case, no

other difficulty than the inevitable one of fluctuation in the value of that metal. In the other case, all debts were exposed to the double fluctuation of two metals, and any alteration in either term of the currency was sure to affect them. If, in addition to this, the valuation of silver is kept slightly above its true relation to gold, so that no ordinary fluctuation in the bullion market will leave the price of silver higher there than in the currency, the second difficulty will be overcome, and there will remain no motive for the melting down of either kind of coin; — not of gold, since, if with a very trifling advance this is turned into silver, no debts can be paid therewith, except at the option of the creditor; — not of silver, since the mint price of this metal is slightly above the market price. This slight advance in silver would tend to bring silver bullion to the mint, and the amounts in which it came would afford a constant test of the correctness of the legal valuation. If it came in undue quantities, that valuation, as too high, could be reduced, or the amount coined restricted. It should, however, be said that the advantages of two metals are not by this scheme perfectly secured; since, silver not being a legal tender, if any scarcity of gold should arise, its place could not be perfectly supplied by the other metal. Silver would, however, occupy more completely all the small exchanges; and if its valuation — as we have seen it should be — was at the time of such scarcity not far from its true relation to gold, it would, though not a legal tender, practically circulate in the payment of debts.

§ 8. The coinage of a country is a common interest,

an important and delicate trust, and can nowhere be as safely lodged as in its government; and even here it has been an often-abused prerogative. The adulteration of coin has seemed so simple a method of raising money, that few governments have uniformly resisted the temptation. Yet no tax rests so long, so heavily, and with such broad disaster, on all productive interests, as this. To embarrass the movements of exchange, is to impair confidence and limit the motives to production. A metallic currency — for of this alone we are in the present chapter speaking — once vitiated becomes an intolerable burden, and in its reformation compels an entire resumption of the original load of debt, for a time so unsuccessfully shifted to the currency. The inevitable career of all such measures is from reduction to reduction, till the worthless medium, utterly failing to perform its functions, is wiped away in a new coinage.

But, while the government is the true representative of all common interests, and by general admission the proper agent in establishing and sustaining a currency, it is not desirable that this should be done wholly at the public expense. If coin is given in equal weight at the public mints for bullion, the expense of coinage and of the delay involved both fall on the public. There is, in that case, no greater value attached to coined than to uncoined metal; and hence, in the arts, the one is as quickly melted down as the other. Nor in foreign trade has bullion any advantage above coin. That the expenses, therefore, of coinage may not be unnecessarily increased by a waste of coin, it is desirable that a certain charge or seigniorage

should be made at the mint, slightly raising the price of coin. Such a charge should be slight, otherwise it will keep bullion from the mints, and make the replenishing of the currency more difficult.

The rate of interest has no connection with the value of money, but is a question of the loan market, depending on the equation of supply and demand in that market. If the number of persons seeking to lend money is large, in reference to the number wishing to borrow, the rate will be low, whatever may be the state of the currency. A currency crowded and reduced in value — the demand and supply of loans remaining the same — will not affect interest, since a given rate per cent. itself increases and decreases in value in the same ratio as the coin in which it is paid and in which it is received. The state of the loan market depends on other considerations, of which a fuller mention will be made. The rate per cent., however, determines the price to be paid for land securities, or anything from which a revenue is expected; since the return which the land or securities yield, will, at each different rate, represent the interest of different sums, and these sums will guide the purchase price.

CHAPTER IV.

BANKS.

§ 1. In facilitating and economizing the use of money as a medium of exchange, many intermediate agents become necessary. The traffic in and transfer of the precious metals, are not less a specialty than those operations in other commodities. Bankers and brokers are the agents to whom, in a division of labor, — not less important here than elsewhere, — this branch has fallen. As banks play a very conspicuous part in the construction and working of most currencies, it is necessary to understand their nature and functions. The bank seems to have arisen from the office of the broker, and to have taken to itself and enlarged some of the most important duties of this class of commercial agents. The Italian banco, or bench of the broker, indicates the early introduction of this class of agents into the commercial cities of Italy, and the gradual ripening and consolidation of their functions into those of the bank. Bankruptcy, or the broken bench, marking the failure of him who had kept his money mart thereon, looks to the same origin. The bank having gathered into itself all that is most important in the office of the broker, the broker remains either a private banker, a monetary agent, or a trader in bank bills, bills of exchange, coins,

stocks, loans, and notes. So far as the broker is a banker, he has a more limited, yet essentially the same connection with currency as a bank; while in his more private, and sometimes less reputable traffic, he demands no especial attention.

The three leading offices of banks are —

(*a*) To afford places of deposit;

(*b*) To grant loans;

(*c*) To issue bills.

These may exist separately or together — a bank being either one of deposit, one of loan, one of issue, or one of deposit and loan, or at once one of deposit, loan, and issue. Each of the succeeding usually involves the preceding, though the preceding have often been found separate from the succeeding. Most banks of the United States, and many elsewhere, include the three. We shall speak of each separately.

§ 2. Banks of deposit attend upon and usually imply a pure metallic currency. In such a currency, the safe keeping and transfer of specie, especially in large sums, occupy time and demand vigilance. To reduce the labor and danger as much as possible, banks are established, in whose vaults the united treasures of a large commercial community or of nations may be deposited; the parties making these deposits are credited, in the books of the banks, to the sums received of them. To the extent of this credit they can at any time draw upon the bank, and this draft is honored at sight. But the very reason that this draft may be at any time presented, and the money

obtained upon it, while in its present form it is more convenient than that money, would dissuade most from seeking its payment; and the draft, passing from hand to hand, may accomplish a large amount of exchange, and finally, falling into the hands of one already having deposits, be presented, and payment be made by a transfer of its amount in the books of the bank to his credit. Or, certificates of deposit may be given, and these pass from debtor to creditor, in place of the sums represented in them. Or, without either certificate or draft, the transactions of a community may represent themselves in dumb show in the records of the bank, and a few representative figures take the place in transfer of large weights in coin. In connection with any or all of these methods, at the close of each year a rapid balancing of accounts in the books of the bank or banks, with a few slight specie payments, will adjust the complicated exchanges of a whole year. A few strokes of the pen are equivalent to the counting out and transfer of gold and silver, in any sums whatever. Thousands and hundreds of thousands of dollars can pass and repass with as much facility and safety as the incidental payments of the hour; and while the specie lies untouched and untarnished in its vaulted chambers, the certificate of ownership may be transferred and retransferred, added and divided, and through all the shifting phases of exchange, strew the coin in petty purchases, or heap it in heavy payments. The largest transactions are so quickly accomplished, and represented in so brief a compass, that they possess the ease of a penny purchase.

For the safety, facility, and economy of time, labor, and

wear which it affords, the bank obtains a slight percentage on deposits, according to the period for which they are made, or makes a charge on each transaction. The Bank of Amsterdam was the great repository of the gold and silver of middle Europe for a period of nearly two hundred years, embracing the most prosperous days of the Dutch republic and of Dutch commerce.

Under the sub-treasury system of the United States, the several places of deposit where payments to and from the public treasure are received and made in the precious metals alone, act, within a limited sphere, as banks of deposit. This action, not being desired by the law which established them, is guarded against by the very limited time in which all paper is allowed to run; yet any order upon the treasury, before reaching its destination, frequently changes hands, and, in the end, is often purchased and presented by one from whom customs are due, and to whom this order affords a method of payment much more convenient than the transfer of specie. So far as such orders circulate, they act precisely like a certificate of deposit, — each transfer dispensing with the transfer of a corresponding amount of gold. A single order may accomplish in an hour what the most thoroughly trained teller, with a competent escort of porters, could not so well or safely do in a day.

§ 3. The second species of bank is that of loan. In this class the largest representation is that of Savings Banks. These in their action are highly benevolent, but are also designed to remunerate the skill and capital employed.

The officers of these institutions, by the experience which they have acquired, and by a method of business thoroughly digested and proved, are able to make loans with much greater security than most private individuals. A well-known bank presents a convenient and constantly accessible place, at which money and applications for money may be presented, and the debtor and creditor are mutually relieved of all labor in finding each other, and adjusting the securities of the loan. Very much money existing in scattered sums is gathered into these institutions, and, while yielding a revenue to the owners, quickens production and swells the available capital of the country. Sums so small as not to be otherwise capable of a loan, here accumulated in large amounts, compounded and divided to suit the demand, are sent on services profitable to the creditor, the debtor, and the bank. There are few institutions in which the principles of economy have fuller play than in these. The skill and constant labor of a few persons take the place of the unskilled and random labor of very many. All the remnants of money are gathered in an available form, and, while stimulating industry at one point, and strengthening it at another, are made to yield a triple revenue.

Such institutions are primarily fitted to act as agents for the working classes, and to reach the savings of labor and those small sums which are redeemed from a limited business or narrow revenue. Large sums in the hands of the wealthy can find a more profitable investment than these banks can afford. Owing to the necessary loss of time in effecting loans, and the loss of interest on the money

retained in the bank, or constantly returning to it, with which sudden demands for payment are met, the bank cannot realize in its gross funds the full current rate; and as there must be a further deduction to meet the expenses of the bank, the terms offered to customers must always be sensibly below the rate of profits which capital, directly loaned or employed in business, is able to command. This class of banks, therefore, can only present adequate inducements to those who chiefly wish to have their money securely kept and within reach, or who possess it in such small quantities as to make it incapable of profitable investment elsewhere. These banks have usually regulations restricting the amounts received, and are not meant to possess the function of deposit as it belongs to banks of issue.

Some banks, like those of Scotland, have kept a cash account bearing interest with customers, and, so far, been banks of loan. In that case, the money, from the time of deposit, drew a certain rate; the person making the deposit was at liberty to increase it or to draw from it, according to the exigencies of his business, and the bank rate was allowed, at the close of the year, on the sums deposited in the bank, for the time in which they had been suffered to remain. It is evident that nearly all accruing on such an account would be to a business man a net gain, and that, with the most careful and skilful management on the part of the bank, the percentage allowed by it must be materially below that obtained by it. The funds reserved by business men for incidental expenses, or realized during the progress of the economic year, may, by

this system, be made immediately available. Amid the multiplicity of customers, accidents tend to cancel each other; the rapid drawing of one finds compensation in the slowness of another; and the funds of the bank, discounted on short times, and flowing rapidly in and out, are able to meet the exigencies of all without sensible abatement or interruption of its own loans. The skill required for the successful handling of such an institution, is of a high order, and it combines the functions of deposit and loan in their most economic form.

§ 4. The third class of banks are those of issue. As already intimated, while the function of issue or circulation is the distinguishing function of many institutions, it always draws with it the other functions of deposit and loan. The last term, *loan*, is now displaced by that of *discount*, as better expressing the form under which the loans of this class of banks are made. The three functions, then, of the banks, of which, as being most intimately connected with exchange, we have chiefly to speak, are deposit, discount, and circulation. The first two of these functions are in their new relations essentially modified, and will demand further explanation.

The deposits made in these banks obtain no interest, and are there for safe keeping, or to be drawn as the business exigencies of the depositor may require. The interest which the bank obtains by loaning these deposits is a very material part of its revenue, and is frequently a price paid the bank for accommodation. Those possessing deposits in a bank will naturally enjoy a preference at its

counters, and when the legal interest is below the current value of money, the free use of such deposits may still readily induce a loan.

Discount is the most prominent and visible function of the bank of issue, and that through which its other functions take effect; for this purpose it receives its deposits, through this it issues its bills. Bank discounts, though a more expensive method of meeting sudden liabilities and the expenses incident to a large business, than the cash account to which reference has been had, is nevertheless much cheaper than to be one's own banker, and to keep constantly on hand sums adequate to all probable and possible exigencies. In the one case, there is the certain loss of use on a large sum, some of which may not be at all wanted, and most of which will not be needed for the length of time during which it is reserved; in the other, discount is paid only on such sums as are actually needed, and for the time in which they are in use. With the same amount of capital, a larger business can be safely carried on with than without bank discounts.

As, in the great variety of persons with whom banks have occasion to deal, security and uniformity are cardinal points, no note is discounted without two names attached; this has given rise to a distinction between business and accommodation paper. In the first, both parties are interested, and sign for their mutual and immediate benefit; in the second, but one is interested in obtaining the immediate loan, and secures a signer in compensation for some similar favor, or through personal relations.

