THREE LECTURES

ON

THE COST OF

OBTAINING MONEY,

AND ON SOME EFFECTS OF

RRIVATE AND GOVERNMENT PAPER MONEY;

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LECTURE I.

ON THE COST OF OBTAINING MONEY.

THE average annual wages of labour in Hindostan are from one pound to two pounds troy of silver a year. In England they are from nine pounds to fifteen pounds troy. In Upper Canada and the United States of America, they are from twelve pounds troy to twenty pounds. Within the same time the American labourer obtains twelve times, and the English labourer nine times as much silver as the Hindoo.

The difference in the cost of obtaining silver, or, in other words, in the wages of labour in silver, in different countries at the same period has attracted attention, though not perhaps so much as it deserves, and various theories have been proposed to account for it.

It has been attributed to the different degrees of labour requisite to obtain the necessaries of the labourer. In Hindostan it has been said, he requires little clothing or fuel, and subsists on rice, of which he obtains a sufficient quantity with little exertion. But how then do we account for his wages in North America being twenty-five per cent. higher than they are in England, while the labour requisite to obtain necessaries is not much more than half as great in the former country as in the latter? How do we account for the low amount of wages in silver in China, where the labour necessary to obtain necessaries is proverbially great?

It has been attributed to the different densities of population. In Hindostan and in Ireland, it has been said, labourers multiply so rapidly, that the market is overstocked with labour, and the price falls from the increased supply. But if this were an universal rule, as the population of England has doubled in the last seventy or eighty years, wages ought to have fallen, whereas they have doubled or trebled in that interval. They have kept on increasing in North America during a still greater increase of population. They are, perhaps, twice as high in Holland as in Sweden, though the population of Holland is ten times as dense as that of Sweden.

It has been attributed to the different pressure of taxation: but taxation is nowhere so light as in America, where wages are the highest. It is, probably, heavier in Hindostan than in England, yet wages are nine or ten times as high in England as in Hindostan. So that it might seem that wages are highest where taxation is lowest: but, on the other hand, taxation is lighter in France than in England, yet wages are lower, and lighter in Ireland than in France, yet wages are lower still. It appears, therefore, that there is no necessary connexion between taxation and wages.

It has been attributed to the different rates of profit. The average rate of profit in England is supposed to be about one-tenth, or about eleven per cent. per annum. In Hindostan and America it is higher. We will suppose it to be one-sixth, or twenty per cent. per annum, which is probably far too high an estimate. This difference would account for the labourer, whose wages have been advanced for a year, receiving nine-tenths of the value of what he produces in England, and only five-sixths in America and Hindostan, or rather is only a different expression of the same fact, but it does not afford even a plausible solution of the present question.

If the difference in wages were solely occasioned by a difference in the rate of profit, whatever is lost by the labourer would be gained by the capitalist, and the aggregate value in silver of a commodity produced by an equal expenditure of wages and profits, or, in my nomenclature, by an equal sum of labour and abstinence, would be every where the same; and in that case, how could both wages and profits be higher in North America than in England?

Taking North America as the standard, and that the value in silver of the produce of a year's labour of one man, his wages having been advanced for a year, is two hundred and eighty ounces of silver, the value in silver in Hindostan and in England, of the produce of a year's labour of one man, his wages having been advanced for a year, would also be two hundred and eighty ounces, and as the labourer receives only twenty-four ounces of silver in Hindostan, and only one hundred and eighty ounces in England, the Hindoo capitalist must receive, on the sum advanced by him in payment of wages, a profit of more than two hundred and fifty-six ounces, or above one thousand per cent. per annum; and the English capitalist more than one hundred ounces, being more than sixty per cent. per annum, which we know to have no resemblance to the fact. If my statements and suppositions as to the average wages of labour, and the average profits of capital in England, Hindostan, and America be correct, a commodity unaffected by any monopoly produced by the labour of one man for a year, his wages having been advanced for a year, must sell in Hindostan for from one pound two ounces, to two pounds four ounces of silver; that is, for from twelve to twenty-four ounces as the wages of the labour, and from two to four ounces as the profit of the capital employed. In England such a commodity must sell for from about nine pounds nine ounces, to about sixteen pounds three ounces. In America for from fourteen pounds to twenty-three pounds four ounces. In other words, the same sum of labour and abstinence, or, in other words, the same sacrifice of ease and of immediate enjoyment, obtains in America twenty-three pounds four ounces; in England sixteen pounds three ounces; and in Hindostan two pounds four ounces. And this difference is the phenomenon to which I am calling your attention *.

It has been attributed to the different prices, in silver, of necessaries. Provisions, it is said, are dearer, that is, exchange for more silver in England than in France; therefore, the labourer must receive more silver to enable him to purchase them. But provisions are cheaper in America than in England, and yet the labourer receives much less silver in England than in America. The productiveness of the worst soil cultivated, the period for which capital is advanced, and the rate of profit being given, it is clear that the average price in silver of corn, must depend on the average wages in silver of labour, not the wages of labour on the price of corn. On my hypothesis, that the services of an English la-

* See note at the end.

bourer for a year, his wages having been advanced for a year, are worth about nine pounds nine ounces of silver, the corn produced by him in a year on the worst land, his wages having been advanced for a year, must be worth nine pounds nine ounces of silver, and cannot be permanently worth either more or less. If his wages fall one-half, the rate of profit remaining the same, the corn must be worth four pounds ten ounces and a half. If they double, it must be worth nineteen pounds six ounces. But in all cases, the productiveness of the worst land cultivated, the period for which wages are advanced, and the rate of profit remaining the same, the average amount in silver of wages must regulate the average value in silver of corn, and not the value in silver of corn the amount of wages. To suppose the contrary, is in fact the vulgar error of putting the cart before the horse, or mistaking the effect for the cause. To use Adam Smith's illustration, "It is not "because one man keeps a coach while his neigh- "bour walks a-foot, that the one is rich and the "other is poor; but because the one is rich he

" keeps a coach, and because the other is poor he " walks a-foot."

If the population of England should maintain its present rate of advance ; if our numbers should continue to increase at the rate of more than five hundred persons every twenty-four hours, and the absolute prohibition of foreign corn, for which a violent faction is now clamouring, should be conceded, there can be no question that even though wages should not rise, the price of corn would advance. The constantly increasing additional quantity which must be raised to supply an annual addition of fifty thousand families, would be raised at a constantly increasing proportionate expense. According to the theory which I am considering, the wages of the labourer would rise in proportion. For what purpose would they rise? To enable him to consume the same quantity as before, though the whole quantity raised would bear a less proportion than before to the whole number of producers? On such a supposition wages might be ten guineas a day, and corn ten guineas a peck. According to the present administration of our poor-laws, which allots to each individual a definite quantity of corn, to be given by the landlord as relief when not paid by the employer as wages, the whole amount received by the labourer in the two forms of relief and wages might rise, not indeed ad infinitum, but until it had absorbed the whole amount of rent and tithes,—had converted the landlords and clergy into trustees for the poor. And this is the state of things which, under the united influence of corn laws, even such as they are now, poor laws, and an increasing population, seems gradually approaching. But in the absence of poor laws, what reason would there be for expecting a rise in wages? Because the labourer would want more? But would the labourer's wants give to the capitalist the power or the will to pay him more? Does the Manchester manufacturer pay his fine spinners 30*s.* a week, and his coarse spinners 15*s.* because the fine spinner eats twice as much as the coarse spinner? He pays the fine spinner 30*s.* because the produce of his labour is worth 30*s.*, and a further sum equal to the average profit obtained by a manufacturing capitalist, and because, if he were to offer less, other capitalists would engage his labourers, and his machinery would stand idle. While the labourer's services are worth 30*s.* he will receive 30*s.*, whatever be the price of corn. To suppose the contrary is to consider the labourer not as a free agent, but as a slave or domestic animal, fed not according to his value but his necessities.

All experience shews that in the case which I have been supposing, the labourer's resource would be, not to raise his wages, but to reduce his expenditure. He must first give up his weekly pittance of animal food. He must drink his tea without sugar, and surrender his pipe, and perhaps his beer. He must sink from wheat to rye, or barley, or oatmeal, and from oatmeal to potatoes. He must look on the wheat which he would raise, as he now does on the sheep and cattle that he tends, as a luxury beyond his enjoyment. The price of corn is nearly as high in Ireland as in England; but have the wages of the Irish labourer risen to enable him to consume it? Did the exportation of corn and cattle from Ireland cease even during the rages of famine, and of pestilence occasioned by famine?

The only mode by which I can account for the phenomena which I have been describing is, by supposing that the countries which have the precious metals to dispose of, either as producers, or as having a temporary superfluity at their own current rate of prices, are willing to give more than one-fourth more for the exportable commodities produced by the labour of one North American in a year, assisted by an advance of capital equal in value to his wages for a given period, than for the commodities produced by the labour of one Englishman, and more than ten times as much as for the commodities produced by the labour of one Hindoo, similarly circumstanced. Or in other words, that the diligence and skill with which English labour is applied enables the English labourer to produce in a year exportable commodities equal in value to those produced in a year by eight Hindoos; and that the diligence and skill with which North American labour is applied, inferior as they are perhaps to our own, yet by the assistance of the fertile soil which he cultivates, enable the North American labourer to produce exportable commodities more than one-fourth more valuable than those produced by the Englishman in a given period, and more than ten times more valuable than those produced by the Hindoo. Or to use a still more concise expression, that labour in England is eight times as productive of exportable commodities as in Hindostan, and labour in North America is one-fourth more productive of exportable commodities than in England.

It is probable that the connexion between the value, in the precious metals, of labour, or, in other words, money wages, and the cost of importing the precious metals, may not appear so clear to many of my hearers as it does to myself. But I would ask those to whom it is not evident, Whether England and France and the other countries which use plate and money, without possessing mines, must not annually import a certain quantity of the precious metals to supply the annual wear of plate and money? Whether they must not obtain this supply directly or indirectly from the countries possessing mines? Whether the average profits of the capitalists who employ labourers to produce the commodities in return for which this supply is obtained, must not be the same as the average profits of other capitalists in the same country? Whether the gold and silver which these capitalists import are not sent by them to the mint to be coined for their own benefit, or exchanged for gold and silver previously coined? Whether the money thus obtained, after deducting what may be payable as rent, is not divided into two portions, one of which is retained by the capitalists as profit, and the other given to their labourers, as wages? Whether their labourers are likely to receive either more or less than any other labourers in the same country, undergoing equal toils? Whether therefore the wages obtained by the labourers, in return for whose labour the precious metals are imported, do not regulate the wages of all other labourers in the same country? And whether the price, or, in other words, the value in gold and silver of all those commodities which are not the subjects of a monopoly, does not depend, in a country not possessing mines, on the gold and silver which can be obtained by exporting the result of a given quantity of labour the current rate of profit, and, in each individual case, the amount of the wages which have been paid, and the time for which they have been advanced?

