

SCOTTISH ECONOMIC CLASSICS

JAMES MILL
Selected Economic Writings



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Selected Economic Writings

Introduced and Edited
by
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Published for
The Scottish Economic Society
by
OLIVER & BOYD
EDINBURGH AND LONDON

OLIVER AND BOYD LTD

Tweeddale Court,
Edinburgh, 1

39A Welbeck Street,
London, W.1

First Published 1966

Printed in Great Britain by
Robert Cunningham and Sons Ltd, Alva

PREFACE

I should like to thank all those who have in one way or another helped me in the preparation of this volume. Professors A. L. Macfie and R. L. Meek have generously given of their time to advise me in the selection and handling of Mill's writings. I must acknowledge that I have had access to that rich storehouse of scholarship which Professor Jacob Viner either has at his finger-tips or, more often, carries around with him. Professor Asa Briggs and Dr Bernard Corry have read through my introductions and saved me from a number of errors, historical and stylistic. I have also benefited from conversations and correspondence with other Mill scholars. Needless to say, I accept full responsibility for the end-product. Publication has been made possible by generous financial assistance from the Carnegie Trust for the Universities of Scotland, which is gratefully acknowledged.

University of Sussex
September 1964

D. N. WINCH

EDITORIAL NOTE

The punctuation and spelling of Mill's original texts have been retained. Mill's footnotes, together with those of the editor, are numbered consecutively throughout each separate work or extract. Editorial footnotes and insertions are distinguished by being placed within squared brackets. The *Essay of the Impolicy of a Bounty on the Exportation of Corn* and the *Elements of Political Economy* are reprinted in their entirety. Omissions from the other works are denoted thus. . . . Where the omission contains a point of substance which may be helpful to the reader in forming an idea of the time of argument, an editorial summary has been inserted into the body of the text at the relevant place. See also the special note on p. 396 concerning the extracts from the *History of British India*.

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I. BIOGRAPHICAL SKETCH

James Mill was the consummate utilitarian propagandist and theorist; his numerous intellectual interests and practical pursuits shatter the neat boundaries of modern specialist scholarship. This volume is dedicated to one aspect of Mill's life and thought, namely that revealed in the economic writings which are introduced separately below. The following biographical sketch does not attempt to give a full and balanced account of Mill's life. It concentrates on the earlier, formative period rather than on the better-known Benthamite period, and deals mainly with those issues which it seems necessary to stress as background to the understanding of Mill's contribution to classical political economy.¹

James Mill was born in 1773 in a small village near Montrose where his father combined the trade of cobbler with a smallholding. Though his parents were poor, he was favoured by an ambitious mother and given every encouragement to advance himself. After attending the local parish school and Montrose Academy, he came under the patronage of Sir John and Lady Jane Stuart who, in 1790, made it possible for him to go to Edinburgh University instead of to the nearby, less expensive, University of Aberdeen. For the seven years that he was at the University, Mill appears to have lived mainly with the Stuarts, virtually as a member of the family, though acting also as tutor to the daughter of the house. The intention was that he should prepare for the Church, a traditional means of advancement at the time for a talented but needy Scot: one which did not necessarily imply any strong sense of vocation. Before embarking on his divinity studies he attended the courses for the M.A. degree, and it was at this time

¹ The only complete biography is still that of Alexander Bain (*James Mill: A Biography*, London, 1882) which provides the backbone of the account given here, though some attempt has been made to supplement Bain where new material was available.

that he came under the influence of Dugald Stewart, Professor of Moral Philosophy.² Of Stewart, Mill later wrote, that 'the taste for the studies which have formed my favourite pursuits and which will be so till the end of my life, I owe to him'.³ It was during this period too that his lifelong interest in Greek was first allowed to blossom; he considered Plato to have contributed more to his 'mental culture' than any other writer. This accounts perhaps for his eagerness to initiate his son so early into the mysteries of Greek, and for the fact that the Socratic method of Plato's dialogues became the model for John's education.⁴ In 1797 he left the University with a licence to preach, but after an unsuccessful spell as an itinerant preacher he was forced to turn to giving private tuition. In 1802, after several years of this and at the ripe age of twenty-nine with no career fixed, he accepted an opportunity to travel with Sir John Stuart to London to begin a new life.