A may wish to purchase goods of B, on six months'

credit. B is willing to furnish them at an advance of five per cent. on cash prices. For this sum A gives his note, and B, signing the same, gets it discounted at the bank. He thus receives his ordinary profits and a slight percentage for guaranteeing the note of his customer, and, with capital in hand, is able to continue his business. The buyer, on the other hand, pays cash profits, the discount of six months, and from one to two per cent. for the guarantee of his note, — a costly way of carrying on business without capital.

The note of A, as signed and discounted by B, is termed business paper, as representing a real transaction, and has been thought to have an advantage over accommodation paper, which rests on no such transaction. Accommodation paper is not necessarily poorer, and may be far better than business paper. A may have nothing but the goods he has purchased, and these, removed to a distant portion of the country, may be readily wasted, or fall in value far below the face of the note. B may have many similar obligations, with no better signers than A, — obligations more than sufficient to cover the goods which may remain in his possession; still worse, the goods which have passed from B to A may have already been sold and resold in a similar manner, and, therefore, be twice or thrice represented in discounted notes. On the other hand, accommodation paper may have the best names, and the fact that it opens an easy way to reciprocal, fraudulent signing, is not sufficient to disparage the whole class. None but the utmost vigilance is able to make the transactions in either, or any kind of paper, always secure.

Among the most important of the rules by which the safety of the bank and of its discounted paper is secured, is brevity of time. Notes which have but a short time to run do not allow so great a change in the circumstances of the signers, or so large an opportunity for accumulated credit; the banker is better able to observe the character and business habits of his customers, and to detect earlier and with less loss any irresponsibility or fraud on their part. If old obligations are met by incurring a new and larger indebtedness, even though the transaction is disguised by including within the circle several persons and banks, the experiment is much more critical and readily exposed when, the time being short, the notes follow rapidly upon each other, than when longer periods have come in to disguise the movement. The bank can also much more certainly meet its own obligations by this method. If its times of discount are, on an average, three months, the payments received with the same capital will each day be double what they would be with a discount of six months. It has, therefore, at all times, double the resources wherewith to meet any sudden run upon it, and double the power to control, contract, and enlarge its business, according to the demand of the times. With so rapid a revolution of its funds, a single week, by restraining loans, may prepare it to meet successfully severe pressure.

Intimately connected with this brevity of time is the promptitude of action, on the part of banks, when any payment is not fully met, and the notoriety and financial ruin which immediately follow protested paper. In this

respect, custom has armed them with a power, which, in its decisive nature and hold upon the mind, is much beyond that given by the sanction of law to ordinary obligations.

Owing to this brevity of time, banks are far better fitted to afford circulating than fixed capital. The returns from fixed capital are necessarily very slow, and cannot be safely made the basis of bank business; circulating capital, on the other hand, after each brief service in business, is perpetually returning in the form of money. Passing in as material, it may very shortly pass out as goods, and come again as their market value. Loans which are made as circulating capital can rest for security on the fixed capital involved, while those made for fixed capital are exposed to all its vicissitudes, without any other resource. It is a very slight demand, that he who is entering on business should be able to furnish his fixed capital free from incumbrance, as a guarantee and security for the aid which may be furnished in meeting the current expenses of the industrial cycle. This rule requires still further restriction; all circulating capital cannot be safely furnished by banks. Much of this, constituting, as it does, the body of those business funds which must be kept in perpetual possession or movement, and can only be returned to the bank at long intervals, to be again immediately removed, cannot be obtained from this source, either in consistency with the interest of the institution or the public safety. Business should not rest upon the banks, unable to stir without them, but only find in them a felicitous and economical agent. For capital which is to be used constantly, the bank is not a more, but a less eco-

nomical source, than private possession or private loan. Money employed by the owner costs him only the ordinary rate, — the bank rate is always more than this, — and by so much is business, dependent on discount for its constant funds, carried on at a disadvantage as compared with that conducted by the capitalist, or even by him dependent on private loan. What is not for the interest of the person borrowing money is not for the permanent interest of the bank lending it. All that retrenches and makes precarious his profits must ultimately hazard and reduce their loans. Neither are funds — which must be kept constantly in the channel of business, that its stream may flow on — sufficiently at the control of the bank to meet its exigencies. The pressure on banks and business will often arise at the same time, and unless they are independent of each other, one or both must fail. If the bank withdraws its aid, business fails; if it does not withdraw, the bank fails; or, which is still more probable, the bank, in its futile effort to withdraw, destroys itself and the business resting upon it. These two departments can greatly aid, but cannot carry each other. We must have, on the part of each, independent resources, if we are to have any increase of strength. As long as business is the nursling of its agent, both will be fickle and dependent.

All sums desired for a limited period and for a transitory use can be most economically obtained at the bank; and these are the discounts, therefore, which it should be the special office of that institution to make. In this case it becomes the common purse of the mercantile community, by which all transient demands may be met. Reserved

funds are no longer necessary, and, with still greater security than these could give, it looks to the bank for the floating part of circulating capital. It there pays for the sums needed, according to the times for which they are needed, and not more.

In the function of discount, the source of bank profits is the rate per cent. paid on the loan. This, though the usual rate, is paid in advance, being deducted from the sum sought, and for which a note is given. By this method considerable more than compound interest is obtained. Interest on the whole sum, being deducted from the sum itself, is not only paid in advance, but is paid upon itself. The three dollars, the discount paid on one hundred dollars for six months, is the interest on one hundred, not on ninety-seven dollars, the sum received. It is also retained in the bank, and is at its disposal during the very six months for which the paper runs, and this interest is accruing. In both of these respects the bank obtains more than compound interest. Its revenue here is by no means so net a revenue as in the case of deposits. It is the combination of the two functions that secures profits.

These two functions of deposit and discount may very readily, and often do, exist in the form now explained, without the function of issue, of which we have yet to speak. A bank can operate successfully in an established currency, using its capital for purposes of loan, without any ability to issue its own bills. The function of issue may be restricted to a single bank, or reserved by the government, without reducing the utility of banks as places of deposit and sources of loan.

§ 4. The function of issue or circulation now remains to be explained. A bank of deposit does not require any capital save that vested in its building and accompaniments. A bank of loan may itself borrow the sums which it loans; but a bank of discount and deposit will need, that it may meet the wants of customers, capital from which, in addition to deposits, the funds employed may be drawn. So, also, a bank of issue necessarily requires capital. These banks, as acting upon the currency and affecting its security, come under the regulation of the government, and are established either by a direct act, a charter, or by a general act — a banking law. The capital of the proposed bank being fixed by the charter, or by the agreement of the parties, it is divided into certain shares, and opened for subscription. Those taking these shares are termed stockholders, and by the payment of the sums so taken the capital of the bank is made up. These shares, if the bank is successful, pay annual or semi-annual dividends, and are themselves transferable, being at, above, or below par, according as the dividends are equal to, greater, or less than ordinary profits. The bank is usually managed through a board of directors, composed of its largest or most influential stockholders, — this board appointing its officers, and giving general direction to its business. The capital of the bank is in part — according to the amount of the proposed issues — expended in specie designed to be the basis of its bills, and to afford the means of their instant redemption. Having secured the requisite amounts of gold and silver, it stamps its bills, which are promissory notes, of a large variety of denominations, and protected

from forgery by skilful engraving, and employs these in all payments and discounts As long as these are payable at the counter of the bank, and actually paid, when demand is made, in gold and silver, they readily circulate, and become a cheap and convenient currency.

It is necessary to keep on hand large amounts of the precious metals, that these bills, at all times and in all amounts, may be redeemed. If the gold equals the bills, there is entire safety, but there is also no profit to the bank. If the gold is somewhat less than the bills, there is reasonable safety, and a profit to the bank equal to its discount on the difference. It is in the highest degree improbable that all the bills of the bank will be returned at any one time. Even in times of panic, when the run is general and protracted, but a fraction of the bills actually out is usually presented, and, in all ordinary states of the money market, but a very small fraction is at any one time presented for payment. The reserved gold and silver can therefore be something less than the circulation of the bank. How much less? In the answer daily and practically made to this question lies the great difficulty. Theoretically, a safe number might undoubtedly be given; but how shall it be secured that all banks shall adhere to this number? We might say that gold, to the extent of one-half or even of one-third of the bills in circulation, would be sufficient; but having said it, we do not thereby remove the temptation or the ability to exceed this number. The profits and the danger lie in the same direction; it is the extra bills which endanger the currency and enrich the banks. The arguments by which these profits are reached

are exceedingly plausible. The number — say one-third — is fixed, not in reference to ordinary, but extraordinary times; not for the quiet, but for the excited and distrustful market. For a great exigency — a general crisis and panic — it is not too great; and a currency which is to anticipate a great panic, and control it, must be good, then and there. If the ship is supposed to be sinking, the question is not Has she floated? but Can she now float? It is only sound timbers and good oak that can quiet this alarm. The soldier must be good, not for the camp, but for the field; the currency must be good, not when it is least needed, but when it is most needed, and when the very fear and doubt among men are, that it is no longer good. A number, therefore, pitched to the highest note of alarm — which is the only safe number — is necessarily much beyond that demanded in all ordinary business. It readily happens, therefore, in protractedly tranquil periods, — though the tranquillity may in part be attributable to the firmness with which the ratio has been hitherto preserved, — that this ratio, as tested by experience, seems to be needlessly large; and as profit lies in its reduction, it is reduced: either gold is paid out, or the bills based on it are increased, as currency may admit, — and one or other it will always admit. This process, once begun, has no limit, save a reduction which barely enables the bank to meet its ordinary liabilities. But this movement is one of the subtle elements which, in the midst of the fair weather, prepares and precipitates the storm; and no sooner does it come, than, the difficulty being incapable of a sudden remedy, the banks are overthrown. A currency which protracted

prosperity has in this method worm-eaten, cannot be repaired in time to meet and ride the tempest, but, like everything else, is driven before it or engulfed by it.

To correct this tendency of over-issue, or — what is more correct, since the issue of a bank is not altogether within its control — to prevent this excess of bank circulation, as compared with the specie retained, various methods have been devised, some more, some less successful. Certain amounts of specie have been enjoined by law, and officers appointed to inspect the banks and enforce the regulation. In practice, such laws have been found to be generally and easily evaded, and unable to reach the end proposed by them. The honesty of the government is never so great as to atone for the want of honesty in the people. A thing once permitted will be well or illy done, according to the character of those to whom it is permitted. A speculating, money-loving people, with only ordinary honesty, will do what is intrusted to them, when a strife arises between their own and the public interest, with no more than ordinary integrity; nor will they often so appoint a committee over themselves, as much to modify their action.

A second and not more successful device has been that of requiring certain state stocks or land securities to be pledged for the redemption of bills. This remedy does not provide for the principal danger. It is not a question of ultimate, but of immediate payment, which is at issue in a panic. The fear is not allayed by the assurance that all demands shall be finally met; it regards it rather as a confession of present weakness. With a class of persons

from whom most danger is to be apprehended, those who themselves are under pressure, or who act ignorantly and by impulse, swelling the throng without knowing why, this consideration would avail little. In a financial crisis, the larger amount of failures arises, not from a complete, a future, but from a present inability to meet payments. The bank would not find itself distinguished from others in this respect. The public stock — its real estate and lands — would not, when they were most needed, give it room to stand upon. The demand is instantaneous, and so must be the supply which meets it. Neither is the Safety Fund, — a very similar scheme, by which the banks are mutually pledged to each other, — so far as it looks to the ultimate redemption of bills, any more able to give aid in the pressure of a general panic. Coin — instant, solid, and unrestricted — is the remedy, because at this point lies the doubt.

Banks may, and oftentimes do, exert a strong restraining influence upon each other. Banks become large holders of the bills of other banks. If these bills are frequently returned to the respective banks for payment whose they are, any bank that is not able to meet its own bills with a corresponding amount of the bills of other banks finds itself perpetually straitened, and forced into suspension or a reduction of circulation. Banks of the same city, from their proximity, are able to make this a systematic and powerful restraint. Those of London have established what is termed a clearing house, to which, at the close of the day, each bank sends the bills of the city banks which it has received, and there exchanges them for

its own, paying and receiving all balances in coin. By this means a very large business is rapidly adjusted between the banks, with a very slight actual transfer of money. The clearing house bears the same relation to the banks as a bank of deposit bears to its customers,—economically and rapidly arranging their business, making different transactions, as far as possible, cancel each other, and leaving only slight remainders to be adjusted by actual transfer.