In fact the portableness of the precious metals and the universality of the demand for them render the whole commercial world one country, in which bullion is the money and the inhabitants of each nation form a distinct class of labourers. We know that in the small market of every district the remuneration paid to the producer is in proportion to the value produced. And consequently that if one man can by superior diligence, or superior skill, or by the assistance of a larger capital, or by deferring for a longer time his remuneration, or by any advantage natural or acquired, occasion a more valuable product, he will receive a higher reward. It is thus that a lawyer is better paid than a watchmaker, a watchmaker than a weaver, a first-rate than an ordinary workman. And for the same reason in the general market of the world an Englishman is better paid than a Frenchman, a Frenchman than a Pole, and a Pole than a Hindoo.

It has been shewn in the former Lectures, that in the mining countries all prices ultimately depend on the cost of producing the precious metals; that though the remuneration paid to the miner is not identical with that received by other producers, yet that it affords the scale by which the remuneration of all other producers is calculated. When once experience has ascertained the comparative advantages and disadvantages of different occupations, they will continue to bear, as to wages, the same proportion to one another. A fall in the cost of producing silver must raise the wages of the miner. If those of the agriculturist were not to rise in proportion, the miner's wages would be more than in proportion to his sacrifices, and they would be reduced by the consequent competition. And on the other hand, mining would be abandoned, if, when the cost of producing silver was increased the wages in other employments could be stationary. The mine worked by England is the general market of the world: the miners are those who produce those commodities by the exportation of which the precious metals are obtained, and the amount of the precious metals, which by a given exertion of labour, and advance of capital, they can obtain, must afford the scale by which the remuneration of all other producers is calculated.

If this reasoning be correct, and I have in vain sought for a flaw in it, many important consequences must be admitted.

In the first place it follows that the amount of the income in money of each individual depends on the prosperity of our foreign commerce. If the worst land that can be profitably cultivated in England will produce per acre, at an average, two quarters of corn a-year, after deducting what must be reserved for seed, the proprietor of an estate of one hundred acres, producing at an average, after the deduction of seed, four quarters of corn per acre, is entitled to two hundred quarters as his rent. The value in money of those two hundred quarters must be the same as that of the two hundred quarters which the farmer retains and divides between himself and his labourers. The value of those two hundred quarters must be equal to the wages of the labourers after deducting the farmer's profit for having paid those wages in advance. And those wages, though not precisely the same as the wages of the labourers who produce commodities for exportation, must bear a certain proportion to those wages. If the toils undergone by the manufacturer are supposed to be more severe by one-third than those of the agriculturist, the agricultural labourer will at an average receive just two-thirds of the wages of the manufacturer. If the foreign demand for English manufactures be such as to occasion the manufacturer to receive 15*s*. or about three ounces of silver a week, the agriculturist will receive 10*s*. or about two ounces of silver a week. We will suppose that the farmer in question employs ten labourers, whose wages are advanced for a year before the produce is sold, and that the average rate of profit is one-tenth, or about eloven per cent. per annum. When wages are 10*s*. a week, or 26*l*. a year per labourer, the wages of ten labourers amount to 260*l*. a year; making, with the addition of one-tenth for profits 286*l*., which must be the average price of the two hundred quarters annually retained by the farmer to pay his profit and his labourers' wages. And as the landlord's two hundred quarters sell for the same price, his rent must also be 286*l.* a year. But if any improvement in the skill by which English labour is assisted should so raise the value in the foreign market of English manufactures as to raise the wages of manufacturers from 15*s.* to 30*s.* a week, the same effect would be produced as if, in a mining country, the cost of producing silver were diminished by one-half. Though the labour of the agricultural labourer would not become more productive than before, yet *his* wages would also be doubled, or the former proportion founded on the experience of the comparative disadvantages of each occupation would not be preserved. The wages of the labourers employed in raising the two hundred quarters of corn retained by the farmer and his labourers would rise from 260*l.* to 520*l.* a year: the profit on the advance of those wages for a year must rise from 26*l.* to 52*l.*, the price of the two hundred quarters would be 572*l.* instead of 286*l.*; and the price of the landlord's two hundred quarters would of course also rise from 286*l.* to 572*l.*

In the purchase of English labour and of those English commodities in which no improvement had taken place, the English landlord would find his income unaltered, however raised in nominal amount. But his power of purchasing those English commodities, the production of which had been facilitated, would be increased in proportion to that improvement. In the purchase of foreign labour and foreign commodities, his income would be doubled. He would be able to purchase statues, pictures, and wines, which the proprietor of an equal extent of equally fertile land in the countries producing those commodities could not aspire to. He would be able to travel as a Milor Anglais, and drive the French and Italian aristocracy from the first floor to the garret, or the entresol. Little imagining that the greater part of the value of what he called his patrimony was, in fact, the creation of the chimneys and jennies of his neighbour, the manufacturer.

Such, in fact, were the events which actually occurred in this country during the latter part of the eighteenth and the beginning of the nineteenth century. The inventions of Arkwright and Watt, by making English labour ten times, or more than ten times as efficient in the production of exportable commodities, doubled, or more than doubled its value in the foreign market, and reduced to one-half, or less than one-half, the cost in England of obtaining the precious metals. It is true that clinging to the restrictions and prohibitions of our commercial code, we have, as yet, refused the greater part of the advantages which Providence seemed to press on our acceptance; but cramped as they are, and always have been, by our perverse legislation, the skill of our manufacturers has, during the last sixty years, more than doubled the rent of land and the income of every class of producers.

It would be a painful task to trace the steps by which the increasing embarrassments of commerce, occasioned partly by our own adherence to the barbarous policy called protection, and partly by the retaliatory follies of other countries, by diminishing the market for English labour, are now gradually lowering its price, increasing the cost of obtaining the precious metals, and reducing the income of every producer, while the public burthens, nominally the same, are, for that very reason, really in a state of constant increase.

It is a lamentable proof of the public ignorance on these subjects, that the general fall of prices, or in other words, the increasing difficulty of obtaining the precious metals, of which every one is sensible, should, by almost every one, be attributed to some cause of almost ridiculous inadequacy. It has been attributed to our return to a metallic currency, as if the subtraction of twenty millions of sovereigns, or less than four hundred thousand pounds troy of gold, from the ten millions of pounds troy of gold bullion, coin, and plate supposed to be in use throughout the world, that is to say, the removal of one-twenty-fifth part, could sensibly affect the value of gold. It has been attributed even to the substitution of gold and silver for the three or four millions of one pound notes lately called in, as if the value of the two thousand millions sterling of gold and silver bullion, coin, and plate, supposed to be in use throughout the world, could be materially affected by the subtraction of less than one-five-hundredth part of it. It has been attributed to over production. We have been told that our agriculturists and manufacturers all produce too much; as if it were possible that every body could have too much of everything; as if there were a single family that would not like to spend 1000*l.* a year. It has been attributed, which is nearly the same explanation, to the increased use of machinery, as if it were possible that general embarrassment could be the result of the improved efficiency of labour; as if all men would be impoverished if their force and their skill were doubled. It has been attributed even to free trade, as if anything approaching to free trade had ever been conceded; as if free trade were not specifically the cure of the evil of which it is represented as the cause; as if the allowing every man to exert his industry in the mode which he finds, from experience, to be most productive would diminish its value; as if we could increase the incomes of the inhabitants of Manchester, by forcing them to turn their bleaching grounds into corn fields, or those of the neighbouring farmers, by forcing them to weave their own shirts.

We are often told of the artificial state of the country. The vagueness of that expression affords a never-failing refuge to those who are pressed by reasonings which they want sense to comprehend or candour to admit. In one sense indeed we *are* in an artificial state. We have succeeded in raising to an extraordinary height the value of our industry. We obtain the precious metals at much less than their average cost throughout the world, or even in the most civilized parts of it. This is not only the consequence of a great advantage, of the superior productiveness of our industry, but the cause of many other advantages. It enables us to obtain the products of other countries so far as our legislature allows us to receive them, so far as they are not prohibited on account of their cheapness, not merely at the expense of less labour than it would cost to produce them, but often at the expense of less labour than they cost in the producing countries. While one Englishman can produce calico worth one hundred and fifty ounces of silver in the same time within which five Poles can produce corn worth only one hundred and forty ounces, it must be advantageous to Poland to give for the calico produced by one Englishman the corn produced by five Poles.

It is probable that if public attention had been earlier drawn to these circumstances, if we had sooner and more anxiously inquired into the causes which have enabled us to obtain the precious metals so much more easily than our neighbours, our national conduct might have been materially altered. We should have found that these causes are not resolvable into any peculiar local advantages, but principally into our comparatively greater and more skilful use of machinery and our better division of labour: and we should have felt that the progressive improvement of our rivals must quickly destroy our superiority if we remain stationary, and diminish it if our advance be less rapid, and that our progress can be maintained or accelerated only by allowing our industry to flow with perfect liberty into the channels in which it is found to be most productive.

Unhappily these inquiries were not made. We appear to have considered the comparative cheapness of the precious metals a permanent gift of nature, as little susceptible of diminution or increase as the warmth of our climate. With more than the rashness of a merchant who in his prosperity should allow his expenses to equal his profits, we have subjected ourselves to the obligation of perpetual money payments, which we can support only while we continue not merely to outstrip, but to distance the rest of Europe. By encumbering commerce with every sort of vexatious restraint, we have done our best to force our own industry into the channels which are least beneficial, and to force the industry of other nations into those in which their concurrence is most dangerous. By act of Parliament we have converted our customers into our rivals, and then complain of their competition.

Many economists have maintained that no country can be injured by the improvement of her neighbours. If the continent, they say, should be able to manufacture cottons with half the labour which they now cost in England, the consequence would be, that we should be able to import our supply of cottons from Germany or France at a less expense than it costs us to manufacture them, and might employ a portion of our industry now devoted to the manufacture of cottons, in procuring an additional supply of some other commodities. These opinions have such an appearance of liberality, that I am sorry to dissent from them. But it must be remembered that England and the continent are competitors in the general market of the world. Such an alteration would diminish the cost of obtaining the precious metals on the continent, and increase it in England. The value of continental labour would rise, and the value of English labour would sink. They would ask more money for all those commodities, in the production of which no improvement had taken place, and we should have less to offer for them. We might find it easier to obtain cottons, but we should find it more difficult to import everything else*.

The last remark which occurs to me as connected with the present subject, is one which I somewhat anticipated in my first course †, namely, the absurdity of the opinion that the generally high rate of wages in England unfits us for competition with foreign producers. It is obvious that our power of competing with foreigners depends on the efficiency of our labour, and it has appeared

* This reasoning bears materially on the question as to the exportation of machinery.

† See Lectures on the Mercantile Theory of Wealth, p. 76.

that a high rate of wages is a necessary consequence of that efficiency. It is true, indeed, that if we choose to misemploy a portion of our labourers we must pay them, not according to the value of what they do produce, but according to the value of what they might produce if their labour were properly directed. If I call in a surgeon to cut my hair, I must pay him as a surgeon. So if I employ, in throwing silk, a man who could earn three ounces of silver a week by spinning cotton, I must pay him three ounces of silver a week though he cannot throw more silk than could be thrown in the same time by an Italian whose wages are only an ounce and a half. And it is true, also, that I can be supported in such a waste by nothing but an artificial monopoly, or, in other words, that I shall be under-sold by the Italian in every market from which I cannot exclude him by violence. But do these circumstances justify me in resorting to that violence? Do they justify me in imploring the legislature to direct that violence against my fellow-subjects? If that violence is relaxed, but not discontinued, have I, or has the consumer, the more right to complain? If my estate were water-meadow, I should lose if I were to endeavour to convert it into corn-fields. But surely that is no subject of complaint; surely it is no reason for prohibiting my neighbours from purchasing corn in any adjoining parish. To complain of our high wages is to complain that our labour is productive—to complain that our workpeople are diligent and skilful. To act on such complaints is as wise as to enact that all men should labour with only one hand, or stand idle four days in every week.