Mill seems to have been reticent about the Scottish period of his life with all except his closest friends. Like most Scots making their way in the English literary world he probably set out to purge Scotticisms from his writings.⁵ The reaction went further than this, however, for in a letter to Francis Place furnishing details of his connection with the Stuart family, he made it clear that he did not wish them to be

² Bain's account of Mill's studies (*op. cit.*, pp. 13-17) can be supplemented by a memorandum on the normal curriculum for an Edinburgh student drawn up by Mill for guidance in setting up Bentham's Chrestomathic school. 'The days of study are five in the week, and the months in the year rather less than six. First Year - Latin two hours a day, Greek two hours a day, mathematics two hours a day. Second Year - Latin one hour, mathematics one hour, Greek two hours, logic one hour. Third Year - Moral Philosophy one hour with a repetition of the second mathematical and Greek classes as often as the student chuses. Fourth Year - Natural Philosophy, or rather mechanical philosophy, one hour, with a repetition of any of the preceding classes the student chuses. This is the regular course of preparatory discipline for the two professions of Law and Divinity - after which they ascend to the classes appropriate to the teaching of Law and Divinity.' Bentham MSS., University College, London, Box 165, f.2. I am indebted to Professor J. M. Robson for drawing my attention to this item.

³ Letter to Macvey Napier, cited in Bain, *op. cit.*, p. 16.

⁴ John Stuart Mill, *Autobiography*, Columbia University Press, New York, 1924, p. 15.

⁵ In a review of Jamieson's *Dictionary of the Scottish Language* for the *Monthly Review*, Sep. 1810, vol. LXIII, pp. 11-31, he speaks of the 'natural disposition of every man who writes to accommodate himself to the understanding and taste of the greatest possible number of readers'.

talked about.⁶ In the light of his later criticisms of organised religion and his strictures on aristocratic influence, he may have found certain aspects of his early life embarrassing. It may also be significant that although he championed freedom of the press, he thought it proper to protect individuals from exposure to public ridicule on account of their humble origins or religious beliefs.⁷ In any event, by temperament he seems to have preferred to remain in the background, content to bask in the appreciation of a small circle of friends and followers.

Upon arrival in London Mill contacted a number of Scottish *émigrés* connected with publishing, with a view to supporting himself by journalism. In 1803, after some free-lance work, he obtained more permanent employment as editor of the *Literary Journal*, which, together with Baldwin the publisher and a number of Scottish friends, he founded. According to the prospectus which he wrote, the journal was to be dedicated to the 'dissemination of liberal and useful knowledge'; as a more realistic guarantee of success, it was also to be the cheapest monthly review available in London. For the next few years Mill was very active. In addition to the *Literary Journal* he was editing another Baldwin publication, the *St James's Chronicle*. He also found time to write the essay on the corn trade which is reprinted in this volume, and to bring out a translation of Villers's *Essay on the Reformation*. By 1805 he had every right to consider his move to London to be a success. Bain estimates that he was earning over £500 per annum at this time; it was certainly enough for him to undertake marriage, a step which proved to be a mistake in more ways than one. In 1806 the *Literary Journal* folded when he had already given up his other regular sources of income to concentrate on the *History of British India*, a work by which he hoped to make his name and which he estimated would take only three or four years to complete. In fact the *History* took twelve years, and throughout this marathon he was forced to rely on what he described as 'job-work'; a task made difficult by the fact

⁶ See G. Wallas, *Life of Francis Place*, London, 1898, pp. 70-71n. Bentham knew some of the facts, see *The Works of Jeremy Bentham* (ed. J. Bowring), Edinburgh, 1843, vol. X, p. 483; but John Stuart Mill was forced to write to Scottish friends of his father for the basic facts of his father's early life. See Bain, *op. cit.*, p. 11n.

⁷ See *Liberty of the Press* in the Supplement to the 4th, 5th and 6th editions of the *Encyclopaedia Britannica*, London, 1824. Ricardo found these exceptions inconsistent with Mill's general position, see *The Works and Correspondence of David Ricardo* (ed. P. Sraffa), Cambridge University Press, 1952, vol. IX, p. 103. (Hereafter referred to as *Works*.)

that his views on many subjects were by no means popular. As can be seen even from the incomplete bibliography appended to this volume, his output during this period was prodigious.