The action of such a system on the security of banks, restraining their circulation and testing their strength, is obvious. An over-issue on the part of any bank is immediately observed, and the result, a return of bills, is immediately visited on the guilty party. Any enlargement of its circulation, on the part of any bank, which is not the result of new deposits of new specie or a favorable balance bringing specie, instantly embarrasses the bank, by a daily and increasing loss in the adjustments of the clearing house. Every bank lends itself to the labor of detecting and correcting the errors of every other, and all unite to quicken and make efficient the otherwise too tardy penalty of over-issues. It is not the absolute amount of its circulation, but the relation of this amount to its receipts and specie, that determines the position of a bank, and decides on its issues, as safe or as excessive. The banks of New York and Boston have imitated those of London in the establishment of clearing houses, and in some instances country banks have been compelled to redeem their bills at the counter of some city bank; and those who have refused to make such an arrangement, have been visited

by a sudden inundation of their own bills, collected in the city banks. By this means they were laid under the same liabilities as the city banks, and were not suffered to share the circulation on any easier condition than that enjoyed by their city competitors.

Notwithstanding all these methods of restricting the issue of bills, it has, in the great majority of cases, proceeded till the ratio of bills to specie has been far beyond that shown, either theoretically or practically, to be safe. The ratio of bills to specie in the banks of New England, in 1855, varied from 5 : 1 to 18 : 1; in the Middle States, from 2.6 : 1 to 6.6 : 1. Clearing houses serve rather as a relative than an absolute restraint. They keep the banks in the same line, but do not restrain that line from being too far advanced. Three banks whose issues bear about the same relation to their resources cannot act as restraints on each other. A bank stronger than any of the three may, without danger of suffering in turn, accumulate and force back their bills. A tendency, therefore, pervading all banks, to enlarge their circulation, or — which may be practicable when the other is not — to reduce its specie basis, may be retarded, but will not be corrected by clearing houses.

§ 5. It is not the amount of a bank's circulation, but the relation of that circulation to its specie, that is a point of interest and of danger. A bank cannot at pleasure enlarge its circulation. The forces which receive and keep afloat, or which reject its bills, are not under its own control. It may make every effort to force its bills out, but it

cannot secure that they shall remain out. If these bills are redeemable, and thus at par, they must take the place of equivalent amounts of gold, and therefore can only work themselves into circulation by expelling gold from the currency, or by occupying the new ground which business, in a growing community, may present. A given amount of business, of exchange, demands and will suffer only a given amount of money. With a fixed value in the medium, currency tends to a plenum, — or, rather, the value so adjusts itself as to make every state of rest a plenum, — and, value remaining the same, little or nothing can either be added or subtracted. If any addition is made, there is an immediate and corresponding depression in the aggregate value of the medium; and if that medium is gold, and therefore its value sustained by its price in the world's market, any attempt to force bills into a full circulation will result, first, in their rejection; later, if the effort is continued and vigorous, in the exportation of gold, that these may take its place.

The bills forced upon the circulation will tend to reduce the currency in value; that is, the value of gold and silver at home, as compared with the foreign value. This will naturally result in an exportation of the precious metals, and in order that these may be obtained, many bills will be returned to the banks. These banks will then be under the necessity of replacing their specie. The specie so removed, together with that already transported, which was before in the hands of individuals, will make room in the currency for the permanent presence of bills. As this process proceeds, specie will be obtained with increasing

difficulty, and the burden of furnishing it for exportation and replacing it in their vaults, thrown more and more exclusively on the banks. When this movement is passing to its completion, and specie is no longer readily obtainable, any bank that enlarges its issue will find its bills almost immediately returned to its counter, and the power that throws them from the currency invincible and stubborn. Its specie will be rapidly extracted, its deposits made in its own bills, and all its movements cramped and embarrassed, indicating that it is operating in a field already occupied.

If two-thirds of the whole currency is to be paper, and this paper currency is to have a basis in the precious metals of one-third of its own nominal value, then there is four-ninths of the whole currency which is open to the circulation of banks beyond the bills representing their reserved specie. Here is a certain amount of circulation, of profits, to be divided among all banks, and in proportion as these banks are few, the share of each will be large; as they are many, small. If the barriers are firm, — if the coin still used as change is one-third of the former solid currency, — the circulation cannot be forced materially beyond this two-thirds, or the margin of profits beyond the four-ninths. This is the aggregate of gain; and banks may compete with each other for it, but they cannot increase it. Numbers only reduce the shares. The great difficulty is, that these barriers have never been found firm, and amid the general strife the issues on all sides have passed beyond the prescribed ratio of bills to specie.

To secure a larger share of circulation, banks have sev-

eral devices. Chief among these is the use of small bills. The larger bills being employed mostly in the wholesale trade, and therefore confined to the cities, are perpetually passing, as deposits or in payment of loans, into the banks, and thus are almost immediately returned to the bank whence they issued. Small bills, on the other hand, wandering out into the intricacies of the retail market, may go far and do much before finding again the fountain head. These are fitted for the perpetual currents of daily traffic, — currents that do not flow to the banks, or stand in any close connection with them, but are ever revolving among themselves in a labyrinth of unending movements.

This has given in bank issues a decided preference to small bills, as these, when discounted to manufacturers, and paid to workmen, or sent to a distance, are slow in finding the homeward path and presenting their importunate claims at the paternal door. This gives to parties who have occasion for these bills, in payment of wages, an advantage in their application for discounts; it also gives a very decided advantage to a country over a city bank. The former can with ease keep afloat twice or thrice the circulation of the latter.

The tendency hereby secured of pressing the circulation of small bills is especially unfortunate in its effect on currency. Retail exchanges should be confined to the precious metals, thereby securing the presence of these in large amounts in the currency, and giving it firmness and safety. These small bills expel gold and silver from transactions whose necessities they perfectly meet, and, by narrowing the basis of the currency, make it proportion-

ately insecure. The restriction of issues to bills whose lowest denomination should be ten dollars, would help also to remove the temptation and the ability from banks to unduly enlarge their circulation. The abandonment of its function of establishing and regulating currency, on the part of the general government, and our division into states here works a mischief. The action of no one state can relieve the difficulty, but only prepares the way for the enhanced profits of its neighbors, and a yet worse attitude of its own currency. The circulation between the states often dooms us to the evils of the worst of their several currencies, and robs us of the benefit of the best.

§ 6. The losses and liabilities inseparably connected with this function of circulation in a banking system, are not without obvious gains, individual and public. If a country is in possession of a pure metallic currency, with free commercial relations, — the value of its gold and silver resting upon their value as fixed by the action of the world's demand on the cost of production, — any addition made to that currency will tend to raise home prices, to favor importation, and to secure an exportation of coin in payment. The effect is precisely the same when this addition is made to the currency, not in precious metals, but in convertible paper money. Such paper acts on the currency as similar amounts of gold and silver would act. The currency being in excess, the equilibrium will be restored through an effect on prices discouraging exportation, and making it for the interest of purchasers to meet foreign indebtedness in the cheapened coin of their own

country. Paper cannot be carried abroad; gold and silver, therefore, to the amount of the paper added, will, in the effort to restore the currency to its former value, seek a foreign market. We may either say, that the high prices at home discourage exportation and encourage importation, throwing the balance against us, to be met in money; or that money, reduced in value, has increased advantages as an article of foreign trade. If one hundred millions of dollars in bills be added to the currency of the United States, sixty-six millions of metallic money being thereby released, would seek through foreign trade the world's market. The exportation would naturally fall somewhat below this sum, as such an addition would tend slightly to depress the value of gold everywhere; and hence the home currency must retain some of this surplus, to effect the same changes at the enhanced prices. This sixty-six millions, or something less, would be added to the capital of the country using the cheaper currency; or more accurately, if it be insisted that paper money has no intrinsic value, the use of sixty-six millions would, through the banks, be given in perpetuity to the country, so long as it should employ the more economical medium. If a metallic currency should ever be resumed, the loan would be reclaimed, and the sixty-six millions must then be purchased abroad. The immediate gain, therefore, of the country, and the permanent gain, if the mixed currency is able to perform its office, is the use of sixty-six millions.

Foreign countries which receive this money released from the currency of the United States, pay for it in goods; and as their increased currencies, being reduced in value,

perform no better the office of exchange, and are worth no more than before, it might seem that the gains of one country but equalled the combined losses of other countries; and nearly this would be the immediate result. This increased cheapness, however, of the precious metals, would withdraw capital and labor from the mines, since some of these could no longer be worked, and the money obtained by the rejection of coin in another currency, would take the place of that which would otherwise have been ultimately obtained at the mines, and therefore recall to other kinds of production the labor and capital expended in the mines, or that employed in the compensation of labor and capital so expended. An immediate purchase is substituted for a more protracted purchase, in connection with the ordinary and yearly supply of gold. This, however, is not done without loss, from three causes: the rapid influx of gold reduces its price, and occasions depression and vacillation in the currency, by which it is a less appropriate measure of value and medium of exchange; capital and labor are withdrawn from one kind of production, — that of gold, — which must be restored again when this new supply shall have exhausted its effect, and the value again have risen; the purchase of gold for the time intervening between the depression and the final restoration of value in the currency, has been made in advance, with something of violence, instead of by the ordinary methods, as the demand arose. Foreign countries are not, therefore, perfectly remunerated for the loss which they suffer in connection with such a change of currency. If all countries were successively, or at once,

to adopt this method of economy, its advantages would be almost wholly lost. The arts could not receive the metals thus disengaged, without a large reduction in their value; and so fast as the value should rise, the currency must again drink up the stream which it had poured forth, in order that that part of exchange still left to the metals might be performed. There would also be a corresponding fall in the value of bills, and hence a proportionate increase of these and the specie on which they were based. If gold and silver are to be driven out with profit, there must be some broad market to which they can be sent, and through which they can spread themselves. They cannot be simultaneously expelled from all countries, each making a profit by the transaction.

The difference of expense in sustaining a metallic and a mixed currency is thought to be a further gain. Whether there is any such difference in favor of the latter may well be doubted. The loss in gold by abrasion has been put as low as four and one-half per cent. in a century. The cost of paper must be considerably greater. But if there is any such gain, it can readily be secured through banks of deposit and gold notes, — notes representing gold, — without any banks of issue. The gains of a nation, when we consider the constant hazard and loss which attach to this kind of circulation, and the comparative facility afforded to counterfeiting by the great variety of these bills, seem slight; not so those of the individual.

Each bank secures the profits arising from the use of the excess of its circulation above its reserved specie; this may be many thousands of dollars. There are also addi-

tional gains from the loss of bills, or any failure to return them for payment to the bank. Fire and water more endanger these than the metals. The other and highly valuable functions of a bank may be profitably exercised without that of circulation; and if the number of these institutions is thereby considerably reduced, it might be well to inquire whether the gains of the nation, in redeeming to other kinds of production the distinguished talents of the gentlemen directing these banks, would not be as well worth securing as those reached in economizing the labor of gold diggers.

CHAPTER V.

CREDIT.

§ 1. The advantages which belong to credit are open to all, while its disadvantages are concealed from many. Credit does not create, it only transfers capital. That which was previously in one man's hands is by credit transferred in its occupation, its use, to another. There may be a great gain to the interests of production in this transfer. The owner may be either unable or indisposed to employ his capital; the borrower may have both the industry and skill requisite for its profitable use, and thus, by the act of credit, new returns be realized by both, and the general resources of production augmented. It may be thought that, while other forms of credit only transfer, and do not create capital, bank bills both create and transfer capital. This, to a certain extent, is true. Those bills which are not based on specie, but take its place, disengage large amounts before employed in the home currency, and enable them, as new capital, to seek purchases in a foreign market. The use of all that part of a mixed currency which liberates specie, both from exchange and bank reserves, is, as already seen, gained by this device, and constitutes the peculiar inducement to this form of credit. So far as this may be termed the creation of capital, it is limited to

the liberated coin, which, redeemed from old, may be employed in a new service. There may be an inflation of currency, which may carry the aggregate amount of bills not representing specie somewhat, but not much, beyond the amount of specie displaced. If the movement is carried further, a decided outward current will be established, rapidly draining the currency of its remaining gold and silver. A given amount of business can only give place to a given value in currency, and any further increase of the medium will be attended by a corresponding depression of its value. The augmentation of capital by this species of credit tends rapidly to reach its limits, and thenceforward stands on the same basis as other forms, transferring, but not increasing capital.