Nature seems to have intended that mutual dependence should unite all the inhabitants of the earth into one great commercial family. For this purpose she has infinitely diversified her own products in every climate, and in almost every extensive district. For this purpose, also, she seems to have varied so extensively the wants and the productive powers of the different races of men. The great superiority of modern over ancient wealth depends in a great measure on the greater use we make of these varieties. We annually import into this country about thirty million pounds of tea. The whole annual labour required to purchase and import this quantity does not exceed, probably does not equal, that of fifty thousand Englishmen. With our horticultural skill, and our coal mines, and at the expense of about three guineas a pound; that is to say, by employing more than one million two hundred thousand men instead of less than fifty thousand, we might produce our own tea, and enjoy the pride of being independent of China. But one million two hundred thousand is about the number of all the men engaged in agricultural labour throughout England. A single trade, and that not an extensive one, supplies as much tea, and that probably of a better quality, as would be obtained if it were possible to devote every farm and every garden to its domestic production.

The greater part of the advantage of rather importing than growing and manufacturing tea arises, without doubt, from the difference between the climates of China and England. But a great part also arises from the different values of labour in the two countries. Not only the cultivation of the tea-plant, but the preparation of its leaves, requires great labour. The wages of labour are so low in China, that these tedious processes add little to the cost of the tea. In England the expense would be intolerable. When a nation in which the powers of production, and consequently the wages of labour, are high, employs its own members in performing duties which could be as effectually performed by the less valuable labour of less civilized nations, it is guilty of the same folly as a farmer who should plough with a race-horse.

It has been a general remark of political economists, that the home trade of every country is more extensive and more important than its foreign trade.

As applied to nations of considerable extent, and at the present time, this is probably true. But as a general proposition, as indicating the state of things, such as it may be expected to be in the absence of peculiar disturbing causes, I am satisfied that it is false. In China, a country comprising probably one-fifth of mankind, and separated from the rest of the civilized world by vast deserts, or ten thousand miles of sea, the internal trade is necessarily the principal one. It must also be the principal trade in those countries, which, though of moderate extent, and favourably situated for foreign commerce, perversely refuse her advantages; or, like Spain, submit to them only when inflicted by the smuggler. The home trade is also, at this instant, the principal trade of Great Britain; but whether necessarily, or naturally so, may be doubted.

As the British islands make but a small portion of the globe, and that portion is remarkably uniform in soil, climate, and produce, it might have been supposed that the market of the whole world would have been more extensive and more varied, than that of England, Ireland, and Scotland. The communication between the eastern and southern coasts of Great Britain, and the western coast of Europe, and that between the western coasts of England, Ireland, and Scotland, and the eastern coast of North America, is more easy than that between most of our counties which are not absolutely contiguous. The freight of a cask of wine from Oporto to London is rather less than the cost of its carriage from London to Oxford. It might have been supposed that the whole of our trade with those regions, so vast, so accessible, and so varied, producing so much that we want, and wanting so much that we produce, would be at least equal to the whole trade of our different provinces with one another. That it is not so, is to be attributed to war and mischievous legislation; or, in other words, to crime and to folly. From the conquest to the present time, have our legislators laboured to repel the advantages which our situation and our habits have almost forced upon us. In the earlier periods of our history, when our want was of manufactures, parliament accumulated restriction on restriction, and penalty on penalty, until they had at length prohibited the importation of almost every wrought article then in ordinary use. And that exportation, or at least one sort of exportation, might not be destroyed by the absence of importation, they taxed the whole community to raise annually sums which, even now, would be called large, to pay a bounty to exporters of corn; or, in other words, to pay, on the behalf of the foreign purchaser, a part of the price which he was prohibited from paying in the mode most advantageous to us and to himself. A conduct, of which the curious absurdity could be paralleled only by that of a nation which should, at the same time, prohibit the importation of subsistence, and endeavour to raise funds to aid the emigration of its inhabitants.

After centuries of legislation and poverty, the reformation, the revolution, and the inventions of a few gifted individuals, raised us almost suddenly to be the greatest manufacturers in the world; and, with our increasing population and prosperity, the price of corn rose until our former situation was reversed: we became exporters of manufactures, and importers of raw produce. With perverse ingenuity, measures were adopted to meet this alteration in our circumstances. Because it became profitable to import corn, its importation was prohibited; because we were supposed not to be in want of manufactures, their importation was allowed. It is of great importance, as a part of the history of human folly, to mark that these *are* the grounds on which the public is generally called upon to approve of the commercial legislation of the last fifteen years. The ground on which the present limited admission of French silks (to take a single instance) is generally defended, is, that our silk manufacturers can undersell or at least compete with the foreign producers. Those who oppose Mr. Huskisson's measures always expatiate on the quantity that we import, and the low price at which it may be obtained: those who defend them maintain that the quantity imported is trifling, and cannot be obtained at a less price than it could be produced at home. In other words, the measure is defended as useless, and opposed as beneficial. With similar perversity, those who defend the corn laws try to shew that wheat may be obtained from abroad at 30*s*. a quarter, while those who oppose those laws endeavour to prove that it could not be imported at less than 52*s*.

It is not enough to say that our barbarous policy deprives us of many of the advantages offered to us by nature; in many cases it turns her bounties into positive evils. There are scarcely any articles of raw, or slightly manufactured produce, of which the price in England does not exceed the average price throughout Europe, except those articles which our soil and our climate do not enable us to produce at home.

If coffee or sugar were of English growth, we should soon have coffee laws and sugar laws, and must submit to hear them defended on the ground that the low taxation and superior fertility of other countries make it necessary to protect the domestic producer against foreign competition. This seems to be the circumstance which makes the public submit so quietly to the apparently strange law which prohibits the growth of tobacco in the British islands. It seems felt that our only chance of obtaining that commodity on fair terms is absolutely to prohibit the owners of our own soil from having anything to do with it. That, under these circumstances, our home trade far exceeds our foreign trade is true; but it is true only in consequence of laws introduced and perpetuated by the prejudices of some, the avowed and arrogant selfishness of others, and the ignorant supineness of almost all. *Is habitus animorum fuit, ut pessimum facinus auderent pauci, plures vellent, omnes paterentur.*

LECTURE II.

ON SOME EFFECTS OF PAPER MONEY.

In the last lecture, I considered the effects produced on the value of money in any country by the skill and diligence with which the labour of that country is applied. These effects are gradual and permanent. In this and the following lecture, I shall consider some of the effects produced on the value of money in any country by the use or disuse of the substitutes for money. These effects are sudden but transitory.

If a country should suddenly adopt, to a considerable extent, any substitute for money; if, for instance, England, having previously prohibited the issue of notes for small sums payable to bearer, should suddenly legalise them, and notes equal in value to one-third of the former metallic currency, which we will suppose to have been of the value of forty-five millions sterling, should be issued, either the issuers must, at the same time that they issue their notes, export the money received in exchange for them, or both the notes and money must circulate together. If the first mode were adopted, it is obvious that the real exchange must be against England, in almost every quarter, until the export of money had ceased. We should for a time be in the situation of a mining country, and as neither the productiveness of our labour nor the amount of our currency would be altered, the consequences would be that some foreign commodities would be more abundant during the continuance of the increased importation,—that our capital would be increased by that portion of them which would be reproductively employed,—and that we should be able to turn to other purposes some of the labour and capital formerly employed in supplying the wear of fifteen millions of specie—a saving perhaps of 150,000*l*. a year. These consequences would be beneficial.

But unfortunately the business would be very differently conducted. The issuers of notes are seldom persons engaged in foreign commerce, and they seldom issue them in immediate exchange for money. Notes are generally advanced as loans, repayable, at the earliest, in two or three months, and often in not less than two or three years. In the case which I have put, the coin and the notes would at first probably circulate together. All prices would rise, and they would rise not merely to the extent of the excess of money, but to the spirit of speculation which such an excess would create. While the rise of prices was going on, all purchases made for the purposes of resale would be advantageous. Great profits would be obtained, and still greater ones expected, and every man possessed of money or credit would be eager only to become a purchaser, feeling no doubt of his gains as a seller. Such circumstances would obviously check our exports and increase our imports. It would become profitable in England to import many things which, when foreign and English prices bore their former relation, would not bear the expenses of transport; it would no longer suit foreigners to import from England many things which were importable at our former prices.

The necessary consequences would be a generally unfavourable exchange, and an export of money. As long as the issue of notes continued to exceed the export of money, prices would continue to rise, and the apparent prosperity would go on increasing. And, if we could suppose both the issuers and the takers of notes utterly ignorant or regardless of the consequences of what was going on, the issue might continue until the last piece of metallic money had been exported. The crash would then be instantaneous: as prices would then be at their height, so would be the profits on the exportation of money. Those holders of notes who were sending money abroad, would call on the issuers of notes for payment in money; and there being no money in the country, every issuer of notes must stop payment. No more notes could be issued, and the existing ones would lose their value. The country would be without money, and without the principal substitute for money, credit. There would, at first, be no such thing as price, but exchanges would be performed by barter; and we may be sure that the discomfort and insecurity of a state of barter would create an intense desire for money. The holders of exportable goods would be eager to send them off. The holders of bills on foreign countries would require their remittances to be made in money. Importation would of course be suspended, and the exchange would be in our favour with all the world. Money would come in from all quarters, though, for several reasons, less rapidly than it went out.

In the first place, the competition of our exporting merchants would sink the prices of our commodities abroad; and secondly, the waste and misapplication of capital, during the previous period of prosperity and speculation, the difficulty of obtaining supplies of foreign materials from abroad during our subsequent adversity, and the interruption of that division of labour which is founded on a general system of credit, would probably much diminish the productiveness of our labour.

The last circumstance, by diminishing the value of English labour in the general market of the world, would keep down, while it lasted, all our money prices; and it may be supposed, therefore, that the same amount of money as circulated before the issue of the notes took place would not now be necessary. But, during the absence of credit, money would be the only substitute for barter. The exchanges in which it would be necessary would be far more numerous, and its circulation far less rapid. If forty-five millions sterling were necessary before, it is probable, that, after such a panic as must have been created by the events which I have supposed, ninety millions would not be enough even to keep up prices at three-fourths of their former amount.