Mill paid little heed in his own life to the Malthusian warnings which he preached in his writings: nine 'brats' (as he preferred to call his children) were born to the marriage. This large family was a drain on Mill's pocket in the early period of his life, and, since he educated the eldest son John himself with monumental thoroughness, on his time and patience too. It was not a happy home. John's account of having been brought up in 'the absence of love and in the presence of fear' is well-known: the picture is confirmed by the description given by his sister Harriet.

Here was an instance of two persons, a husband and wife, living as far apart under the same roof, as the north pole from the south; from no 'fault' of my poor mother certainly; but how was a woman with a growing family and a very small means (as in the early years of the marriage) to be anything but a German Hausfrau? how could she intellectually become a companion for such a mind as my father? *His* great want was 'temper', though I quite believe circumstances had made it what it was in our childhood, both because of the warm affection of his early friends, and because in the latter years of his life he became much softened and treated the younger children differently. What would be *thought* now if the fate of *our* childhood were known?⁸

Mill's writings in the period between 1803 and 1808 have received relatively little attention, yet it is during this early phase that we see the first fruits of his Scottish education and the beginnings of many of his later interests. His main sources at this time are those Scottish authors who made up his intellectual diet as a student; the questions which occupy his attention are those connected with the branches of the science of man most developed in Scottish Universities towards the end of the eighteenth century. It is worth stressing the Scottish influence on Mill's work because it provides a framework into which he fitted ideas acquired later from Bentham and Ricardo; it not only survived the infusion of these later doctrines but gave them an extra dimension which was unique to Mill. John Stuart Mill wrote of his father that 'as Brutus was called the last of the Romans, so was he the

⁸ Letter to J. Crompton, 26 Oct. 1873, reprinted in F. A. Hayek's *John Stuart Mill and Harriet Taylor*, Routledge and Kegan Paul, London, 1951, p. 286.

last of the eighteenth century'.⁹ He made the same point more specifically in a letter to Comte, where, after commending the 'positivism' of such Scottish philosophers as Hume, Smith, Kames, Ferguson, Millar, Brown and Reid, he described his father as *le dernier survivant de cette grande école*.¹⁰

Towards the end of the eighteenth century, Edinburgh and Glasgow were the centres of a revival of interest in the scientific study of human nature and social behaviour. In their search for internal coherence in man's affairs the Scottish thinkers favoured an historical approach; they believed that history as written by the philosopher could be made to yield the necessary empirical materials for the construction of a Newtonian science of man. The term 'conjectural history' was coined by Dugald Stewart to describe this method of procedure¹¹; it was based on the teleological premise that it was possible for the philosopher acquainted with the springs of human action to establish natural laws of progress by tracing the development of social, political, legal and economic institutions from their crude origins to later sophistication. Conjectural history also provided a means by which certain practical lessons could be pressed home as to the effect of various institutions or policies on man's progress.

Mill's translation of Villers's *Essay on the Reformation* was undertaken entirely in the spirit of this type of history. He believed that Villers had made an important contribution to philosophical history by attempting to show the liberalising influence of the Reformation along the lines already mapped out by historians of the break-up of the feudal power of the barons.¹² Mill's notes to his translation gave him an opportunity to express his belief in the idea of progress; to defend the doctrine of human perfectibility from those who considered it to be subversive; and to air certain liberal sentiments concerning the importance of religious toleration and freedom of expression to man's improvement.¹³

⁹ *Autobiography*, p. 143.

¹⁰ See *The Earlier Letters of John Stuart Mill: 1812-1848* (ed. F. E. Mineka), University of Toronto Press, Toronto, vol. II, p. 566 and also pp. 638-9.

¹¹ *Collected Works* (ed. Sir W. Hamilton), Edinburgh, 1885, vol. X, p. 34.

¹² See his review of Villers in the *Literary Journal*, Jan. 1805, vol. V, pp. 80-88; his translation is advertised on p. 110.