The gains of credit do not belong to it in all forms. The credit which the industrious merchant and artisan extend to the consumer is not usually attended with these results. By such credits, those engaged in production are deprived of the immediate, the complete command of their resources, and this often in favor of those who are relatively unproductive consumers. In this kind of credit, neither party gains to the full that which is lost by the extended time of payment. The merchant, by the smaller but more rapid and safe profits of a cash system, is able to realize more than by the dilatory method of book account. The customer, in the additional profits which he finally pays the merchant, in the arrangement of his account, should remember that there is included not only interest for the average time during which the use of capital has been lost, but also a percentage representing the bad debts

which are the necessary accompaniments of such a business. Only he who exacts prompt payment, and is very vigilant for himself, can afford to sell cheap. Credit, then, between the producer and consumer, is as liable to be attended with loss as with gain.

Credit, also, when it becomes generally the basis of ordinary business, forfeits most of its advantages, and rapidly accumulates its dangers. These it will be our principal effort, in the present chapter, to make apparent. We shall first mention some kinds of credit to which real gains attach, and which do not endanger the general interests.

Known integrity and skill draw forth confidence, and this confidence is a legitimate commercial power in the person possessing it, placing him on a higher platform of advantage. Each effort in production prepares the way for, and facilitates the succeeding one, and the increasing power of labor and capital to enlarge their returns is one of the most powerful stimulants to industrial effort. A known business character is a power allied to the actual possession of capital, in the command which it inevitably and rightly secures over it. Credit, which is the transfer of capital on adequate securities, or its loan to one whose well-known character is a sufficient guarantee, has too manifest advantages ever to be dispensed with. Indeed, a valuable part of ownership lies in this very ability to transfer the use of property, on conditions agreeable to the loaner, and more or less advantageous, as he may wish to make them, to the borrower. Private contracts and private favors of this character can in no instance occasion any

wide mischief, and, in most instances, will be a private and public gain. It is only when credit is enlarged into a system, having no reference to integrity, or private opinion, or good-will, or adequate security, but applying between strangers as between friends, entering into the great bulk of transactions, and having no certainty amid the multiplicity of liabilities of securing either immediate or ultimate payment, that it becomes wholly pernicious.

Another form of commercial and advantageous credit is that to which reference has already been made, the discount of banks for short periods. These institutions, when called upon to meet the transient necessities of a business having an independent and substantial basis of its own, can do so with equal advantage to themselves and to the persons accommodated; but are not able to sustain and nourish transactions whose risk they make their own, but of whose management and prospects they necessarily know but little. These two classes of credits lend themselves to the individual and the public good; that by which individuals in private loan transfer their capital to more unoccupied, diligent, or skilful hands, resting for security on the property or character of the person receiving it, and that by which banks meet the incidental and more transitory demands of business. The extinction of these forms of credit would be to forfeit to all parties the most serious commercial and industrial advantages, and limit that confidence and good-will which are the basis no less of monetary than of social intercourse.

There is what may be termed the credit system, in defence of which little can be said, while much against

it stands unanswerable. Before examination of it, we need first to look at some of the forms which credit assumes.

§ 2. Of the several forms of credit, book account is perhaps the most general. This scarcely needs an explanation. It dispenses with immediate payment, and, if there is on each side a corresponding account, with any ultimate payment save that of the balance. In a book account there is but a single credit or series of credits, single transactions, and no power to make them the basis of others. The effect of this kind of credit must depend on the particular case in which it exists, and on how far it becomes the general method of purchase. A second form is that of bills of exchange. To such a bill there are three parties, — the person drawing it, he in whose favor it is drawn, and he upon whom it is drawn. A may have in a distant city both a debtor and creditor; he wishes to cancel the one obligation by the other, and, to accomplish this, gives an order or bill of exchange directed to the debtor, now termed the *drawee*, requesting the payment of a certain sum to the creditor, now the *payee*. If A have no debtor at the point at which the payment is to be made, he may purchase such a bill. These bills, originally designed to avoid the transfer of money between distant places, are susceptible of a much broader use. The bill, instead of being made immediately payable, may have a certain time to run, and, endorsed by the holder, may be discounted or passed from hand to hand. Distance is not essential to such a bill, but, drawn on those near by, it

may, while waiting the time of payment, circulate as a medium of exchange.

Another method of credit, equally extensive in its application with the bill of exchange, is the promissory note. These, in many cases, only represent an indebtedness existing between two parties, without any design of transfer. In other cases they become a systematized method of purchase, by which the buyer escapes immediate payment, and the seller is enabled to realize at once the price of his goods. The buyer gives his note, and this, endorsed by the seller, is discounted. It is evident that the retailer of these goods, purchased at a disadvantageous credit, must have proportionate difficulty in realizing a fair profit by their sale, and that the seller, who has guaranteed the paper of his many and distant purchasers, may be greatly embarrassed by any failure on their part. A promissory note may pass from hand to hand, and become the agent of an extended exchange. A bank bill is a promissory note payable on demand, and, different from others of its kind, usually involves a double credit, — that of the bank to the person to whom the bill is discounted, and that of the person holding the bill to the bank. Such a note may be the unlimited instrument of purchase.

Checks, also, payable at some bank in which the giver possesses deposits, are a form of credit, and may, by endorsement, take the place of bills in ordinary exchange.

The state, also, may issue its notes, and these, if in sufficiently small sums to take the place of currency, will, without bearing interest, circulate freely; if in large sums,

so as to be less available in exchange, they must, for their reception, bear some interest.

These are the leading forms which credit assumes, in all of which it acts on price, though in some more strongly than in others.

§ 3. These forms of credit exist, and will exist, more or less extensively, in every commercial nation; and it is only where they have become so far systematized as to be an habitual method of payment, as to underlie a large share of the business of a country, that their effects are manifestly injurious. One of the most inclusive of these evils is expressed in the following proposition:

Credit raises prices, and the more extended and systematic the credit, the higher are prices.

We have seen, under the discussion on value, that the immediate price of all things is determined by the relation of the demand to the supply; hence anything increasing the demand results in an enhanced price. Credit has a purchasing power equal to cash, and the sum of each man's purchasing power is equal to his cash and his credit. If he is confined or nearly confined to the former, his ability by actual purchase to enhance the demand will be greatly restricted; if he can employ to its utmost tension the last, his purchasing power and his ability to affect the market will be proportionately augmented. It does not indeed follow, that because a man has credit he will use it, or, if he uses, will use it to its full extent; but a system of credit entering as a stated element into the methods of

business, shows not only the existence, but a very large use of the purchasing power of credit, and hence a proportionate intensity of demand acting on price.

What is to limit the power of purchase, if credit, no longer attached to property or integrity, can be secured by one almost a stranger, — if goods can be purchased, and the buyer find his notes, signed by the seller, discounted without difficulty? Such a purchasing power is as extravagant as the desires of men, rather than as limited as their abilities. Under its action, prices, though subject to rapid declines, cannot be otherwise than high.

Some forms of credit, as containing a greater purchasing power, act, according to their amount, more strongly on price than others. Book credit, though of very broad application, affects but one transaction, and, when existing in large amounts, generally straitens the power of the person in securing further credit. Credit, however, restricts less the ability of the borrower than it should — men inferring as frequently from the fact that one is trusted, that he may be trusted, as that the limit of his credit is being reached. Bills of exchange and promissory notes may enter into a series of transactions, and the credit, in this form, of one hundred dollars, in its passage from hand to hand, have the purchasing power of thousands. Especially is this true of bank bills. These, passing with even more facility in exchange and purchase than specie itself, have intrinsically more power over prices than any other form of credit. It is through this power that they force out specie, and make way for themselves in the circulation; and there is no limit to this power, save that which the

redemption in specie imposes, and the increasing difficulty of accomplishing this, as specie is exported. In a country like the United States, which itself produces gold in large quantities, and in which the ratio of specie reserves to bank bills is often very small, the inflation of currency and consequent rise of price may be considerable.

The high prices which rise from a system of credit are not alone the result of the additional purchasing power which this system is able so rapidly to develop, and by which a reckless competition forces up price, but also of the greater risk and delay which attach to this method. Both of these are very serious items. Where every tenth or hundredth debt is to fail of payment, there must be the addition of ten or one per cent. to the price of all goods. When there is a delay of six months in payment, there must be an addition of three or four per cent. to the first cost. These successive charges, when the goods have passed through several hands, in each case purchased on credit, will very seriously augment their price. It is only that facility of purchase, that disregard of consequences which credit begets, that will endure such prices. A purchase which promises some gain and demands no immediate sacrifice, the heedless at least will make.

It may be said, as credit creates no capital, and debts must ultimately be paid out of existing capital and its profits, it cannot increase the real purchasing power of a community, nor permanently enhance price; this is true. In a period of fifty years, the purchase payments made by a community operating on the credit system would undoubtedly be considerably less than those of a community

conducting its exchange on the cash principle. In the last case, goods would be obtained cheaper from abroad, and transferred more cheaply from hand to hand at home; hence, with equal productive power in the two communities, the purchases of the second would be more economical, and might be greater than those of the first. Credit undoubtedly weakens the valid purchasing power of those employing it; but this is not in conflict with what has been said of its effect on prices. Credit is capable of rapid expansion, can be drawn out into more sudden and extensive purchases than cash, and hence, for a limited period, may have a stronger effect on prices. Especially is this true in connection with issues, which, expelling specie, give the use of additional capital, and inflate the currency. Such a rise of prices, when credit can no further be extended and payment no longer deferred, is indeed followed by a violent depression. But this depression, far from counteracting the evils of high prices, only adds its own thereto. Nor is the credit which has provoked this rise of prices always sustained. Many of the debts are never paid, and a power which has stalked through the market, extending its purchases as if possessed of the lamp of Aladdin, has, when bills matured, vanished like a spirit. The fact, then, that all credits are not met, and the elastic nature of this power, sufficiently explain its ability to enhance prices, though prices may shortly fall to a still greater extent. It tends to produce an inequality of prices; these, for the major part of the time, slowly gain, till at length, by a more rapid movement, they have passed considerably above the true level, and then sinking

by a precipitate fall, they pass much below that level. This will be further illustrated in a succeeding section.

§ 4. Chief among the evil effects of prices made high by credit, is that upon currency. These prices induce a large importation, leaving a balance to be met by the abduction of specie. Nor does this tendency have any definite limits. Credit, elastic and ductile, enters in to take the place of the coin withdrawn, and prices remaining the same, still further payments are made necessary. By this means the currency becomes more and more embarrassed — more and more of a local, fictitious, and artificial character.

These prices also discourage home industry. All things purchased at home are for the manufacturer high; his goods, therefore, must bear a correspondingly high price. But goods from abroad can still be exchanged, on the old terms, for gold and silver; and hence, in the home market, he is readily undersold. Neither in the foreign market can he make sales for cash to the same advantage as formerly, since at home gold is a depreciated commodity. In the home market he is readily undersold, and forced into the foreign market. But even here, if thrown into competition with the same goods brought by a foreign vessel, he may, in a traffic for the precious metals, be undersold, and can only protect himself by a repurchase of goods for the home market.

High prices in all commodities save gold and silver, it will be seen, does not present the same case as that already treated, in which high wages, affecting the cost of all

products, were shown not to modify foreign trade. On that supposition, values were equally affected by the increased cost of production; now, there is a most radical exception, — that of coin, — and through this exception the whole burden of high prices may be thrown on home industry.

Another disadvantage arising from a system of credit is the reduction of real purchasing power. Important elements in the enhanced prices are additional risk and loss of time in the use of capital. For this there is usually no compensation; it is a mere waste of purchasing power by its anticipation. The whole community buy to less advantage, and consequently have less ability to buy than if the power were more economically used.

The effect which the credit system has on the commercial integrity of men — the basis of all permanent success — should be observed. Nothing can be easier than fraud under such a system. The young man, with no reputation for skill or honesty, and but little property, makes a large purchase, on six months' credit, and removes the goods to a distant place; he may there effect rapid sales at reduced prices, pocket the avails, and decamp. Or, with more honesty and less thrift, he, in turn, may give credit, and, making but few profitable sales, find the goods scattered, and himself unable to meet his obligations. In such a system, the reward of property, skill, and integrity, are greatly reduced. No man finds it necessary to bring these to the loan market. Money and goods are ready on hard conditions indeed; but he, with the same spirit, can still further raise the prices, and pass on the burdened

product. Is it strange that a reckless, speculating spirit should be the first-born of such a system; that patient, plodding industry should be regarded as a poor, stupid substitute for enterprise, and a general crash as a joke on a large scale? Men who work with that which is not their own have not the same motives to caution; the losses are not theirs; and they come out of a business, totally wrecked, with nearly all with which they entered it. They had but little business character to lose, and where bankruptcies are frequent, they have proportionately less power to affect reputation. The results of indolence and heedlessness are not, under such a system, suffered to follow men. An easy law of bankruptcy is its necessary and natural supplement, and any permanent accident is to the reckless speculator impossible; not so to his victims.