It is impossible, however, that such a state of things should occur,—that a whole country should at once find itself drained of all its money, unless the imprudence of individuals were heightened by the still greater imprudence of government. In the first place, no banker issues notes without making some reserve of metallic money to meet them. Even if the shock were unforeseen, and the discredit of all the notes simultaneous, there would be some money in the country to meet it. And in the second place, the shock could not be unforeseen, nor the discredit universal or simultaneous. The credit, the prudence, and the wealth of the issuers of notes must be of every different degree. In such a country as England, there are some bankers whom no individual would trust with five hundred pounds, and who might be reduced to insolvency by an unexpected demand for one thousand pounds, and others, who at a day's notice could draw hundreds of thousands from their own resources, and obtain millions from their connexions. There are some who move in the track which experience has shewn to be safe, with the impassive regularity of mechanism; and others, who, when extraordinary gain is suggested to them, seem not only willing to encounter chances, but to be deprived of the power of calculating them.

It is impossible that the rise of prices and extension of speculation, which I have supposed, could continue long, before accident or imprudence should expose some establishments to a demand for money, which they would be unable to answer; a general feeling of distrust would follow, and would cause a simultaneous demand of money for notes, or, to use a word which the unhappy experience of the year 1825 has rendered familiar, a " run," upon all those establishments whose character for riches did not place their solvency above suspicion; at first, indeed, an indiscriminate run upon all. The first effect of this would be to bring out the reserves of money: the second would be the failure of many establishments, and the discredit of their notes; but many would probably stand it, and suffer scarcely a momentary interruption of their credit and circulation. Prices certainly would fall, the exchange would turn in our favour, money would come in, thousands would be ruined irretrievably, and years might be necessary to restore the country to its former state of settled prosperity; but all these effects would be produced in a lower degree than in the extreme instance with which I set out.

It will be observed, that I have allowed nothing for the general fall in the value of the precious metals throughout the world, which might be expected to arise from the additional supply afforded by the disuse of metallic money in a single country. Some effect of this kind would be produced, but it would be so slight, that it may safely be disregarded.

The whole amount of the precious metals throughout the world, in bullion, coin, and plate, has been supposed to be of the value of about two thousand millions sterling. The whole metallic currency of Great Britain and Ireland is not supposed to exceed thirty millions; it is subject to much variation, but I believe it to be usually less. Even if we were to export our last sovereign, and our last shilling, how trifling would be the effect in the general market of the world, of an addition of thirty millions to two thousand!

The power of individuals, therefore, to affect the currency of a country is limited—that of a government is not so.

Suppose that, at the commencement of the panic imagined in my last instance, government had taken one banking company under its protection — had forbidden it to pay its notes in coin or in any other equivalent—had permitted it to issue, and continue to issue, fresh notes to any amount—had directed that its notes should be received in all payments to government, and in private transactions, as of equal value with the money which they professed to promise to pay, and had prohibited the exchange of coined gold and silver, for more than an equal nominal amount in notes,—

It would be in the power of the banking company in question, by lending to the different banks of the country a sufficient number of its own notes, notes which would cost merely the expense of making and stamping paper, to relieve the difficulties of those which were tottering—to fill the void of those which had fallen, and to enable all those which had still a reserve of metallic money to make use of it, keeping the notes of the favoured bank in its room. And it would also be in its power, by still further increasing its issues, either by way of loan, or by dividing them as profits between its own partners, to keep up the high prices, and the unfavourable exchange, until the last piece of coined gold or silver had quitted the kingdom.

It would be in its power, by still further increasing its issue, to raise prices as estimated in its paper to any scale it thought fit. It would also be in its power, by diminishing its issues, to sink them to any point not lower than the metallic prices of foreign countries. It could not sink bread to a farthing a quartern loaf, but it would be able to raise it to a hundred pounds.

The real par of exchange between England and foreign countries would be at an end. English paper money, having neither intrinsic utility nor ascertainable limitation of supply, would be incapable of export. It still, however, must be used as a medium of exchange, and as an expression of value even in international transactions. The French exporter of wine to England must, in the first instance, sell his wine for a certain quantity of English notes of a given denomination. These notes, as he could not export them, he must again exchange for some other commodity in England; and his profit, or loss, would depend on the comparative values in France of that commodity, and of his wine, after deducting the expenses of carriage. We have already seen that no commodities are so permanent in their value, so uniform in their quality, or so easy of transport, as gold and silver. The quantity of gold or silver which they could purchase would unquestionably be the standard by which he would estimate the value of the English notes which he received for his wine. This gold and silver would of course be in an uncoined state, or, in commercial language, bullion. If five French Napoleons and four English sovereigns, while English sovereigns existed, had each contained the same quantity, say an ounce, of gold bullion, the real par of exchange between England and France would of course have been five Napoleons for four sovereigns. If four English notes, professing to promise to pay four sovereigns, would purchase in England only half an ounce of gold bullion, the nominal exchange would be fifty per cent. against England, or, in other words, a bill in France on England for eight hundred sovereigns, which, if payable in coin, would have sold in France for one thousand Napoleons, would sell for only five hundred. And a bill in England on France, which would have sold for four hundred coined sovereigns, would sell for eight hundred pounds payable in notes. And supposing the transactions between England and France equal in amount, they would be adjusted by the exchange of bills at this rate of exchange.

If, however, the exports from England to France should exceed the value of the imports—if, for instance, the French had to pay us five thousand Napoleons, and we had to pay them notes to the nominal value of four thousand sovereigns, bills for two thousand five hundred Napoleons would be capable of discharging the whole English debt. In that case, the remaining two thousand five hundred must be sent from France in gold; and as all the English creditors would be anxious to avoid the expense of transporting the gold, they would be willing to purchase French bills on England, which would entitle them to obtain payment from their own countrymen, at the rate of something more than eight sovereigns for five Napoleons. Instead of being fifty per cent. against England, the nominal exchange might therefore, for a time, be only forty-eight or forty-nine per cent. against England.

And, by reversing the facts, we may suppose it fifty-one or fifty-two ; fifty being always the central point to which it would tend, while the quantity of bullion contained in a Napoleon, and that purchasable with an English note, for a sovereign, continued to bear the same proportion to one another.

It may, however, be supposed that we should have no bullion. While the exportation of our coin was going on, we certainly should have none, as it could not be our interest at the same time to import bullion and export coin. But before our export of coin began, we must have been in the habit of importing from the mining countries a certain quantity of bullion, to supply the wear of coin and plate. After our export of coin had ceased, we could have no difficulty in renewing that intercourse. The bullion trade, as it is essentially a trade of barter, would probably be the least disturbed of all our foreign commercial relations. There would still be the same demand for English commodities in the mining countries, and the same supply of gold and silver offered in exchange for them. To a very slight degree indeed, we should probably obtain bullion on better terms than before. First, because we should want rather less of it, our annual wear of coin being at an end, and our import of bullion confined to the supply of plate and the small stock necessary to meet sudden alterations in our real exchange with other countries; and secondly, because our export of coin would have had, as I observed before, a very slight tendency to increase the supply of bullion in the rest of the world. The real price, the sum of the produce of English industry, which we should pay for a given quantity of bullion, would be governed by the same causes as before. It would still depend on the cost of producing, in the mining countries, the whole quantity of bullion which they exported, the amount of that quantity, and the portion of it which they would be willing to give in exchange for the results of a given sum of English industry. And as none of these circumstances would be altered, or, if altered, altered slightly in our favour, there is no reason why our supply of bullion should be more difficult, or its value less steady than before.

It would appear, however, more unsteady, because real variations in the value of the precious metals, which are not easily ascertained when they are employed in the form of money, would now be detected. As the mint in this country returns an equal weight of coin for gold, when we say that the mint price of gold is *3l.* 17*s.* 10½*d.* an ounce, we merely express that 2 lbs. of gold of a given fineness are coined into eighty-nine pieces called guineas, and that 40 lbs. of gold are coined into 1869 pieces called sovereigns. And it is obvious that, while gold money is our medium of exchange, and the melting and exportation of money is permitted, the market price of gold bullion can never be above the mint price; for no man would give more than eighty-nine guineas, that is, 2 lbs. of coined gold, for 2 lbs. of gold bullion, that is, 2 lbs. of uncoined gold. And if there were a mint in every town, which, on demand, exchanged coined gold for bullion, the market price of gold bullion could never be below the mint price; as no man would sell 2 lbs. of bullion for less than eighty-nine guineas, when he could obtain eighty-nine guineas for it, without delay or trouble, at the Mint. As, however, we have but one mint, and that mint does not give coin for bullion till after a short delay, the market price is sometimes below the mint price. When the delay was six weeks, the difference was sometimes 4½*d.* an ounce, or, in other words, 208 ounces of bullion might be purchased with a very small fraction more than 207 ounces of coin. And it is obvious, also, that no increase or diminution in the expense of procuring bullion would, in the slightest degree, affect its money price, as any cause which should raise or depress the value of 2 lbs. of gold, would equally raise or depress the value of the eighty-nine guineas into which it may be coined, and which form its money price.

But when our medium of exchange became paper, the market price of bullion, though it could not sink below the mint price, might rise to any extent above it. I started with the supposition that our currency, when notes were first introduced, amounted to forty-five millions sterling. And I will also suppose that at that time 2 lbs. of gold were coined into eighty-nine guineas, or, in other words, that the mint price of gold was 3*l.* 17*s.* 10½*d.* per ounce. If we suppose the forty-five millions sterling of metallic money displaced by an issue of notes of the nominal value of ninety millions sterling, though the same amount of English industry would still obtain from Brazil an ounce of gold, yet, as the nominal sum which must be paid as wages and profits to the persons who produce the English commodities in exchange for which it is obtained would be doubled, when expressed in notes, the price of the gold, in notes, would be doubled also, or the persons employed in producing commodities for the purpose of importing gold would not be on a par with the rest of the community. Gold bullion, therefore, would rise to 7*l.* 15*s.* 9*d.* an ounce; and as long as the cost of obtaining gold and the amount of our paper currency each remained unaltered, the price of gold would be steady at 7*l.* 15*s.* 9*d.* If, however, the cost of obtaining gold should increase, which, of course, might arise from any cause which should diminish either the power of the South Americans to produce it, or their demand for English commodities, the market price of gold might rise, though the amount of our paper currency should remain unaltered. We have seen that, with a gold currency, this effect could not be produced. Our inconvertible paper currency would, therefore, afford a new test of alterations in the value of gold.

With a metallic currency, if the cost of obtaining gold should increase five per cent., it probably would be long before the fact would be acknowledged. The fall of price in each particular instance would be attributable to some fact connected with the commodity itself. Corn would fall from three guineas to three pounds a quarter; it would be said that the harvest was better than had been supposed. Labour would fall; that would be attributed by most reasoners to the fall in the price of corn; and the fall in the price of almost all other articles would be attributed (and rightly enough) to the fall in the price of labour. At the same time, there is no doubt that some of the commodities, the supply of which depends on the seasons, would rise, as no season is equally favourable to all. This would help to keep the real fact out of sight; and it could be proved only by a very wide induction, and after a considerable period. With an inconvertible and stationary paper currency, if other prices remained unaltered, and bullion rose, the fact would at once be attributed to its true cause.