¹³ *An Essay on the Spirit and Influence of the Reformation of Luther by C. Villers, Translated and Illustrated with Copious Notes by James Mill*, London, 1805. See particularly his long quotations from Dugald Stewart, pp. 25-33. The other notes

The roseate doctrine of perfectibility does not feature in any of Mill's later writings, but he never retreated from the idea of progress as interpreted by the Scottish philosophers of the eighteenth century; it remained an integral part of his attitude to the development of society. And since the *tourneur* of his mind was didactic, it provided him, as it did the *philosophes*, with a valuable propaganda weapon. We see it in the *Elements of Political Economy* as a form of sociology¹⁴; and the whole structure of the *History of British India* rests upon it.¹⁵ Mill's belief in the idea of progress helps to explain his taste for sweeping generalisation and, to a certain extent, his dogmatism. He was constantly fortified in his pronouncements by the notion that history was on *his* side: the side of tolerance, freedom, reform, and above all, reason.

The notes to the translation of Villers's *Essay* furnish some clues as to Mill's early position on religion and the 'science of the mind'. At this time he was still favourably inclined towards religion, as his description of Gibbon and Hume as 'infidels' who were 'intoxicated with the vanity of imitating Frenchmen' indicates.¹⁶ By 1808 he was still able to defend religious sentiments as 'benificent'¹⁷; and as late as 1809 he referred approvingly to the deist idea that Providence brings 'good out of evil'.¹⁸ It could not have been long after this that he abandoned religion, with the help, possibly, of Bentham and General Miranda.¹⁹ When he did so, it was with great conviction. This can be seen in a letter to Ricardo in which Mill sympathises with 'poor Malthus' for his religious beliefs.

What a misfortune – what a cruel misfortune, it is, for a man to be *obliged* to believe a certain set of opinions, whether they be fit, or not, to be believed! I too was educated to be a priest – but I shall never cease feeling gratitude to my own resolution, for

are also taken from Scottish sources; W. Robertson (pp. 73-77; 147-55); Reid (pp. 317-18); Millar (pp. 232-7).

¹⁴ See below, p. 195.

¹⁵ See below, pp. 383-5.

¹⁶ *Essay on the Reformation*, pp. 99-100. He is particularly harsh on Hume who stood condemned both for his toryism and his atheism. 'Hume, who through the whole course of his history, lies in wait for an opportunity of throwing discredit upon the cause both of religion and liberty, who possessed a rooted enmity against all the best interests of mankind, and whose actions admit more of deliberate misanthropy than those of any other man perhaps that ever lived . . .', p. 108.

¹⁷ See below, p. 153.

¹⁸ *Edinburgh Review*, Jan. 1809, vol XIII, p. 280.

¹⁹ Bain, *op. cit.*, pp. 88-91.

having decreed to be a poor man, rather than be dishonest, either to my own mind, by smothering my convictions, or to my fellow creatures by using language at variance with my convictions.²⁰

The same letter confirms John Stuart Mill's diagnosis that his father 'found it impossible to believe that a world so full of evil was the work of an Author combining infinite power with perfect goodness and righteousness'.²¹ James Mill considered all forms of organised religion, from 'Juggism' (the Church of England) to Hinduism to be morally degrading.

We also find evidence of Mill's early views on psychology and ethics in his translation of Villers's *Essay*. He speaks of Thomas Reid as being responsible for the introduction of 'the true method of philosophising into the science of the mind, and for some of the noblest discoveries which have been made by any man in any science'.²² This view reflects the teaching of Dugald Stewart. It is a little ironic to note that the first known article by Mill took the form of an attack on associationist psychology and utilitarian ethics as put forward by Thomas Belsham, a follower of Hartley.²³ Up to his meeting with Bentham in 1808 Mill continued to defend the Scottish philosophy of moral or common sense, and to oppose deterministic, utilitarian doctrines.²⁴ After this he reversed his position to adopt the views that were so crucial to his later opinions on ethics and education.²⁵

Among the more enduring Scottish influences on Mill's thinking was the work of John Millar. In a review of Millar's *Origin of Ranks* for the *Literary Journal*, Mill expressed the view that Millar's lectures as Professor of Law at Glasgow must have been 'among the most instructive things ever offered to the attention of youth'.²⁶ Millar's *Historical View of the English Government* was among the first works

²⁰ Letter to Ricardo, 3 Dec. 1817, in Ricardo's *Works*, vol. VII, pp. 212-13. It is not unfair perhaps to point out that this letter implies that he abandoned religious belief immediately upon leaving the priesthood: outright conversion to agnosticism did not come until several years later.

²¹ *Autobiography*, p. 28.

²² *Op. cit.*, p. 318.

²³ *Anti-Jacobin Review and Magazine*, May 1802, vol. XII, pp. 1-13.