Another consideration, even more important than the preceding, is the general insecurity of every such system. This insecurity ultimately manifests itself in the crash of what is termed a crisis, and demands a distinct treatment.

§ 5. When, in any community, the difficulty of meeting indebtedness becomes great and general, and is attended with extensive failures, there is said to be a commercial crisis. These have been of not unfrequent occurrence in the great commercial nations of modern Europe, and have resulted in rapid and startling losses, and in the temporary embarrassment or paralysis of every branch of industry. The indirect and less observable losses of such a crisis are often much greater than those manifest ones which fill the public eye. The loss of confidence, and the general sus-

pension of industry, greatly diminish the products of the succeeding months and years. So certainly have these crises returned, with but short intervening periods, that some have been tempted to regard them as parts of necessary cycles — of fixed commercial revolutions — as the inevitable spasms to which the economic body is subject. The movements in different parts of this orbit vary greatly in rapidity. The return from the most extended credit and utmost freedom of speculation, to entire distrust and suspicion, is precipitate; while the progress, through returning confidence, first to enlarged, and then to insecure credit, is comparatively slow. The one movement may be completed in a few months; the other, judging by recent experience, occupies from ten to twelve years.

That there are forces which readily manifest themselves in this revolution between the poles of extended credit and bankruptcy, there can be no doubt; but it is equally certain that these forces are largely under control, and that their movement may be greatly modified or entirely suspended. No crisis can exist without extended credit, since a crisis is no other than a general pressure for payment. Unsafe credit is the common quality, the provoking cause of all crises. Anything which reduces credit, destroys its systematic application, and makes it firm, though not able to impart a uniform prosperity, will largely remove these destructive scourges of the commercial world.

Crises, though agreeing in the procuring state, — that of large indebtedness, with an inability of immediate payment, — have not necessarily the same antecedents. They arise under a credit system, and when once in full force,

are seldom expended till they have passed through all associated communities possessed of kindred systems. They can scarcely arise in connection with a system of cash exchanges; nor will a community whose basis of business is such a system, receive or pass them by conduction.

A system of credit is capable of great extension, and by a slow growth tends thereto. The use of capital confers many advantages, and when this can be readily obtained, many are desirous to avail themselves of it. While credit is yet within narrow limits, payments are met, and a general feeling of security is felt. The prosperity which accompanies the revival of confidence, and the many advantages which it is seen to confer, make all forgetful of the severe lesson just acquired of the dangerous nature of credit; and this is felt to be, as for a time it is, both the result and cause of returning business. The limits of safe credit are not clearly marked; many of the most precarious and worse cases of credit are not generally known, and there seems to most a margin of advantage which may be still further occupied. With imperceptible but certain progress, credit extends itself and establishes itself as a system, — a common and well-recognized method, which, with certain fixed forms of security, it is thought, sufficiently guards itself, and demands no peculiar supervision. Liabilities become greater, more general, and times longer. Credit thus, not simply restored, but extended and systematized, the essential element in the preparation is completed for the succeeding crisis. This may be provoked, in the first case, by any unusual ex-

penditures, as on railroads; or payments, as those to foreign countries; or losses, as those of agriculture, — which reduce the resources of community, and thus straiten its power to meet its obligations rapidly becoming due. An ordinary amount of credit, with the failure of the ordinary means of payment, may force many into bankruptcy.

A second and more frequent provoking cause is the presence of inducements for a still further and more rapid extension of credit. It is thought that the supply of some commodities is deficient, and that large sums can be made by their purchase and by their sale, when the rise consequent on scarcity shall have taken place. These expectations may be well based in one or more departments; but a speculative movement, once started, is not, with the facilities afforded by credit, likely to be always wise in its direction, or easily restrained. The larger purchases first made immediately raise the price of those commodities towards which attention, in the earlier stages, has been directed. The promise of decided gains seems strong, and occasional sales realizing large profits inflame desire. While prices are still rising, the opportunity seems not wholly lost, and by new purchases prices advance still further. Many, who have had no part in this movement, are made uneasy, and are ready to believe that there may be, in other directions and in other commodities, the possibility of equally rapid gains. A purchase is made, and they see in the consequent rise of price a justification of their sagacity. Further purchases are made, and a large rise of value in many directions follows. Now comes the difficulty; all are about to realize great gains, but, with the

exception of a few fortunate or sagacious persons, have not yet realized them. Prices begin to waver, and it is thought best to close in at the climax. Large quantities of products are thrown upon the market; but, all beginning to feel that the movement has expended itself, few are found willing to buy. Prices sink at once, and a rapid decline still further reduces the number of purchasers, and makes the anxiety of the sellers, with whom every hour is the displacement of imagined gains with real losses, but the more frantic. Under such circumstances, nothing can save prices in all departments from a fall, even more extravagant and precipitate than the previous rise; and those upon whom the trap has closed, and who have forced themselves fully in, by the utmost extension of their credit, form a bankruptcy well-nigh total.

But in a community whose system is credit, there is no such thing as a single failure. All are in a state of unstable equilibrium. Every business transaction is on its narrowest base, and the falling of one is the signal for the bowing of the whole column. The increasing ruin precipitates itself with melancholy crash on good and bad alike, and men find sad consolation in the extended companionship of misery.

§ 6. It is hardly necessary to add further proof to the following proposition:

A crisis is the natural issue of a system of credit.

It is the elasticity of credit which makes extended speculation possible. The transactions in one department

impose little or no restraint on those in another. If purchases were made with cash, the purchase power could not exceed the power of payment; and as this became exhausted by operations in one direction, there would be no ability left to force up prices by a kindred action in other directions. Credit, on the other hand, having no well-defined limits, may be employed at once in many transactions, and act on prices through a great variety of channels. There may indeed be serious loss from indiscreet speculation, though the medium of purchase be cash; but that loss would not provoke a general insolvency, or, running along the lines of indebtedness, occasion that widespread failure which is the characteristic of a crisis.

It is the instability of business — the want of a broad and independent basis for each single system of operations — characterizing a credit system, that makes a few losses so destructive. Such a community is all ready for an explosion. Indebtedness is so general and so complicated, that the ability of each depends on the ability of many others, and the losses of one become the losses of all. Few are in their own hands, or solely dependent on their own skill and diligence. The mismanagement or roguery of a few parties embarrasses and perhaps destroys the prudence and industry of many. Such a community is a commercial magazine, with trails running in every direction, which the carelessness or villany of anybody may fire. A real loss falling upon a trade so situated, cannot fail to work a crisis — cannot fall short of an extensive ruin.

These results, however much to be deprecated, are not to be ascribed to any single class, but are rather the com-

bined result of the action of many under a vicious system. We may speak strongly about speculation, but speculators have a legitimate and valuable service to perform, and one which they will continue to perform, however much the abuses to which this business is open may evoke of public censure. He who in produce stands between the seller and buyer, has the same province, and is as useful, as the merchant. He who, foreseeing a real scarcity, buys produce in preparation for the rise, confers a real benefit. By anticipating a pressure still future, he spreads it over a larger surface, and reduces it in intensity. His purchases, while the article is yet cheap, raise the price, and induce general economy. When the want has actually overtaken the people, his sales lower the price, and minister to the necessity. His reserved supplies are, to years of famine, like those of Joseph. It is the tendency of speculation to excess, occasioning a fictitious rise of prices, the dishonest methods with which it has sometimes been pursued, and the fact that its gains often come in connection with general loss, that have excited against it so indiscriminate a prejudice.

Nor are banks peculiarly the guilty agents in every commercial embarrassment. At most, they have but shared the general tendency, and concurred in securing the general misfortune. A crisis may be provoked by extensive book credit, with but slight assistance from the still more efficient form of credit — bank bills. Indeed, as a matter of fact, many crises have been so provoked, and have not been preceded by any unusual issues. In our own country, however, the more recent crises have occurred in

connection with a very full paper currency. The indispensable element is credit; the form of that credit is comparatively unimportant.

The credit which banks afford, while purchases are yet numerous, and when the pressure arising from the effort to sell has not yet commenced, should be distinguished from that which they may afford after the crisis is fairly ripened, and great losses are being suffered from forced sales in a market whose prices are much below their natural level. All who are able, or can possibly secure aid, wish to defer sales till, the panic having subsided, ordinary prices can be secured. That they should do this is desirable for all parties, — not less for their creditors than for themselves. Much of the ruin which a panic occasions arises solely from the unreasonableness of fear, and not from any intrinsic necessity, — a ruin which all parties help to pluck upon themselves by their precipitation. All goods which are forced into the market, carry prices lower and lower; all which are retained, leave it the more quickly to right itself and revert to a healthy state. But, as all the available means of many are represented in the goods which they have unwisely purchased, or in property now much reduced in value, when the claims upon them mature, there is no resource left but the losses of a sale, whatever these may be, unless an extension of credit, or further discount at the bank, can be afforded them. It is vain to look for the former, and the latter alone can render that aid by which bankruptcy may be evaded, and a remnant of ability and opportunity be retained, with which to render available the new and dear-bought experience.

But, in order that the banks may render this great service in reducing the panic and ruin of a crisis, and in helping all out who are capable of preservation, it is evident that they must not themselves be involved in the same embarrassments. If their discounts and circulation have been extended even up to, or not much beyond, the limits of ordinary times, in these emergencies all their strength will be required to meet their own liabilities; and that they may the more successfully do this, there will be, far from an extension, a rapid retrenchment of discounts. This resource failing, even in its accustomed aid, every man will be left to sink amid his own difficulties. The inability of banks at such times to afford their ordinary assistance, to which they may be said to be in some sense pledged, is undoubtedly a principal reason why so many are ready to attribute the whole calamity to them. They forget that, as the folly has been, so is the danger, universal, and that the law of self-preservation is now the first law of all. If there was security at one point, from this, there might go forth relief that would rescue many. The reason that banks usually fail of rendering any adequate aid, is simply because they are in the stream, and not upon the shore. The most reliable, and, to the business world, the most valuable firms may be embarrassed — may find all their resources just beyond their immediate reach, and the most unnecessary and exasperating losses forced upon them, solely because the accommodation which they have all along received is no longer given them. The bank, insecure on its own footing, must instantly shake off every dependant. It is only to those

who need no aid that it is safe to give aid. There must belong to those institutions, which are to reduce and control a crisis, the most absolute stability.

The evils now pointed out as the result of a credit system, are not abated by the low prices and the reäction which follow the completion of the cycle in a universal crash. All business is for the time being suspended; there is a general paralysis — a want of confidence, which destroys the old methods, without supplying their place. Trade is not left in sufficient force to materially affect or compensate the results already occasioned by previous high prices and foreign imports. The most healthy stage in all the orbit of credit is that which immediately succeeds the state of distrust — when business is reviving, when the admonition of a fresh experience has not yet been forgotten, nor time been given for the credit system to restore itself in its broader and more luxuriant forms. The moment, however, the growth becomes decided, the evil begins to renew itself, and to make ready a harvest of fresh disasters.

It is not upon credit, but upon a systematized and extended credit, — the unreliable basis of all business, — that the evils and dangers now enumerated are chargeable. A limited credit has no greater enemy than an unlimited and general credit. It is this which involves the former in its own destruction, and gives to all loans the cost and semblance of uncertainty.

CHAPTER VI.

CURRENCY.

§ 1. Gold and silver, though everywhere the basis of currency, are not everywhere its substance. These metals, in their intrinsic fitness, in their universality, in their high and firmly-sustained value, have established themselves throughout the civilized world as the medium of national and international exchange. This very universality of use still further aids them in performing their functions. So vast is the sum now in the world's possession, that no catastrophe, no loss, can sensibly affect its value; so universal and constant is the demand, that none but the most unusual supplies can at all modify or reduce it. It is the breadth of the ocean, as it stretches into either hemisphere, and gathers the waters of either shore, which makes it a receptacle never full, a storehouse never exhausted, — which makes it lie under the thirsty equator without loss, and the streaming tropics without gain. A currency which suffers the waste, and gathers the increase of a world, must have something of the same dimensions.