But if an increased cost of obtaining bullion, and an increased issue of notes should be contemporaneous, there would probably be considerable difficulty in apportioning the consequent rise in the price of bullion between the two causes; and the difficulty of estimating the part to be attributed to the increased expense of obtaining bullion, would be still greater if instead, or contemporaneously with the issue of notes, there should be an increased rapidity in their circulation, or an increased use of credit, or of balancing accounts, or of any other substitute for money. When the use of these substitutes increases in a country employing a metallic currency, they cause a rise of prices, an export of money, and then a return of prices to their former level. In a country possessing solely an inconvertible paper currency, they must operate solely by producing a rise of prices.

In my hypothesis, I have supposed a substitution of ninety millions of paper for forty-five millions of money. In such a case, the facts would be so glaring, that no one could doubt that the profuse issue of paper had occasioned almost all the alterations observable in prices. But if the issue had been gradual, and there had never been more than sixty millions in notes at one time in circulation, if the circulation of the inconvertible paper had lasted ten or twelve years; and if, during that time, variations, might have been supposed to have occurred from time to time in the expense of obtaining gold, in the rapidity of our circulation, and in the use of substitutes for money, much dispute would probably arise as to the causes of the variations of the market price of gold from its mint price, and as to the respective force of those causes. Some would say that it was not the paper which had fallen, but the gold which had risen, or, in other words, that the market price of gold was above its mint price, not because more notes had been issued than the amount of the metallic money previously in circulation, but because the expense of obtaining gold had subsequently increased. Others would consider the rise of prices as principally occasioned by those improvements in banking and commerce, which diminish the use and quicken the circulation of money. And others probably would deny the existence of either of the above causes, and attribute the whole difference to the amount of the issues of paper.

And history bears me out in saying that there might exist a body who would deny the existence of any difference at all, and who would, after debate, solemnly resolve "that the notes of the "Company have hitherto been, and are at this "time, held, in public estimation, to be equivalent "to the legal coin of the realm;" or, in other words, that when eighty-nine guineas would purchase twenty-four ounces of gold bullion, and ninety-four pounds in notes would not purchase twenty ounces, the notes were more valuable than the guineas; or, to put it in a different shape, that when one hundred sovereigns would purchase one hundred and thirty pounds in notes, yet that one hundred and one pounds in notes were of more value than one hundred sovereigns.

You must all have long been aware that in my supposition of a country using a currency consisting of inconvertible paper, I have been describing England during the continuance of the Bank Restriction Act.

Before the memorable year 1797, the Bank of England was, what it now is again, a corporation of great wealth, issuing notes payable in gold, and protected by no privilege from the necessity of making that payment on demand. In the beginning of that year, circumstances, which I will not now attempt to explain, occasioned a run upon the Bank, to which the Directors believed their reserve of gold to be inadequate; and in an evil hour for the country, though a fortunate one for the Bank, they begged the assistance of their principal debtor, the Government. Silver and gold Mr. Pitt had not, but he gave them an order, restricting the Bank from paying its notes in gold; a restriction which, after some interlocutory prolongations, was extended to six months after a general peace, and which, in fact, continued in force nearly a quarter of a century. This restriction removed the danger of bankruptcy; but, though it appeared to enable the Bank to issue as many of their notes as they pleased without the possibility of being called on for immediate payment, yet as no one was obliged to take them, the commercial existence of the corporation was in danger of being destroyed. The value of bank notes was, however, for some time kept upon a par with the gold which they represented, partly from habit, partly from their being both received and tendered in payment by Government, and principally from their not being issued in a greater amount than was necessary to replace the coin which had been withdrawn.

Towards the year 1809, however, circumstances occurred which, if our currency had been metallic, would have occasioned a less amount of it to be necessary. The interruption of our commerce by the general extension of the war, and by Napoleon's decrees, subsequently aided by our own orders in council, threw great difficulties in the way of obtaining the precious metals from other quarters. At the same time extraordinary importations of corn, subsidies to foreign powers, and a large government consumption abroad, part of which was paid for in bills on England, drawn by our own commissariat, and for all of which gold was the readiest remittance, kept up a constantly increasing demand for bullion. An unfavourable exchange, an export of coin, and the increased value and efficiency of the portion retained, would have been the consequences if our currency had been metallic. Being inconvertible paper, the consequences must have been a rise of the market price of bullion over the mint price, and a depression of the exchange at least in that proportion, even if the amount of our paper had continued unaltered. On the contrary, it was increased; and the price of bullion, both causes acting upon it in the same direction, continued to rise. The exchange feil not only to the amount of the difference between paper and gold, but still lower, both because the foreign holder of a bill on England could never be sure that bullion would not rise still higher before he received notes for his bill, and because the bills drawn on England by government agents abroad were thrown on the market without the caution or the skill of men acting on their own account. I have often wondered that, under such circumstances, three years were suffered to elapse before any

English creditor endeavoured to enforce payment either in gold, or in notes estimated at the gold they would purchase.

At length, however, in June, 1811, Lord King, probably with a view to demonstrate by an *experimentum crucis* the real value of Bank of England notes, gave notice to his tenants that he would no longer receive notes at par, but that his rents must thenceforth be paid in guineas, or in an equal weight of Portuguese gold coin, or in Bank of England notes of a sufficient nominal value, to purchase such an equal weight.

Lord King's attempt at practical reasoning met with a practical answer. The 51 Geo. III. cap. 127, was passed, which made the buying or selling coin at a rate above its nominal value, or the giving or receiving Bank of England notes at a rate below their nominal value, a crime punishable by fine and imprisonment; and prohibited a distress for rent after a tender in Bank of England notes of the amount due. Arrest for debt after such a tender had before been prohibited.

The act seems liable to be easily evaded, and probably would have been so, if there had been any sudden and enormous depreciation of bank notes; if there had been a sudden issue, for instance, sufficient to sink their value one-half. It was, however, submitted to, with the exception of a petty smuggling traffic, by which the remaining guineas, except a few which were hoarded, were gradually exported. I recollect, however, so late as 1814 being offered 10,000 guineas for 14,000*l.* in notes.

The Directors of the Bank abused their power much less than could have been expected. It is true they did not diminish their issues, when the rise in the market price of gold shewed that an increased use of the substitutes for money, or an increased difficulty in obtaining gold, had made them still more excessive. It is true, also, that they did, after a time, increase their issues from less than twenty-three millions and a half, the amount in the beginning of 1811, to 28,979,876*l.*, the amount towards the end of 1814; but such conduct, injurious as it was, is a model of sobriety and moderation when compared with that of any other individual or community invested with similar powers.

At length a period arrived when peace had diminished our foreign expenditure, and put an end to our subsidies: trade had returned to regular channels, and more regular, but, perhaps, lower profits. All prices had fallen from the conversion of unproductive into productive consumers; and, in some main articles, from favourable seasons, great commercial losses in the preceding years had diminished speculation and credit, and bank notes were rising to a par, indeed had almost reached a par, with gold. The restriction act was gradually repealed, the market price sunk fourpence halfpenny per ounce below the mint price, and the subsequent disorders of our currency cannot be charged on the direct interference of the legislature.

The 51 Geo. III. was passed to prevent bank notes from being at an open discount. "The "Bank," said Lord Stanhope who introduced it, "is one of the bottom planks of the ship of Eng-"land, and woe to us if we permit it to be bored "through." There can, I think, be little doubt *now*, that an open discount in bank notes, a recognised difference between paper and metallic prices, would have been the best palliative of the restriction act. It is not impossible that it might have induced the Bank to reduce their issues, until their paper had been at a par with gold. They must have been anxious to save their notes from avowed depreciation, and little as they admitted that the amount of their notes had any thing to do with their value, still they probably would have tried the experiment of diminishing that amount, if it were only to shew their opponents the uselessness of such a measure; and when they found the plan succeed, perhaps even bank directors, such as bank directors then were, might have been convinced. If, however, their conduct had remained unaltered, the public would have had the power, and probably the will, to secure to themselves the use of a less variable currency. Two prices would have been established, one in gold, the other in notes, diverging or approaching as the price of guineas in notes rose or fell. Or more probably, all prices would have been estimated in guineas, and paid in notes according to the discount of the day. The consequences of an increased difficulty in obtaining gold, or of an increased use of credit, or of the substitutes for gold, would have been, that less gold would have been sufficient. The power of arresting for any debt payable in gold would indeed have been suspended, or at least diminished, as the debtor would have been able to protect himself by tendering the amount in bank notes; but it may be questioned whether that would have been any public injury: in all other respects we might have returned to the state of things before the restriction—and we should have escaped the temporary evils produced by the restriction from 1811 to 1819, and the permanent ones which have survived it. We should have escaped that part of the variation of prices during those eight years which is attributable to the varying issues of bank notes; and permanent contracts would not have been entered into, when 1869*l.* in notes were worth only thirty pounds of gold, to be performed when they were worth forty pounds.

I have said that the bank directors exercised their power with extraordinary moderation: I cannot support this remark by comparing their conduct with that of any other individuals in a precisely similar situation, because I am not aware that the power of issuing notes having a forced circulation, with a suspended liability of payment, and that payment guaranteed only by the issuers, has in any other instance been confided by the government of a country to any of its subjects. But that power has often been assumed by the government itself, and it is with the conduct of governments, therefore, that we must compare that of the bank. The lowest depreciation of bank notes, or, in other words, the greatest difference between the market and the mint price of gold, was thirty per cent.; and a part of this difference is probably to be attributed, not to the original excess, but to the absence of subsequent contraction, an imprudence on the part of the bank, but a much less glaring one than over issue.

In the next Lecture we shall see what governments have done.

LECTURE III*.

ON SOME EFFECTS OF GOVERNMENT PAPER MONEY.

In the last Lecture I considered the effect on the value of metallic money which can be produced by paper money, issued by individuals. In the present Lecture I shall consider the effects of paper money issued by governments.

My first instance shall be taken from the celebrated Mississippi scheme of Law.

In the beginning of the year 1716, the specie circulating in France was supposed to amount to about £40,000,000 sterling, or 800 millions of

* The following account of Law's transactions is taken from Sir James Steuart, book iv. part 2 ; Macpherson's Commerce, vol. iii. p. 107 ; and Storch, vol. iv. note xvi.

The account of the financial transactions during the French revolution is taken from Storch, vol. iv. note xvi., and from vol. v. of the History of the French Revolution, by M. A. Thiers.

The statements respecting the Russian, Danish, and Austrian paper monies, are also taken from Storch, vol. iv. note xvi.

livres—the mark of silver, which is worth about 40 English shillings, being coined into 40 livres. But for some previous years the quantity of silver denominated a livre had been constantly varying; in 1715, the mark had been coined into 28 livres; in 1709 it had been coined into 40; in 1689 it had been coined into 28; and between 1689 and 1709 had been subject to constant alteration. Under these circumstances Law established a bank at Paris, called the General Bank, issuing notes payable on demand in livres of the same weight and fineness as those which were current at its institution; promising, in fact, to pay, not a nominal, but an ascertained quantity of silver*. The security afforded by this promise enabled the bank in the course of three years to issue notes to the amount of 59 millions of livres; and if we suppose that about 19 millions of livres were consequently withdrawn from circulation, the notes of the bank may be supposed to have raised the whole currency of the kingdom to £41,000,000 sterling, or 840 millions of livres.

* The notes ran thus: "The Company promises to pay the bearer at sight ——— livres in coin of the same weight and fineness with the coin of this day."