²⁴ See *Literary Journal*, Jan. 1806, pp. 1ff; Mar. 1806, p. 235 and Jun. 1806.

²⁵ Mill renounced his former beliefs in a mildly critical review of Dugald Stewart's *Elements of the Philosophy of the Mind* for the *British Review*, Aug. 1815, vol. VII, pp. 170-200. On this subject see E. Halévy, *Growth of Philosophical Radicalism*, Macmillan, London, 1928, pp. 437ff.

²⁶ *Op. cit.*, Jun. 1806, pp. 624-9.

which James Mill placed in his son's hands²⁷; he also strongly recommended it to Ricardo later when he took up Ricardo's political education.²⁸ Mill was attracted to the works of Millar by their comprehensive and philosophical treatment of history, and by their liberal outlook. As he wrote later, 'the world is indebted [to Mr Millar] for almost the first lessons which it received, in tracing the facts of history up to the general laws of the human mind'.²⁹

It seems likely that Millar's sociological history of the development of law and government was important in forming Mill's early political views. Millar had carried on the tradition of Smith in attempting to analyse political change in terms of the underlying economic and property relationships in society.³⁰ In his *Historical View*, Millar had dealt with the economic and social changes since 1688 which had contributed to the growth of liberal feelings and institutions. The progress of commerce and agriculture had reduced the grosser forms of inequality and had produced 'a state of property highly favourable to liberty'. By enhancing 'popular independence', it had strengthened the element of popular control over executive political action. Unfortunately, the benefits of these natural developments had been somewhat nullified by the increase in the patronage under the control of the Crown. The main practical purpose of Millar's work was to draw attention to the dangers of this increase in royal 'influence'. It was from this kind of background that Mill's early political sentiments emerged; and some of the features of his mature political position can also be traced back to arguments put forward by the Smith-Millar sociological tradition.

Many years later, when Mill was attempting to convince Ricardo of the universal tendency for the public interest to be sacrificed to the selfish interests of those who controlled Parliament, he said that he had arrived at this opinion slowly and unwillingly; that he was aware of the premises before allowing himself to draw the conclusions.³¹ This would seem to be the case from the evidence of this period. From the

²⁷ *Autobiography*, p. 6.

²⁸ Ricardo's *Works*, vol. VII, p. 197; see also below, p. 187.

²⁹ 'Castes' in the *Supplement to the 4th, 5th and 6th edition of the Encyclopaedia Britannica*, Edinburgh, 1824, vol. II, pp. 648.

³⁰ On this, see R. L. Meek, 'The Scottish Contribution to Marxist Sociology', *Democracy and the Labour Movement* (ed. J. Saville), London, 1954; and D. Forbes, 'Scientific Whiggism: Adam Smith and John Millar', *Cambridge Journal*, Aug. 1954, vol. VII, pp. 643-70.

³¹ Ricardo's *Works*, vol. VI, p. 307.

moment of his arrival in London Mill took a keen interest in the political situation, attending House of Commons debates regularly. His letters home at this time tell us little except that he admired Fox, and found the general level of oratory to be beneath that of the General Assembly of the Church of Scotland.³² His sympathies were obviously on the 'liberal' side of the issues of the day, but before 1807 there is little to suggest that he had any serious misgivings about the composition and behaviour of Parliament. This cannot be accounted for in terms of the necessity for a young man making his living by writing to modify his views at a time when criticism of the constitution was apt to be confused with treason. In 1804 he was confident that: 'The British Parliament wants only the due information to be laid before it, in such a manner as to bear down the influence of ignorance and private interest. On its integrity and patriotism as a body, the public relies, *as it has every reason to rely*, with the most perfect confidence.'³³ At the time he was attacking the bounty on the export of corn, a measure which he believed would 'put money into the pockets of the proprietors of land by taking it out of the pockets of all the other classes of the people'. This conclusion had obvious political implications which Mill was unwilling to draw; his views in 1804 present a sharp contrast with his later radicalism on the same question. The land-owners, he held, were not to be blamed for attempting to influence legislation in their favour; others had 'been far more industrious in this respect than they'. He even thought that the land-owners would be prepared to act magnanimously and abolish the bounty if shown that it was contrary to the nation's long term interests.³⁴

By 1807, when he wrote *Commerce Defended*, this tolerant view of the land-owners' regard for the public interest had completely disappeared. This pamphlet was as much a political tract as a contribution to economic debate. Cobbett is praised for his defection from the Tory camp and his espousal of the popular cause; and marked sympathy is expressed for the situation of the poor under war conditions of rising food prices and taxes. The pamphlet ends with a strong plea for the

³² See Bain, *op. cit.*, pp. 38-44.