The economy of paper money has seemed so obvious, the immediate gain of individuals so tempting, that, in many instances, a mixed currency has been established, — bank bills, resting on a broader or narrower basis of specie,

taking the place of coin. These bills, redeemable in the precious metals, have, in ordinary states of the market, found free circulation, and discharged their office well; but, in all critical cases, when the panic has been general and the pressure great, have, with very few exceptions, been found to exist in excess, and to add to the confusion a disordered currency and a general suspension of specie payment. Especially has this been so in the United States, where, the general government having cut itself loose from the currency, and made no provision for other payments than those into its own coffers, each state has been left to its own action, and no well-tried and self-consistent system has prevailed. It is one of the most obvious and important duties of government to establish and regulate the currency; and if that currency is to be a mixed currency, it constitutes no adequate provision to mint coin, which, though the basis of value, is, in actual exchange, but a secondary and subsidiary element.

In a currency so largely reduced as is our own, mixed to the last degree with bills of every shade of value, it is but an easy and pitiful part of the labor to stamp and send forth the coin, while that other most Protean and dangerous element is left altogether without guidance or restraint; when men need it least, enlarging without limit, and when they need it most, vanishing like a myth.

Nor are the states prepared to take up successfully this work which has fallen upon them. They are but limited communities within a much larger community; their laws have no force outside their own narrow bounds; and the wisest regulations are instantly set at naught, by not

extending to those with whom they are in daily and hourly intercourse. Indeed, some principles, thoroughly established and generally admitted, if embodied in the laws of any one state, might work great mischief, and, at best, could work but a very partial good. Such an one is the prohibition of bills under five dollars. For a small community, in the midst of others, to pass this principle into a law, without concurrent action on their part, would be to exclude its own bankers, in order that the field might be occupied, and that less safely and advantageously, by those of neighboring states. As fast as specie should accumulate, under such a regulation, other causes would enter in to dissipate it. To the degree in which it did accumulate, coin would be more readily obtained in such a community than in adjoining states. It would be the field, therefore, to which the banks of these states would resort to secure their reserved specie. These banks, finding a new opening, would naturally enter on it with avidity; and as fast as coin showed any indication of increase in the state making the restriction, it could be readily gathered up and exchanged, at a slight profit, for the small bills of neighboring banks, and furnish them the basis of further issues.

It is a general law, that, in a currency consisting of two media, one of which has so depreciated that its real is below its nominal value, the medium which has fallen in value drives out that which retains its value. This has already been shown in the case of gold and silver. If silver is ranked too high in the currency, the holder of gold is perpetually seeking to transform it into silver, that he may gain the additional paying power which belongs to

this metal. So if, by any combination of circumstances, bills are at a slight discount in the currency of which they form a part, which discount is saved by circulating them, and lost by returning them to the bank, they act as a depreciated medium, crowding out the better medium, which retains its full value.

When a large amount of bills is in circulation at a distance from the banks issuing them, this unfavorable combination occurs. The Boston city banks were led, through the action of this principle, to force on the country banks the redemption of their bills at the city bank of Suffolk. The bills of country banks, not being redeemable in Boston, were at a slight discount; all, therefore, holding these bills and also the bills of city banks, laid the former aside for contingent expenses and daily use, and presented the latter to the banks for deposit and for specie. For the first of these uses, the bills of country banks were equal in value to those of city banks; for the second, they were not. They therefore, day by day, took more complete possession of the circulation, while the city banks found their bills constantly returning on deposit and in search of specie.

This same combination of circumstances would again arise, in case any one state should exclude its own small bills from the circulation. Bills from a distance would not be readily returned for redemption; they would consequently be at a slight discount, and thus gain power to force their way in, and crowd out, not only the specie with which it was sought to replace the expelled bills, but also the bills of a larger denomination, belonging to the banks

of the state suffering under an intrinsically good regulation. It would only be specie and the home bills, that could meet the severer tests of currency, that could be received as deposits and go abroad; and this office, therefore, would fall exclusively to this part of the currency. The inferior part of the currency could only equal the superior in the function of daily circulation, and this it would be left to discharge.

A movement in this direction toward reform, on the part of any one state, unaided by adjoining states, and with no power to force its regulations upon them, might result only in greater embarrassment, — in a currency more discordant, mixed, and fluctuating, than ever. This same principle would come in to perplex and thwart almost any measure which a single state might adopt for securing a homogeneous and firm currency. The very act by which its own media of exchange were lifted to a perpetual par, would open the way for every inferior media to creep in and expel the new and more valuable currency. The better the home currency was made, the greater its liability to be fed upon and devoured by the vagrant, hungry poverty of its neighbors. Not only must the currency of every state suffer from the defects existing in that of every other, but every effort to redeem itself draws these upon it in greater abundance. The locusts are in the air, and they light on the greenest spot.

The act of the general government, by which it cut itself loose from this mixed currency, and established for itself, in the sub-treasury, a pure metallic currency, was not less the confession of a necessity — a duty — than the

abandonment of that duty. A currency which develops its weakness and inadequacy in the large transactions of the general government, thereby confesses itself unable to perform well the multiplied duties of private exchange. The evil may, in the last office, be more disguised by the nature of the reduced exchanges, but does not less really exist. Not only has no currency been founded by the general government, but the currency which would almost inevitably arise out of large local deposits of the precious metals, has been carefully cut off and destroyed. Orders upon these deposits, certificates of deposit, gold notes, anything which would represent these relatively useless hordes, would be seized with avidity, and give another firm element to the currency, — an element which, with slight care and expansion, might shape itself into the substance of a most solid, available, and widely commercial currency. By a close restriction of time, the good which it seemed almost inevitably about to do was adroitly escaped, and the government, withdrawing with large amounts of specie, left the national currency, with its monstrous paper circulation, its unguided and unrestrained issues, its endless variety in the kinds and the securities of its media, to drift on — to do what, and ruin what, it might.

In a mixed currency there is but one, the metallic, element that is self-regulating. The paper element is wholly artificial, and has no security save that which is given it by wise and firm laws. Uniformity and steadiness in the regulating law can alone impart these qualities to the currency, and make it for a moment worthy of

the adoption of a civilized and reflective people. Most of its evils may be overcome, most of its advantages may be gained; but not without careful theory and broad experience, combined in a steadily and widely applied law. Nothing could be surer to precipitate a people into every evil of which such a currency may be the prolific source, than to leave every partial community, enfolded in a broader community, to try its own experiments, and follow out its own theories. Nothing of consistency and universality can be so gained. Every experiment conflicts with and embarrasses every other, and nothing can be a better proof of our unbounded strength than the success with which our emphatically mixed currency has met, or, rather, than the limited difficulties in which it has succeeded in involving us; we have tripped without falling. But the nature and respective worth of a mixed and metallic currency demand further unfolding.

§ 2. It is not claimed for a mixed currency that it performs its office better than a metallic currency, aided by banks of deposit and discount; this last is rather regarded as furnishing the practical standard of excellence in this department, and the highest claim made for a mixed currency is, that it performs its duties as well as such a currency, with greater economy. That, in the larger number of actual cases, a mixed falls decidedly short of the efficiency and perfection of a metallic currency, is also generally admitted, though the advocates of the former are ever able to assign a reason and show a remedy. That a metallic currency is, in the regularity of its action, regarded

as the standard of perfection, is clearly seen in the fact, that every mixed currency is based upon specie, and that all effort is directed to so uniting paper to specie, that they shall both be equally affected by the natural laws which govern the latter. Waiving the question, whether this ideal perfection of a mixed currency, by which, in the promptitude and stability of its action, it shall equal a pure and simple currency, is ever or can ever be reached in practice, we pass to our first proposition.

No currency inferior to the best attainable currency is truly economical.

The truth of this proposition is seen in the extensive and vital character of the influence exerted by currency, and the fundamental nature of its duties. Anything which either retards or accelerates the general forces of production, which embarrasses or sustains industry, cannot fail quickly to accomplish results far greater, though much less observable, than the gains and losses of individuals. What would seem the most expensive and financially ruinous wars, sometimes so raise prices and quicken the industrial energy of a nation, as rather to increase than abate its prosperity. The yearly expenditure, though very great, has, through additional stimulus, occasioned corresponding gains; the heaviest losses, calling forth fresh energy, have been speedily redeemed.

The very life of all large and safe commercial movements is confidence; and nothing is so sure a thermometer of the general integrity, as the integrity of the currency. Let there be the slightest suspicion here, and it will spread the torpor of fear through all relations and all

undertakings. It is felt that currency, if involving credit, does and should involve it in its firmest form, and therefore, that the least weakness here betokens general failure. In entire consistency with this, is the fact, that every commercial crisis is carried to its climax by a run upon the banks; and that not till these have suspended, is the movement deemed complete, and the end reached. Crises are by no means to be ascribed exclusively, perhaps not principally, to the currencies in connection with which they have occurred; yet, these currencies exert a powerfully quickening or restraining agency upon them. The waste of one such crisis — the industry of a continent suspended or retarded for months, and even years — would outweigh the gains of many years, under a mixed currency. It is from the fact, that an efficient currency is so intimately connected with the stimulus and safety of every industrial movement, — that its gains, though imperceptible, are so constant and universal, — that we argue its economy. It is also from the restraining and controlling power which such a currency is able to exert over the rise and ripening of a commercial crisis, that we infer its economy.

A further proof of this proposition is the fact, that the gains of a mixed currency accrue mainly to a few individuals. However great these gains may be, they fall chiefly to the banks to which the issue of bills is committed. This is no reason why they should be decried or lightly esteemed; but it is a reason why any amount of them is not equivalent to the same amount added widely to the ordinary gains of industry. To give employment

to eleven men instead of ten, is something; but not so much as to add one-tenth to the results of labor — to the returns of the ten. If numbers are crowding upon each other, and upon business, such a pressure may be for the moment relieved by these additional openings to profitable exertion; but where there are many avenues yet open to profitable effort, it is no great public gain to institute a new class, and reward it with a new income. Especially it is not so, if this income is, in the slightest degree, to detract from the security and reward of general industry. Bankers do, indeed, find profitable employment; so might they, as intelligent, enterprising men, without banks. It is only a question whether this or some other species of industry shall be fully developed. Stockholders find profitable employment for their capital; so might they without banks of issue.

So far, therefore, as the class of bankers would be reduced in numbers, we are not to regard their expunged profits as a loss, since these persons are redeemed to other and equally valuable forms of industry. It may be said, that banks of deposits and discounts, though fewer in number, must necessarily charge a somewhat higher rate to compensate the loss through the suppression of the function of issue; and that less capital would now be present in the loan market. Neither of these results could follow in any high degree; and the tendency to restrict credit resulting from slight additional difficulty in the terms, could hardly, all things considered, be deemed an evil.

We argue the economy of the best currency from the

fact, that the gains accruing from any other, far from being such as can compensate the loss arising from any general embarrassment, are but trifling. These gains are not the interest on the full sum by which the paper in circulation exceeds the specie on which it is based, but this sum reduced by the excess induced, beyond the real demand of exchange, by the persistency of banks in forcing their issues into the currency. A considerably smaller sum than that appearing in a currency always saturated with paper, could, in brisk exchange, accomplish the same business.

The whole paper currency of the United States, in 1856, has been stated at one hundred and seventy-five millions of dollars; the reserved specie at fifty-nine millions, — leaving a balance of one hundred and thirty-six millions. By the same authority, the inflation of the currency beyond the demand is put as high as seventy-five millions, leaving a second balance of sixty-one millions. The use, therefore, of this sum, which, at six per cent., is three millions six hundred and sixty thousand dollars, is the gross national gain of a mixed currency. But from this there must be made further very important deductions. The expense and loss of bills considerably exceeding the abrasion of a metallic currency, the loss from counterfeits, and the cost of the detection and punishment of this kind of crime, arising, as it does, from the facilities which such a mixed currency offers, are to be deducted. If this mixed currency is not, through all its agents, brought up to the integrity of gold, there is a still further deduction of all bills wholly bad, and of the discount on

those partially bad. There is also to be deducted, according to what has already been said, the salaries of the agents, and the profits of the capital employed in a mixed currency, beyond the agents and capital employed in a metallic currency. If these deductions could all be reached and accurately made, the residuum of gain, as the national gain of an inferior currency, would be very small,—not sufficient to outweigh the slightest embarrassment of industry. It should also be remembered, that the greater the gains secured by this method of economy, the greater its danger; and the firmer the currency on its specie pedestal, the less the gains. We have not meant, thus far, to imply that a mixed currency is necessarily, in every form, inferior to a metallic currency; but rather implying, what all would readily admit, that our poorest currencies are found among our mixed currencies, to affirm of these that their gains never atone for their inferiority; in short, to exclude any and every mixed currency which does fall below the best. How probable it is, that a mixed will ever practically equal a metallic currency, we shall better see hereafter. Our first proposition will not claim any more direct proof, since what we shall say under other heads will throw more light upon it.