On the first of January, 1719, the Government, that is, the Regent in the name of the King, took possession of the bank. The first alteration was in the form of the notes ; the words, " of the same weight and fineness" were omitted, and the note no longer promised to pay any thing more definite than so many livres ; being, in fact, a promise to pay whatever the debtor thought fit, as the debtor had the power, in fact was in the habit, of increasing and diminishing the quantity of silver denominated a livre according to his notions of expediency. The next change was in the amount of its issues.

The bank issued notes to the nominal amount

	of millions of livres.
On April 22, 1719	51
June 10, 1719	50
July 25, 1719	240
September 12, 1719	120
October 24, 1719	120
December 29, 1719	129
January —, 1720	21
February —, 1720	279
Total issued in eleven months	1010

millions of livres of the nominal value of rather more than £50 millions sterling ; of which at least

600 millions must have been in circulation at one time. What part of the previously existing specie remained in circulation, is doubtful. It is clear, however, that it could not have been all withdrawn, as no run was ever made upon the bank for coin. Its notes, though they lost the premium which they had borne while the establishment continued in Law's hands, still exchanged for coin at par.—I must now turn a little backwards in the story, and state, that while the bank was in the hands of Law and his partners, they received from the government the exclusive privilege of trading to the West Indies and the French possessions on the continent of America, (whence the name of the Mississippi scheme has ever since adhered to the whole of the transactions originating with Law,) to all countries to the east of the Cape of Good Hope, and had been incorporated under the name of "The Company of the Indias." The mint, which in France is a source of profit, was afterwards made over to them, and they obtained a lease from the crown, first of the duties on tobacco, and afterwards of all those duties which were usually leased under the old

régime, and they were at last entrusted with the receipt of all the revenues of the state. In return for these privileges, besides the annual rents for the duties leased to them, they engaged to lend the government 1,600 millions (£80 millions sterling) at three per cent. To enable them to do this, the bank was restored to them, on the 22d of February, 1720: their proceedings, however, were to be under the control of government, and the King guaranteed the payment of their notes. Five days after followed the celebrated arrêt of the 27th February, 1720, which prohibited any person or corporation from possessing any bullion, or more than five hundred livres (twenty-five pounds) in specie. The most extensive powers of search were given to the police, and informers were rewarded with all the excess found.

At the same time the notes of the company were not only made a legal tender, but the only legal tender, and the payment of any sum beyond ninety-nine livres, (four pounds nineteen shillings) in specie was made punishable by a fine of three thousand livres. The object of these laws was, of course, first to force all holders of specie to carry it to the bank to be exchanged for notes; secondly, to prevent their demanding payment from the bank in specie, except for small sums; and thirdly, to give a forced value to the notes, as the only money that could be safely tendered, or safely kept. On the 5th of March, 1720,—a considerable sum of specie having probably been received by the bank in the mean time,—an arrêt was made, directing the mark of silver to be worth eighty livres. This, of course, enabled the bank to pay whatever specie might be demanded by the holders of their notes, at half the former expense. This arrêt continued in force only a week, for it was followed by that of the 11th March, 1720, which declared that on the 1st of April the mark of silver was to be worth only seventy livres, and on the 1st of May, sixty-five; and all use of gold and silver as a medium of exchange was prohibited. As the bank received coin in the meantime at eighty livres the mark, this occasioned a considerable influx of coin to their coffers, in anticipation of its impending reduction in value. In three weeks they are said to have received 44 millions of livres, worth nominally about one million one hundred thousand pounds sterling.

The government and the bank seem now to have supposed that the ordinary standards of value, gold and silver, being got rid of, bank paper would be unsusceptible of depreciation or excess; and between the beginning of March and the 2nd of May, they issued notes of the nominal value of 1,626,672,910 livres: being more than double the whole average amount of the money of the country. In the beginning of May, there were in circulation, notes of the nominal value of 2,235,083,590 livres; being a nominal value nearly three times as great as the 800,000,000 of coin for which they were substituted. Gold and silver coin would, of course, have disappeared, even if they had not been legally banished. Still, for the purpose of small payments, there was a circulation of small silver coins, and of copper, and in these small coins the bank paid those notes of ten livres which were presented to it. It may appear singular, that this coinage of small silver remained in the country. As the nominal value of every commodity had been at least trebled in

France, we might have expected that the silver would have been collected and exported, and that the failure of the bank would have been occasioned by their subsequent inability to pay silver for their small-notes—and such, I think, would have been the case, if the whole transaction had taken up a longer time. But in less than three weeks after the last issue of notes, the bank was murdered by the government. If the government had not interposed, it might have lived in apparent credit for three months longer.

The history of the Mississippi scheme is a proof how ignorant the whole of a cultivated nation may be of the necessary results of their actions.

It appears to us obvious, that when the currency of the country was suddenly tripled, all prices must have experienced at least an equal rise. The French government was so little prepared for this result, that when it took place, they resorted to the most violent means to correct it. On the 21st of May, an arrêt was issued, declaring that the bank notes in circulation should in future pass at only half their nominal value. Now this was not, in fact, a greater diminution of the value of the notes than the arrêt of the 5th of March preceding, which had directed the mark of silver to be worth 80 livres, instead of 40. On the 4th of March, the holder of 40 livres in notes could demand of the bank a mark of silver. On the 5th of March he could demand only ½ a mark. So on the 20th of May, the holder of 65 livres in notes was entitled to a mark of silver. On the 21st, he was entitled to only ½ a mark. The first operation diminished the value of the notes directly only as compared with silver. The second diminished their value directly, not only in silver, but in every thing else. The first was injurious to creditors; the second to debtors. In the first case, the holder of the notes, so far as he was a debtor, could throw his loss, or much more than his loss, upon his creditors; in the second case, so far as he was a creditor, he could reimburse himself, or much more than reimburse himself, from his debtors. But in both cases, as between him and the bank, he was equally defrauded; and as the arrêt of the 5th of March had not interfered with the circulation of the notes, the government probably expected that of the 21st of May to create as little alarm. But they were mistaken. Though the French public were too ignorant to perceive the consequences of raising the nominal value of silver, they understood those of sinking the nominal value of notes. Up to the 21st of May, holders of commodities possessing intrinsic value seem to have given them in exchange for the notes, in blind confidence that others would do the same. Others did not, in fact, do the same, for as prices kept rising, the man who in December had sold a given quantity of corn for one thousand francs in notes, would not have been able in February to purchase an equal quantity of corn, or of any other commodity, with the same notes. Strange, however, as it may appear, the deterioration of the notes in value does not appear to have affected their circulation. All that people looked to was nominal value, and while the notes were called livres, nobody inquired what a livre meant. But the instant the denomination was altered; the instant government declared that a note for ten livres should be worth only five, the baselessness of the paper fabric was detected. The terror was as universal and as blind as the confidence had been. To use Sir James Steuart's words, on the 22d day of May, a man with one hundred millions of bank notes might have starved in the streets. The Regent and his ministers, as much alarmed as the people at the tremendous machinery they had set in motion, tried the most arbitrary and the most inconsistent expedients to control it. They revoked the arrêt of the 21st of May, and at the same time raised the denomination of the coin, by declaring that the mark of silver should be worth 82½ livres. To stop the run on the bank, they ordered its payments to be suspended. And when 9000 livres in paper would purchase only 82½ in silver, an arrêt was issued, prohibiting any person from refusing to take the notes at par, under a penalty of double the value of the notes refused. Under a similar forfeiture all persons were commanded to bring back whatever funds they had exported, and forbidden to make any investments in foreign securities. All persons were forbidden to meet together, and soldiers were employed to prevent and disperse all assemblies of merchants and brokers. And when it was found that confidence could not be restored by forbidding people to communicate their fears, and that the credit of the notes was irretrievable, the transaction was wound up by the arrêt of the 10th of October, 1720, which, after providing, not for the payment, but for the investment, at a very low interest, of the outstanding notes, declared that after the 1st of December following, they should have no value.

The next great financial bubble of France was the issue of Assignâts. A few years before 1789, the specie current in France had been estimated at 2200 millions of livres, or about 88 millions sterling. The revolutionary government possessed great wealth in confiscated property, but wanted money. To supply this want, and to create a market for the confiscations, they issued notes in the following form:

"National property Assignât of 100 francs."

These notes were a legal tender, and in that respect resembled every other paper currency having a forced circulation; but they differed from all others in not even professing to represent any specified thing. The words "National property" signified that their value might be obtained by purchasing with them the confiscated property at the auctions of such property, which were constantly occurring. But there was no reason why that value should have been called 100 francs. It depended on the comparative quantity of the property so purchasable, and the number of assignâts issued. They were first issued in May, 1790, and the amount was fixed by law at 400 millions French, or sixteen millions sterling. In September, 1790, 1200 millions French had been issued; in 1793, 3626 millions; in 1794, 8817 millions and a half; in 1795, 19,699 millions and a half; and on the 7th of September, 1796, the issue had amounted to 45,579 millions, or about £1,823,160 sterling*.

We have seen the consequences of the issue by Law of paper of the nominal value of 2200 millions of livres,—we may conceive the consequences of issuing 45,000 millions.

The value of assignâts fell from day to day. The prices of commodities rose in proportion,

* Storch, vol. iv. p. 162.

not merely to the existing depreciation, but to the well-founded apprehension of a still further depreciation.

When the supply of a durable commodity is suddenly increased, the value falls, but not necessarily in proportion to the additional supply. Unless the causes of the additional supply are ascertained to be permanent, most of the dealers prefer holding their existing stock, in the hope that the market may alter, to parting with it at a certain loss. But when a commodity is perishable, no loss can be so complete, or so certain, as to retain it. A small increase of supply may create such a competition among the sellers, as to reduce the price to nothing. A fish market might be so over supplied as to reduce the sellers to give away a portion of their stock, or even to pay people to remove it from their stalls. Assignâts were a most perishable commodity. Every body taxed his ingenuity to find employment for a currency, of which the value evaporated from hour to hour. It was passed on as it was received, as if it burned every one's hands who touched it. Those who had never engaged in business, became speculators. Others purchased estates, built houses, or bought pictures and furniture. What was yesterday an extravagance became a bargain to-day. No one scrupled any expense, even for mere transitory pleasure, if it afforded a means of investing or spending, or in any way getting rid of what he possessed in assignâts *.

Those who depended on fixed money payments were reduced to beggary, and beggary, at periods of general distress, is starvation. Every morning there were found in the waters, and on the shores of the Seine, the bodies of wretches who had preferred death by suicide to death by hunger †. The state of the labouring classes was scarcely more tolerable. An increase in the rate of wages is never contemporary, even under the most favourable circumstances, with a forced depreciation of money. The labourers, generally speaking, have but weak means of combining to demand higher wages, or of persisting in their combination, if the advance be refused ; while capitalists are almost always combined to resist the advance, and

* Say, Traité d'Economie Politique, vol. i. 202.
† Storch, vol. iv. 163.

have funds to stand out in their resistance. And in the general disorganization of both the internal and the external commerce of France, which marked the periods which I am describing, the funds for the maintenance of labour, and the average rate of wages must have fallen off, even if the currency had remained metallic, and at its former standard. The sovereign people felt and acted with the usual folly and violence of a despot. The depreciation of the assignâts was attributed to the conspiracies of the Aristocrats, and to the intrigues of Mr. Pitt. The rise of prices was explained by the favourite theory of a monopoly; and it was thought that all this could be remedied by terror, by substituting fine, imprisonment, confiscation, and death, for the ordinary motives to commercial transactions. "If provi-
" sions and commodities are wanting," said the Procureur-General Chaunette, "on whom will the
" people, the legislator people, lay the blame?
" On the authorities?—no. On the convention?
"—no. It shall lie on the merchants and the
" dealers. Rousseau was one of the mass of the
" people, and he well said, 'when the mass of

"'the people have nothing else to eat, they must "'feed on the rich*.'" To prevent the constantly increasing difference between the value of paper and metallic money, the purchasing assignâts with money at less than their nominal value, or the sale of money for more than its nominal value in assignâts, or the making any difference in price according as that price was to be paid in money, or in assignâts, was made a crime punishable by six years' imprisonment in irons†.

To prevent the hoarding of the precious metals, all concealed gold and silver, in whatever form, became forfeited, half to the state, and the other half to the informer. These measures had the success that might have been expected. The law against taking assignâts at less than par, was passed in April 1793. In the following June, 100 francs in silver were worth 300 in paper. In August they were worth 600‡. The failure of the law seems to have been attributed to its mildness. The punishment was raised to twenty years' imprisonment in irons§: and in 1796,

* Thiers, vol. v. 319. † Ib. vol. v. 117. ‡ Ib. vol. v. 117. § Ib. vol. v. 162.

an assignât of 100 francs, professing to be worth 4*l.* sterling, was currently exchanged for 5 sous 6 deniers, or rather less than three pence in money *.

These efforts to prevent the depreciation of assignâts in money, were accompanied by efforts, as violent as senseless, and still more mischievous to prevent their depreciation in commodities.

The first of these attempts was the celebrated maximum. By that law, which was passed in May 1793 †, when the issue of assignâts was not one-tenth of the amount to which it afterwards rose, corn was directed to be sold exclusively, in open market, at a price to be fixed by each commune; or, as we should say, by the vestry of each parish, according to the average price of the four months of January, February, March, and April, preceding the enactment.

As that price was even then grossly inadequate, and became more so every day, the markets were of course unsupplied. This was attributed to what the French call accaparement, and we, when with equal wisdom we made it a crime, called engross-

* Storch, vol. iv. 162. † Thiers, vol. v. 118.

ing. The decree* which made accaparement a crime, defined an accapareur to be "one who withdraws from circulation commodities of the first necessity, and does not publicly sell them;" and it defined commodities of the first necessity to be, bread, wine, butcher's meat, corn, flour, leguminous vegetables, fruit, charcoal, wood, butter, tallow, hemp, flax, salt, leather, liquors, salted provisions, cloth, wool, and all clothing except silk. Every dealer was bound to make periodical declarations of his stock, which the communes were to verify by search; and each commune was to appoint persons who were to fix such prices to each article, as would leave a moderate profit to the dealer, but not exceed the means of the people. "If, however," added the decree, "the cost "of production be such as to leave no profit to the "dealer, the commodity must still be sold at such "a price as the purchaser can afford." And any violation of the decree, any refusal to sell, any concealment of stock, or even the being accessory to any such violation, was punished by death.

* Thiers, vol. v. 163.

Of course the majority of the shops were shut, and in those which continued open only the worst articles were exposed to public sale, and all that was tolerable was reserved to be sold in secret bargains to those who still retained the means, and were willing to incur the risk of becoming purchasers at the metallic value.

The convention appear to have thought that the inefficiency of the law arose from the maximum having been imposed on the finished commodities in the dealer's hands, leaving the charges of production and transport unregulated. Commissioners were directed to be appointed in every parish to state the prime cost of all the enumerated commodities at the place of production, according to the prices of 1790, that is, according to metallic prices, which were not one-tenth of those which existed at the time of the decree. To this one-third was to be added (that is, not one thirtieth part of what ought to have been added) to compensate for the subsequent rise. A sum was then to be fixed for the expense of carriage to the market; five per cent. on these sums was to be added for the profit of the wholesale merchant, and ten per cent. for that of the retailers; and the aggregate of these sums was to be the price of the commodity *. To diminish in some measure the competition of purchasers, the consumer was forbidden to purchase from any one but the retailer, and the retailer from any one but the wholesale dealer: even the quantity which each might purchase was defined. The grocer was forbidden to take more than twenty-five pounds of sugar at once from the sugar merchant, and the seller of lemonade more than ten: and the authorities gave to each intended purchaser a certificate specifying the amount that he might purchase.

As the French subsist chiefly on bread, the bakers' shops were the principal subjects of legislation. They were not to be entered without a certificate, which at the same time was a test of the good political principles of the bearer, and specified the quantity that he might purchase. A long rope was extended from the counter into the street which the file of candidates for purchase

* Thiers, vol. v. 321.

were to lay hold of, in order to ensure their entering the shop in fair succession *. But it was found that persons spent whole nights in the street, in vain attempts to make their entrance. Sometimes the rope was cut through wantonness or malice, and the feeble were suffocated or trampled to death in the consequent struggles; and the disorder became the more frightful when, as a remedy, it was decreed that the last comers should be served first. To prevent the closing the shops, every person who, having been a year in trade, discontinued or diminished his business, was declared a suspected person†; and this when suspicion was imprisonment, and imprisonment the guillotine. At length, even the revolutionary government seem to have felt the impossibility of using fear instead of hope as the motive of production and exchange. The assignâts, having sunk below one three-hundredth part of their nominal value, were called in ‡, the government offering to take them at one per cent. in payment of a forced loan which, in violation of all resem-

* Thiers, vol. v. 120.

† Ib. vol. v. 320.

‡ Storch, vol. iv. 164.

blance to honesty, was imposed in money, and to give mandâts, a new species of paper money, in exchange for them at the rate of three per cent. The ultimate result was, that of the whole 45,579,000,000, 12,744,000,000 were, in some way or other discharged: the remaining 32,835,000,000 of the nominal value of about £1,313,000,000 sterling, about twice the amount of our national debt, remained waste paper in the holder's hands.

The mandâts were of the nominal value of 2,400,000,000 French, or about £96,000,000 sterling: they were directions to the authorities to put the bearers into possession, without auction, of a definite portion of the confiscated estates. Such, however, were the comparative values in money of the property and the mandâts, that they came out at a discount, and gradually sunk to less than a seventieth of their nominal value. They were issued on the 9th of June, 1796, and were extinguished, partly in the purchase of confiscated property, and partly in the payment of taxes, before the end of the following September *.

* Storch, vol. iv. 164, from whom the rest of the lecture is taken.

The length of the details into which I have been led as to the paper currency of France, forces me to pass quickly over the history of the other paper currencies of the continent. Catherine II. gave Russia a paper currency, and, by the moderation of her issues, for some time kept it at par; but in 1814, the period at which Storch closes his narrative, four roubles in paper were worth only one in silver*.

The Bank of Copenhagen was founded in 1736. Nine years afterwards the government freed it from the obligation of paying its notes in full. In 1773, the king, thinking probably the privilege of issuing an inconvertible paper money too valuable for a private corporation, took the bank into his own hands. In October 1813, a dollar in silver was worth 1600 dollars in paper †.

The Austrian paper money owes its origin to Maria Theresa. In 1810 a florin in silver was worth thirteen florins in paper. In 1811 the government called in the existing paper money, and directed it to be exchanged, at one-fifth of its nominal value, for a new paper money; and in

* Storch, vol. iv. 233. † Ib. vol. iv. 195.

1812, eight florins in paper were worth only one in silver.

These examples are enough to show that the depreciation of our paper money, great and disastrous as it was, was far less than has usually attended an inconvertible paper currency; and if on any future war a new bank restriction is proposed, I hope it will be recollected that the evils which that unhappy measure actually produced, great as they were and continue to be, bear no proportion to those which the example of other nations shews us to have been exposed to.

Note to page 6.

Few doctrines appear to me more evidently erroneous than that any considerable variation in the amount of wages can be compensated by a rise or fall of profits. The usual supposition is, as I observed in the text, that the capitalist, at an average, advances the wages of his labourers for one year, and receives, after deducting rent, one-tenth of the value of what they produce. I am inclined to think, that the average rate of profit is rather greater, and the average period of advance rather less. After making many inquiries on these subjects in Manchester, I found the general opinion to be, that the manufacturing capitalist turns his capital, at an average, twice in the year, and receives on each operation a profit of 5 per cent.; and that the shopkeeper, at an average, turns his capital four times in a year, and receives on each operation a profit of about 3½ per cent. On these data, the labourer's share would, of course, be much greater than according to the ordinary estimate. We will suppose, however, that estimate to be correct, and that, after rent has been deducted, the labourer receives, at an average, nine-tenths of the value of what he produces. Under these circumstances, a rise in the amount of wages, amounting to one-tenth, or from 10*s*. to 11*s*. a week, if that rise is to be deducted from the capitalist's share, would utterly destroy all profit whatever. A rise of one-fifth, or from 10*s*. to 12*s*. a week, would occasion to the capitalist a loss equal to the whole amount of his former profit. A fall in wages of one-tenth would double profits; a fall of one-fifth would treble them. Now we know that general variations in the amount of wages to the amount of one-tenth or one-fifth, or to a greater extent, are not of unfrequent occurrence. Yet who ever heard of their producing such an effect on profits?

And yet this doctrine has received the sanction both of theoretic and practical men. Mr. Francis Place is asked by the Committee on Artizans and Machinery (First Report, p. 46)*, "Do not the masters in conse-"quence of a rise of wages raise their prices?"

"No," he answers, "I believe there is no principle "of political economy better established than this of "wages; increase of wages must come from profits."

Did Mr. Place ever apply this doctrine when his men asked for higher wages on a general mourning? Even the Committee appear to have taken this view of the question. The subject is so important, that I will venture to extract the following passage from the Report made in the following Session:—

"Those eminent persons, who, during the last fifty "years, have reduced the rules that govern the opera-"tions of trade and industry to a science, undertake to "show, by arguments and facts, that the effect of low "wages is not a low price of the commodity to which "they are applied, but the raising of the average rate of

* Session of 1824.

" profits in the country in which they exist. The ex-
" planation of this proposition occupies a large portion
" of the justly-celebrated work of the late Mr. Ricardo,
" on the Principles of Political Economy; and is also ably
" set forth in the following evidence of Mr. M'Culloch,
" to which your committee particularly desire to draw
" the attention of the house:

" 'Have you turned your attention to the effect of
" 'fluctuations in the rate of wages on the price of com-
" 'modities?—I have.

" 'Do you consider that when wages rise, the price
" 'of commodities will proportionally increase?—I do
" 'not think that a real rise of wages has any effect
" 'whatever, or but a very imperceptible one, on the
" 'price of commodities.