§ 3. *The best currency is that whose media are least liable to fluctuation.*

As has already been sufficiently shown, gold and silver, of all known substances able to become the media of exchange, best meet this condition of a good currency. These are our standard of practical stability in currency;

and, though they are not without great and permanent changes in value, we have no further, no additional method of escaping this difficulty. Nor has it been found often seriously to detract from their utility, in the rough workings and gross estimates of actual life. Fluctuation is, however, in all its forms, undesirable in its effects on the precious metals as media of exchange. A slow and steady decrease is certainly the most favorable of all forms of variation. Some, indeed, have been led to look upon it rather as advantageous, than otherwise. "Far from regarding a considerable decline in the value of money, when produced by natural causes, as a calamity, we consider it as a blessing. It will greatly alleviate the burden of taxation in many states that are now oppressed by a heavy national debt. Private debts, as well as public, will become easier to bear; they will be subject to a steady process of abatement, too slow, and compensated in too great a variety of ways, to occasion any serious loss to the creditor, and still affording a sensible relief to all who have payments to make. The greater proportion by far of fixed payments are made by those who are engaged in business or industrious undertakings, to those who are enjoying leisure and wealth. Thus, the relief and the encouragement come to the more active and industrious classes, while the loss, small in proportion, falls upon those who are most able to bear it. The increasing abundance of money, and the steady rise of prices, stimulate all forms of industry and enterprise. As the operations of trade and manufacture are quickened, wages tend to rise even in a higher ratio than the prices of commodities."

This is, at least, too strongly stated. A decline in the value of a currency may not be without some compensation; but that the most uniform descent is preferable for the purposes of exchange, for the interest of production, to a position entirely stable, we cannot believe. It can only alleviate taxation as taxation arises from a national debt; and this relief is wholly at the expense of justice and the validity of contracts. An obligation is not truly met, that is met with a value by one-tenth or one-fifth less than that which was received, and for which payment was stipulated. An agreement of figures may disguise, but cannot alter a discrepancy of things. The same is true of "private debts." If these are to be reduced, they must be reduced at the expense of the creditors; and anything which is a "sensible relief" to the debtor, must be an equally sensible burden to the creditor. We cannot think that production is benefited by such a decline, because, in many instances, debts are due from the poor to the wealthy. Nothing lies more at the foundation of all industrial interests than justice and the protection of property. Without these there is little or no stimulus to exertion. It is a false notion, — at least in many countries, — that industry owes more to the poor than to the rich. In our own country, it is rather the latter who have been her special and most successful patrons; and anything which abates their enterprise would injure production and the poor, far more than the petty gains of currency could benefit them. A steady percentage of loss in currency would act like additional risk, and demand, in a market of loans in other respects the same, an additional per cent.,

resting as an extra charge on new loans, to compensate this decline. Nor are all debts owed to those who can readily lose a portion of them. Our institutions of learning and charity have their property represented in funds, and, in the decline of these, would find their endowments ebbing away. Widows, pensioners, and the dependents of all sorts, usually have their incomes represented in money, and would find the general gain a severe private loss. Increasing abundance in a single department like that of gold, would be but a feeble stimulus to general trade, — especially when it was found that the purchasing power of this metal was reduced as rapidly as its amount increased. Labor would receive, to the eye and the hand, larger wages; but the moment a purchase was made, this illusion would be destroyed.

To attribute to such a cause "the marvellous development of wealth and material prosperity in England, during the reign of Elizabeth," seems preposterous. It is very conceivable that a new continent, promising, and sometimes giving to the adventurer immediate wealth, still more a reformation, and the awakening forces of a new intellectual life, might bring with them great industrial improvement; but to attribute these results to a declining currency, is to transform a very minor effect into a leading cause. If this view is correct, the most efficacious of all productive agents — that by which poverty is effectually and perpetually lifted up — must be a steady decline in the media of exchange. Is it not a *reductio ad absurdum*, to suppose this process to continue till these media were on a level with iron and lead? What would

be the industrial state in which this inclined plane would lodge us? Would not the sum of our gains be the swallowing up of the most valuable of the functions of the precious metals, in their less valuable ministration to the arts? Is not the whole truth of this theory contained in the fact, that, in connection with an increase of gold, there is usually present a spirit of discovery and enterprise, of which this decline in its value is but a single result?

But, whatever may be thought of a steady movement downward in the media of currency, in reference to all oscillation of value there can be but one opinion. Such oscillation can only tend to vex and hamper all exchange, capriciously turning its gains into losses, and robbing effort of its promised success. The oscillations of value in a metallic currency are very slight; the movements which do exist have a long sweep and a single tendency. Not so those of a mixed currency, when not brought up to the perfect action of a metallic currency.

The violent manner in which bills take possession of a currency, and the irregularity of their movements when in possession, a little observation and thought make manifest. Suppose a metallic about to be displaced by a mixed currency; that the amount to be displaced is one hundred millions; the small change left in circulation, ten millions; and that the proportion between reserved specie and bills is one to four, — a proportion much safer than that which actually exists in many of our states, — there is, then, seventy-five millions to be sent abroad, otherwise there is no gain, but only the loss aris-

ing from a crowded currency. A force, then, is to be applied sufficiently strong to drive out more than two-thirds of the whole currency. It is evident that every artery of exchange must be injected with bills, every device employed, till prices are carried up, and foreign trade is thereby attracted in a strong stream, leaving a large balance to be liquidated in the expelled coin. While this process is going on, currency must be seriously distended, since it is only by a decidedly enhanced price that the expulsion of specie in sufficient quantities can take place. Fortunate will it be, if the force is evenly and persistently applied, if the ingress of bills and egress of specie does not take place in a series of short and violent transitions. But this is too much to be expected. The banks start with a certain amount of specie. Resting on this as a fulcrum, they issue their bills and apply their force. The force begins to take effect, and specie is wanted for the foreign market. This specie the banks must do their full share in furnishing. Bills return in search of it. These having now withdrawn the specie basis, the issues must be suspended till this is renewed. For a moment there is a cessation of force. Prices fall, and the banks are busy in occupying the space gained, and preparing the specie basis requisite for another effort. All things at length being ready, the force is again applied. Prices go up, and further room is made with a like relapse. The currency is first plethoric, then depleted, and every stage is alike transitional.

Nor is the currency more permanent when this transition is completed, and the seventy-five millions is fairly

displaced. The currency will not readily return to its first amount of one hundred and ten millions, and it will only be some severe pressure, arising from the demand for specie to meet foreign indebtedness, that will finally compel the banks to restrain their issues, and thus force down prices. If anything less than a crisis puts a stop to a movement, strong enough and protracted enough to expel seventy-five millions, there is again cause for gratitude. But, the movement stopped, the exchange reduced to par, and a paper circulation firmly established on a specie basis, the oscillations are not completed. Unfavorable balances must arise in the course of trade; and these are to be met from reserved specie. But if the safety of the currency is to be regarded, one million removed here must be followed by the withdrawment from circulation of four millions of bills; and thus every force derived from this and kindred sources, such as war and specie taxation, is, before it acts on the currency, multiplied by four. So, also, all influx of specie, in a correspondingly high degree, inflates the currency. The same violent oscillations take place when the banks are subjected to a run, or feel the monitions of a gathering storm. As the sea is calm or ruffled, these paper sails are spread and taken in; and when money is most wanted, the banks are all scudding under naked poles. We have supposed, in this discussion, the comparatively low ratio of four to one to be steadily maintained. If the eagerness of the banks should lead them, as in most instances it does lead them, to depart from this ratio, the oscillations would be increased in violence, and the danger of entire suspension imminent.

These oscillations are brought out in the following tables.

"The circulation of all the banks in the United States has been, in round numbers, as follows:

In 1835	$103 millions.			
" 1836	140 "	an expansion of	36	per cent.
" 1837	149 "	" "	7	"
" 1838	116 "	a contraction "	22	"
" 1839	139 "	an expansion "	20	"
" 1840	106 "	a contraction "	24	"
" 1843	58 "	" "	45	"
" 1844	75 "	an expansion "	29	"
" 1846	105 "	" "	40	"
" 1851	155 "	" "	48	"
" 1856	195 "	" "	26	"

"The whole circulation in the State of New York was, in

Jan'y 1831, in round numbers,	$18 millions.			
" 1836	" "	21 "	an expansion of	17 pr. ct.
" 1837	" "	24 "	" "	14 "
" 1838	" "	12 "	a contraction "	50 "
" 1839	" "	19 "	an expansion "	58 "
" 1840	" "	14 "	a contraction "	26 "
" 1841	" "	18 "	an expansion "	29 "
" 1842	" "	14 "	a contraction "	22 "
" 1843	" "	12 "	" "	14 pr. ct."

§ 4. The obvious result of such oscillations is, that money, even within very limited periods, ceases to be a tolerable measure of value and an honest medium of exchange. They produce an uncertainty in the loan market, embarrassing all business transaction, and provocative of many needless bankruptcies. When banks are in expansion, loans are easy; when in contraction, exceedingly dif-

ficult. A business resting on the accommodation afforded in the first state, is almost sure to sink in the second state.

Such a currency can exert no restraint on crises, and lend no assistance when they have occurred. Banks are involved in the difficulty, and cannot therefore help others out.

The loose methods, the irresponsible and venturesome spirit belonging to extensive credit, cannot fail to be aided and encouraged by a currency involving in a large degree the same elements. When the contagion of speculation and flimsy credit has seized the currency, there is no barrier remaining, no safe and healthy action with which to expel or reduce the fever.

In a business community of which this daring spirit has taken large possession, there must necessarily be many failures; and the additional risk to which all capital is thereby exposed, will demand a higher per cent., and make the path of those who still hold to a slower, firmer, and more honest method, more difficult. In short, as a natural and auxiliary member of a credit system, a mixed currency, to the full degree in which it falls short of the stability of a metallic currency, will contribute to, and be responsible for, all the evils which we have seen to inhere in such a system. An unsubstantial credit in every kind and degree, in currency and out of currency, is decay at the centre of the system, at the heart of the tree; and, although it may not reduce the foliage or the spread of the branches, the storm will discover it. The prosperity of the United States, in connection with a currency which

has been subject to constant fluctuation, and only for short periods and within narrow circles has ever possessed anything like the firmness, elasticity, and vitality of a pure medium, may indeed make decisive proof of our other advantages, but fails even to weaken the proposition, that the best is the most stable currency.

§ 5. *The best currency is the one that is self-regulating.*

The natural forces which act on currency are not simply remedial, but preventative. The corrective forces begin to act with the first rise of the evil, and each new symptom evokes a corresponding rigor of treatment. The limit within which the vibrations are suffered to range, is comparatively slight; and these forces, if unrestrained by artificial barriers, present an elastic, but rapidly-increasing resistance to all violent change. The evil and the remedy are so thoroughly synchronous, that neither the one nor the other is especially observable, or seems to have wrought a change; the compensation is so immediate, that the evil never makes head, or is left to become a disease.

A metallic currency in which the natural forces have full scope, and which, therefore, is thoroughly self-regulating, rapidly scatters any surplus of coin through the markets of the world, and from these markets as rapidly supplies any deficiency. The large amount of specie requisite to constitute such a currency, bears too great a ratio to any ordinary additions or subtractions to make these the cause of any perceptible change in value; and no sooner do these additions begin to take place, than, tracing themselves in the rate of exchange, and in the rise or fall of

prices, foreign trade, through all its avenues, is instantly at work to correct them.

Foreign trade and a metallic currency mutually correct each other: especially is this true when no extensive and protracted credits are suffered to disguise the real state of things. The currency adjusts the balance of trade, and by its own rise in value does not long suffer an unfavorable balance. Trade gives immediate relief to an overcharged currency, and as quickly replenishes an exhausted one. A slight rise of price invites, and a slight fall of price discourages, foreign goods — leaving the balance of specie to pass in or out of the country, as the exigency of currency demands. Any cheapness of the metals in one country compared with their value in another, will manifest itself in the exchange existing between the two countries, and add itself as a premium on all payments from the first to the second, and deduct itself as a loss from all payments from the second to the first. The metallic currency of any country has the amount of the precious metals falling to its share defined by being the fourth member of the proportion: the world's exchange is to its own exchange as the whole amount employed in currency is to its own amount. The value is defined by the relation of the aggregate supply to the aggregate demand — of the world's currency to the world's business. It is the office of trade to anticipate and destroy all local inequalities. Each single currency is a bay with a broad channel, through which it receives the pulse of the ocean.