" 'Then, supposing wages to be really lower in France
" 'than in this country, do you think that that circum-
" 'stance would give the French any advantage over us
" 'in the foreign market?—No, I do not; I do not think
" 'it would give them any advantage whatever. I think
" 'it would occasion a different distribution of the pro-
" 'duce of industry in France from what would obtain
" 'in England, but that would be all. In France, the
" 'labourers would get a less proportion of the produce
" 'of industry, and the capitalists a larger proportion.

" 'Could not the French manufacturer, if he gets his
" 'labour for less than the English manufacturer, afford
" 'to sell his goods for less?—As the value of goods is
" 'made up wholly of labour and profit, the whole and
" 'only effect of a French manufacturer getting his

" 'labour for less than an English manufacturer, is to " 'enable him to make more profit than the English " 'manufacturer can make, but not to lower the price " 'of his goods. The low rate of wages in France goes " 'to establish a high rate of profits in all branches of " 'industry in France.

" 'What conclusion do you come to in making a " 'comparison between wages in England and wages in " 'France?—I come to this conclusion, that if it be true, " 'that wages are really higher in England than in France, " 'the only effect of that would be to lower the profits " 'of capital in England below their level in France, but " 'that will have no effect whatever on the price of the " 'commodities produced in either country.

" 'When you say that wages do not affect prices, what " 'is it that does affect prices?—An increase or diminu- " 'tion of the quantity of labour necessary to the produc- " 'tion of the commodity.

" 'Supposing that there was a free export of ma- " 'chinery, so that France could get that machinery, do " 'you think that under those circumstances we should " 'retain those advantages which we possess at the " 'present moment?—Yes, we should; for the export " 'of the machinery would not lower our wages, or " 'increase the wages in France, so that we should pre- " 'serve that advantage to the full extent that we have it " 'at this moment.

" 'Will you explain to the committee why you are of " 'opinion that the French manufacturer would not " 'undersell the English, seeing that his profits are larger

" 'than the English manufacturer?—Because if he " 'were to offer to undersell the English, he can only do " 'it by consenting to accept a less rate of profit on his " 'capital, than the other French capitalists are making " 'on theirs, and I cannot suppose a man of common " 'sense would act upon such a principle.

" 'Are the committee to understand, that although a " 'French manufacturer pays half the wages to his men " 'in France, which our manufacturers do in England, " 'yet that his wages being on a par, or a level, in " 'general, with the other wages in France, will render " 'his profits on a par with them, and consequently he " 'would not undersell the English merchant by lower- " 'ing his profits below the average rate of profits in " 'France?—Precisely so. I believe, in point of fact, " 'there is no such difference; but he could not under- " 'sell the English manufacturer unless he took lower " 'profits than all other producers in France were making. " 'I might illustrate this by what takes place every day " 'in England, where you never find the proprietor of " 'rich land, in order to get rid of his produce, offering " 'it in Mark-lane at a lower rate than that which is got " 'by a farmer or proprietor of the very worst land in " 'the kingdom.

" 'Would it not produce a larger sale if the French " 'manufacturer were to sell at a less price?—Supposing " 'that to be so, the greater the sale the greater would " 'be the loss of profit.' " *

* Report from Select Committee on Export of Tools and Machinery. Session of 1825, pp. 13, 14.

I have extracted this passage rather as indicative of the views of the Committee, than of those of Mr. M'Culloch. Mr. M'Culloch, as will appear on turning to his evidence, meant by wages *really high* and *really low*, not a larger or a smaller amount, but a larger or a smaller proportion. But the Committee appear to have understood him to mean a larger or a smaller amount.

Mr. Bradbury had previously stated the common day wages in France to be about half the wages paid in England.

He was asked—" In what way do you consider that " lower wages in France give the French manufacturers " an advantage over English manufacturers?

" I conceive that, if they pay 3*d*. a pound for spin- " ning to the operative spinner, and we pay 6*d*, that " would give them an advantage of 3*d*. a pound in the " cost.

" You mean to say, that the French would be able to " sell the article they make, in consequence of pay- " ing lower wages, cheaper than the English could " sell it?

" They could afford it 3*d*. a pound cheaper.

" You mean to say, that, according to the rate of " wages paid, the price of the article for which they are " paid is high or low?

" It may be afforded higher or lower, I should ima- " gine, as the cost be more or less.

" Therefore, the whole reason and ground on which " you think that low wages give them an advantage, is, "that low wages contribute to enable them to sell the "article cheaper than if they paid higher wages?

"Yes; labour constituting a material feature in the cost.

"You conceive that increased cost would be a loss to "the party, if the price was not increased in proportion?

"I should imagine so.

"*Might not the profits of the proprietor be lessened?*

"*They might be lessened, which is in effect a loss.*

"*Might not that enable him to bear the loss which "the difference of wages produces* ?*

"*If he chose to make that sacrifice.*

"Might not the profits be lessened until there were no "profits at all? †

"Very easily I should think."—(Fifth Report of the select Committee on Artizans and Machinery, p. 547, 549, 550.)

It was with reference to this evidence that Mr.

* In other words, "Might not the loss enable him to bear the "loss?"

† This question appears to have come from a different interrogator. In justice to the clear and intelligent evidence of Mr. Bradbury, I should observe that he was far from falling into the common error, that a generally high rate of wages can be unfavourable to a country. He set out by supposing that with the assistance of English machinery and English superintendents, the labour of the French spinners might be as productive as that of the English spinners. Under such circumstances, if their wages could remain at one half of English wages, he believed that the French manufacturer could undersell the English manufacturer. Of the accuracy of this opinion I entertain no doubt, though, from the tenor of the questions, it appears not to have met with the approbation of the Committee.

M'Culloch was examined. His examination commences thus:

"Have you read the evidence which has been given "before this Committee?

"I have read portions of it only.

"Have you read the evidence given by Mr. Bradbury?

"A part of it.

"That part in which he conceives that foreigners have "an advantage over the English manufacturers in conse-"quence of wages being lower in France?

"Yes, I have read that"

And then follows the question:

"Have you turned your attention to the effect of fluc-"tuations in the rate of wages on the price of com-"modities?"

Now if the committee understood Mr. M'Culloch to mean, by high or low wages, not a great or small amount, but a great or small proportion, his evidence and that of Mr. Bradbury had nothing in common.

The whole of the confusion has arisen from a verbal ambiguity. Mr. Ricardo has demonstrated that, in the absence of natural or artificial monopoly, all that is produced is divided between the capitalist and the labourer, and that, *cæteris paribus*, the rate of profit depends on the proportion of the produce which the capitalist receives in return for having advanced, for a given time, the labourers' wages. This doctrine, though, like almost all other truths in political science, when once stated, almost self-evident, is one of the most important discoveries of modern times. It has given to the subject of profits the clearness which the discoveries of Mr. Malthus and Sir Edward West gave to that of rent. Most unfortunately, however, Mr. Ricardo applied the terms *high wages*, and a *rise of wages*, and *low wages* and a *fall of wages*, to an increase or diminution of the labourer's proportion, whether the amount of what he received were or were not diminished or increased.

" It is according to the division of the whole produce " of the land of any particular farm between the three " classes of landlord, capitalist, and labourer, that we are " to judge of the rise or fall of rent, profit, and wages, " and not according to the value at which that produce " may be estimated in a medium which is confessedly " variable.

" It is not by the absolute quantity of produce ob- " tained by either class that we can correctly judge of " the rate of profit, rent, and wages, but by the quantity " of labour required to obtain that produce. By improve- " ments in machinery and agriculture the whole produce " may be doubled; but if wages, rent, and profit be also " doubled, the three will bear the same proportions to " one another as before, and neither could be said to " have relatively varied. But if wages partook not of the " whole of this increase; if they, instead of being dou- " bled, were only increased by one-half; if rent, instead " of being doubled, were only increased three-fourths, " and the remaining increase went to profit, it would, I " apprehend, be correct for me to say, that rent and wages " had fallen while profits had risen; for if we had an " invariable standard by which to measure the value of

" this produce, we should find that a less value had fallen " to the class of labourers and landlords, and a greater to " the class of capitalists, than had been given before. " We might find, for example, that though the absolute " quantity of commodities had been doubled, they were " the produce of precisely the former quantity of labour. " Of every hundred hats, coats, and quarters of corn pro-" duced, if

" The labourers had before . . .	25
" The landlords	25
" And the capitalists	50
	100

" and if, after these commodities were double the " quantity, of every one hundred

" The labourers had only . . .	22
" The landlords	22
" And the capitalists	56
	100

" in that case I should say, that wages and rent had " fallen and profits risen; though, in consequence of the " abundance of commodities, the quantity paid to the " labourer and landlord would have increased in the pro-" portion of 25 to 44. Wages are to be estimated by " their real value, viz., by the quantity of labour and " capital employed in producing them, and not by their " nominal value either in coats, hats, money, or corn. " Under the circumstances I have just supposed, com-" modities would have fallen to half their former value, " and if money had not varied, to half their former price. " If, then, in this medium, which had not varied in value, " the wages of the labourer should be found to have

" fallen, it will not be less a real fall, because they might " furnish him with a greater quantity of cheap commo- " dities than his former wages *."

According to this nomenclature, if one labourer were to receive 30*l.* a year, and the produce of his labour to sell at the end of the year for 40*l.*, and another were to receive 60*l.* a year, and the produce of his labour to sell for 100*l.*, the first labourer would be said to receive higher wages than the second; and if the wages of the second were to be altered from 60*l.* to 40*l.* a year, and the commodity to sell for 50*l.*, the alteration must be termed a rise of wages. According to this nomenclature, the wages of the best workmen are always the lowest, for it is known to be more profitable to employ them. This strange use of words must have been perplexing, even if Mr. Ricardo's language had been consistent. But it is almost impossible to affix to terms of familiar use a perfectly new meaning, and not from time to time to slide into the old one. When Mr. Ricardo says, that "nothing can affect " profits but a rise of wages," p. 118; that " whatever " raises the wages of labour lowers the profits of stock," p. 231; that " high wages invariably affect the em- " ployers of labour by depriving them of a portion of " their real profits," p. 129; that " as the wages of labour " fall the profits of stock rise, and they are together always " of the same value," p. 499, he means by high wages a large proportion. But when he speaks of the " encou- " ragement which high wages give to the increase of " population," pp. 88, 361; when he admits, that " on

* " Principles of Political Econ." p. 48—51.

"an increase of population wages fall," p. 494; he means by high or low wages a large or small amount.

Mr. M'Culloch has stated, with great clearness, the difference between proportional wages and real wages, or wages estimated in money or in quantities of produce. And he adds, with equal accuracy, "If the productive-"ness of industry were to diminish, proportional wages "might rise, notwithstanding that real wages, or the "absolute amount of the produce of industry falling to "the share of the labourer, might be diminished; and if, "on the other hand, the productiveness of industry were "to increase, proportional wages might be diminished, "while real wages might, at the same time, be increased." *Principles*, &c. p. 365. And he generally uses the words "high and low wages" to express, not a large or small proportion, but a large or small amount. It is in this sense that he contrasts (p. 353) the low wages of Hindostan with the high wages of America. But is this use of language consistent with his statement (p. 322) that the high wages we pay to our workmen cause low profits? Or, is it consistent with the inferences drawn by the Committee from his evidence?

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