A mixed currency, on the other hand, has little or no self-regulating power. It is the creature of human law,

and must share its defects and mistakes. It cannot, indeed, be issued in unlimited amounts, as business cannot take it up in every amount; but it can be issued and forced into circulation in very excessive and injurious amounts. Paper can circulate without any specie basis, but only by virtue of the most rigorous restriction; and the instant this restriction is removed, it flashes into smoke with all the destructive force of powder. With a specie basis it is less volatile; but what ratio this basis shall bear to the issues, rests solely on regulation, and very easily escapes all regulation. If left to private bankers, under the regulations of a general or specific law, the interests of these bankers are in direct conflict with the restrictions of the law; and this artificial restraint, perhaps judicious, perhaps injudicious, fails in its application. Individual cunning, ever awake, is too much for the slumbering justice of law. If the government takes this function of issue to itself, the difficulty is by no means removed; the temptation is then transferred from individuals to the state, and in this conflict between what is deemed an immediate and certain, and an uncertain and future good, the latter is not always more successful than the former. A large institution like the Bank of England, in the hands of individuals, but under the immediate inspection of the government, by the balance of interests, promises and gives the greatest security to any regulations which may be adopted, but does not remove the difficulty — as seen in the institution referred to — of deciding what those regulations shall be.

There is great difficulty in securing obedience to regulations when made, in finding a power to which they can

be entrusted, with an ability to execute them, and no interest to pervert them. Neither the individual under the state, nor the state alone, is such a power; but there is an equal difficulty in saying what these regulations shall be. Man is not able so to anticipate and treat the emergency, before it arises, as to destroy its power. There is not sufficient prediction in his methods: they are but awkward devices of escaping an evil already upon him. When the general facilities for bank circulation are the greatest, is often the time when most caution and parsimony in issues is to be exercised; yet, what system of regulations will effect this? When the embarrassment has become general, if the previous caution has been practised, there will be strength left to render aid. But how is this treasured strength and its judicious expenditure to be secured? A metallic currency, when the indebtedness was increasing, would have marked the fact in foreign exchange, and, when the crisis came, would at least have remained firm up to the full extent of its financial value.

The tendency of paper is, in many instances, to extension when contraction is needed, and to contraction when extension is needed; and no system of regulations can so mark the several exigencies as to make the movement accurately synchronize with the necessity, or, if it mark them, secure obedience. A mixed currency, built upon a system of regulations, is artificial, and necessarily defective in its action, when compared with the operations and compensations of natural forces. The safe ratio, the method of issue, and the time of expansion and contraction, are all questions of vital importance in their effect on cur-

rency; but questions to which no such explicit answers — answers of universal application — can be given, as to enable the most conscientious banks to anticipate every danger.

Nor can a currency consisting largely of paper be made self-regulating through the self-regulating power of its metallic element. Undoubtedly, such a union of the two, as that all the forces felt by the one shall be felt by the other, is the best dependence of a mixed currency; yet the lethargy of a currency made torpid with paper, will never suffer it to receive and, to their full extent, obey the forces which act on a pure medium. If paper is constantly seeking admission into the circulation, gold and silver may be abstracted in large amounts, without availing to permanently reduce high prices or alter exchange. The place of the gold and silver is filled by a medium which has in itself no limits, no value abroad, and can only be made circuitously to feel the general law of value which acts on the metals.

When the currency is saturated with bills, and the extreme legal ratio has been reached, so that the issues are made immediately dependent on the influx or efflux of specie, the case is altered and the evil reversed. Specie being but a fraction of the currency, every increase or decrease, if the ratio is preserved, must be attended with a much larger increase or decrease of the currency. Every addition, from whatever source, to the gold and silver of the country, now bears a much larger ratio than formerly to that already present and occupied in the exchange, and may be made the occasion of a much more marked fluc-

tuation in value. If prices are high, and demand for their reduction the exportation of the precious metals, the forces which occasion this exportation, acting precisely as they would under a metallic currency, carry out sufficient quantities to restore the equilibrium; but, as this removal of specie must be followed by a much larger removal of bills, the currency is immediately found in deficiency. This deficiency reduces prices, and occasions the return of specie. But this return again multiplies itself in bills; and the movement in bills, following after and adding itself to that in specie, is ever liable to make the aggregate effect on the currency excessive, and to demand an instant reversion of the movement, only to repeat the error in the opposite extreme. This is not self-regulation, but self-destruction.

We see that there are two cases: one, when the ratio is not fixed, but bills are suffered to take possession of any ground left vacant by specie. This movement cannot be perpetual; and, so long as it exists, bills, not being dependent on specie, do not share its movements, and the combined currency has no self-regulating power. A second, when the ratio is fixed, and paper sympathizes with the movements of specie. In this case, natural laws, acting with their full force on specie, add and subtract from it according to the condition of the currency; but these additions and subtractions, being shortly followed by still larger movements in the same direction on the part of paper, are made excessive, and currency forced into a rapid oscillation. In each instance, paper comes in to convert the specie remedy into a counter disease. A

mixed currency is not, then, self-regulating. It approaches self-regulation with each reduction of the ratio between paper and specie; and when these are equal, — when paper stands for gold, — and only then, will the currency share, in the same manner and measure, the movements of the latter.

It may be thought that the very extent of the theoretical defects shown to exist in most mixed currencies, vitiates the theory, or shows it to be of no practical value, since such currencies have been used by the most prosperous and enlightened nations in the midst of their fullest prosperity. It should be remembered, however, that prosperity disguises many things, and that the test of a currency is not ordinary, but extraordinary times. These evils culminate in a disease — in a crisis; and this test the American banks have never been able to meet. They have not only never controlled a crisis — they have never been able, while working for themselves alone, to fully meet it.

Undoubtedly, regulations, where an efficient regulating power exists, are not made in vain. Many of these difficulties have been removed; but without a wise and extensive central force pressing equally everywhere, no institution, so artificial and so precarious in all its movements as a mixed currency, can be sufferable. A great commercial people may have strength to bear it, but should also have wisdom to cast it off. It fails in the grand criterion of a good currency — a firm and self-regulating value.

§ 6. In closing this work, we wish to give two simple

illustrations of a remark made in its introduction: That when the equilibrium of forces is disturbed in the economical world, there often arises a series of actions and reäctions, — a disturbance at many other points besides the one immediately affected, — and, if we would be sure of our result, not only the direct, but all subsidiary and compensatory movements must be traced.

The first example is that of absenteeism. A rich landlord, a sinecurist, leaves the country from which he draws his revenue. What is the effect? The first obvious result is, that value to a large amount is annually withdrawn from the country thus deserted. Is this value lost to the country in the case of a foreign residence, and retained by a home expenditure? The sinecurist is an unproductive consumer; and, whether at home or abroad, his luxury is the finality of one stream of industry. Here it empties, and turns not to nourish production. In either case, therefore, the goods of all sorts consumed by a wholly unproductive agent, are a tax on industry, and completely lost to it. But luxury requires the assistance of servants and artisans. A loss would seem, then, to be occasioned to this portion of the community by the transfer of its expenditures. What, and how much this loss is, will depend on the permanency of the foreign residence. If servants and artisans have actually been gathered in the neighborhood of a wealthy establishment, and have learned to look to its patronage for support, then, any transfer will be attended by considerable embarrassment on their part. A portion will follow their master abroad, and another portion will be compelled to modify, or wholly

alter their business. If the country is already full of laborers, — a country like Ireland, — then, either some occupations must be still further pressed by this new redundancy of labor, or the full quota of laborers to whom employment had been given be forced abroad. The country will also find its arts depressed, and the variety of its home market limited by the loss of some of its best artisans. It is evident, that, in most countries, the subsistence of a large number of laborers could not be withdrawn without inflicting a serious injury. Many would be unable or reluctant to follow their wages abroad; many would be unable to modify their labor at home without loss; and other departments would feel unfavorably the competition of new laborers.

If the residence abroad is permanent, and has not been preceded by a home establishment, the extent of the injury which a revenue expended abroad inflicts beyond the same revenue expended at home, will depend on the character of the remittances. If these are in raw material, or that which represents raw material, the labor requisite to manufacture the produce into commodities ready for consumption is lost to the one country, and gained to the other. If these are in manufactured products, or that which represents them, then as much labor, save that of personal servants, is employed when these are consumed abroad, as is employed when they are consumed at home. If the luxury of a wealthy establishment, complete in itself, consumes the services of fifty men wholly paid from the revenue of the master, the transfer of these retainers either to, or from the country whose industry is

taxed to support them, cannot essentially affect that tax. The only privilege which remains for such a country to ask, is that of furnishing completed products, — products containing the largest relative amount of labor and the least of raw material, — and thus nourishing its own industry. If the absentee were himself to return, collecting his retainers from the country taxed, there would be some, but no great gain, since these must be taken from other employments in which they are realizing a support. A little play would thereby be given to population, or, this remaining at its old point, some advantage in the labor market to laborers. The consumption, then, of unproductive persons is a tax, whether they remain at home or go abroad. If remittances are made in raw material, there is a loss of encouragement to home industry. If a removal takes place, transferring wages to a foreign country, — population not being so fluent as readily to follow these, — there is a depression of labor in the home market. If a wages-fund is brought home, a corresponding advantage is given to labor. In either case, there will be the transient evil of a change of employment; and the country expending abroad a part of its revenue, will have a less population, less variety in its industry, and, consequently, somewhat less of cheapness and rapidity in its exchanges. In no two cases of absenteeism will the conditions be the same, or the losses the same.

The second example is that of a permanent tax, as a tithe, in favor of any class or institution, resting on all agricultural produce. We have only to do with the effect of such a tithe on production, and not with the value of

the thing sustained by it. If one-tenth of all produce is to be paid as a tax, the effect on agricultural interests will be the same as if the soil originally had been by one-tenth less fertile. The whole amount of the tithe will be deducted from rent. The price of grain, raised on whatever soil, must, from the very outset, be one-tenth greater than it otherwise would be; and, in the same degree, must it be more difficult to bring new land into cultivation or raise the culture on the old. If an island of the size of England, but one-tenth less fertile, lay side by side with it, other things being equal, culture must always be less advanced in the former than in the latter; since, with one-tenth more of progress, prices in the latter would still remain the same as in the former. In other words, there would always be, with the same extension of culture, one-tenth more of production, and of inducement to population, in the one than in the other. As population depends on the price of food, it would establish itself in the two islands in the ratio of nine to ten; and at that ratio, would have precisely the same advantages in each; save only that, the growth of culture being less, rents would also be less in the one than in the other. As rent is a gain that slowly accrues without labor, a tithe placed early only anticipates this gain, and diverts it to another channel. What would, in England, have passed into the pockets of the landed gentry, is turned to the support of the clergy. As the increasing advantage which the possession of the natural agent, land, affords, comes with the growth of population, nothing is more fit than that it should be made to minister to the

general good. In the principle of the tax there is nothing of injustice.

A country bearing such a tax must always be less populous than it would be without it, and hence forfeit the advantage which, if the standard of general comfort is high, belongs to numbers.

The effect is different if a tithe be laid on a people late in their history, when population has extended itself through all the eligible soils. Such a tax must then raise the price of food, depress the laboring classes, and either force population back, or result in a permanent reduction of comforts. The price of food being permanently raised, and population already in excess, no immediate relief could be afforded; and, before the slow action of natural laws could make it complete, a low social state must almost necessarily have become habitual, thereby, at least in part, destroying the self-respect by which population was to be checked and the level of comforts restored. A tithe so imposed, could hardly fail to result in forcing down the laborer.

On the other hand, the removal of a tithe early placed on a people, would give a margin which, to the intelligent laborer, must result in a permanent gain. The price of necessaries falling without affecting wages, must leave a larger range of decencies within the reach of the laborer. Coming into fair possession of these, he would not willingly resign them; and food having now gained a march on population, prudence would enable him to retain them. The actual result must depend on the self-

control of those within whose reach the new possibility should be placed. Wisdom is requisite in all departments to know when good comes. Intelligent virtue is as requisite for lower as higher products.