³³ See *Essay on Impolicy*, pp. 71-72 below (*italics supplied*); see also Villers's *Essay*, p. 186

³⁴ See below, pp. 81-82. Adam Smith had also believed that the landlords had been more backward than the merchants and manufacturers in pressing their interests. Mill's view may simply reflect the influence of Smith on his work at this time; see below, pp. 23-24 for comment on this.

discontinuation of the war. Smith's general strictures on 'public prodigality' are transformed into the doctrine that 'all governments constantly spend as much as ever the people will allow them'.³⁵ This doctrine, with its implication that inadequate control of government expenditure and disregard of 'the people' was a major cause of misgovernment, was to become a radical rallying cry in the ensuing years.

But perhaps the most significant political feature of *Commerce Defended* is Mill's attack on the idea that the economic interests of the nation can be identified with those of the land-owning classes. Here, as on other more technical questions, Mill anticipates the ideological issues which underlie Ricardo's controversy with Malthus over the Corn Laws and general over-production.³⁶ In direct contradiction of his earlier statements he dismisses sympathy for the land-owners: 'By their superior influence on the legislature, they have taken care to repay themselves, as far as their personal interests were concerned, by throwing the burthen of the taxes upon the growing produce of commerce, while the increasing value of land stood exempt.'³⁷ In a manner that both Smith and Millar would have approved of, he argues that commerce is favourable to liberty, acting as a curb on the 'forces of regal and aristocratical power'. 'The situation of the merchant and manufacturing classes brings them into contact with the lower orders upon rather more liberal terms than the situation of the mere landed proprietor'; they are consequently less well-disposed towards 'coercive and arbitrary measures of government'.³⁸

In 1808 Mill met Bentham, and their close collaboration began soon after. This meeting marked a turning point in both men's careers. Bentham provided Mill with a comprehensive doctrine which he adopted avidly. Mill became Bentham's first British disciple, and acted, especially in the early years of their partnership, as editor and collator of Bentham's disorderly writings. More significantly, Mill was the propagator of the master's gospel, the intermediary between the scholarly recluse and the world of action which Bentham so much wished to influence. As both John Stuart Mill and Halévy have made

³⁵ See below, p.157.

³⁶ The ideological content of these debates is brought out in R. L. Meek's 'Early Theories of Under-Consumption' as reprinted in his *Economics of Physiocracy*, Allen and Unwin, London, 1962, pp. 313-44.

³⁷ See below, p. 96.

³⁸ See below, pp. 154-5.

clear, without James Mill's vigorous, yet self-effacing, single-mindedness, Bentham's doctrines would have stood little chance of becoming well-known in his own country, and philosophical radicalism might never have become an active political force.

Mill seems to have acted as a catalyst in the development of Bentham's political views. According to Halévy, 'the intrusion into [Bentham's] life of James Mill was needed to make him a democrat'.³⁹ This has been disputed by Bentham's most recent biographer, Professor Mack, who points out that Bentham had already written on the subject of parliamentary reform in the 1790's.⁴⁰ But Professor Mack underestimates the extent of Bentham's revulsion from democratic ideas in the intervening period before his meeting with Mill. Mill's career as a propagandist for the radical cause began in 1807 with *Commerce Defended*. Soon after the meeting with Bentham he was practically in full stride, introducing into his articles for the *Edinburgh Review* arguments for strengthening the safeguards of 'the people' against the depredations inherent in all aristocratic forms of government. In Oct. 1808, for example, he wrote: 'The great problem of government is to find a countervailing force, equally steady and regular in its operation, to prevent those gradual changes in favour of aristocracy which the common state of things has so strong a tendency to produce.'⁴¹ He looked to an 'improvement in the science of government' as the means by which the conflict between the interests of the many and the few could be resolved. In a subsequent article he was more explicit, though still favouring a gradualist approach. It might not be wise to trust the people to form a new constitution, but the administration of the constitution required their full participation:

Here there is something which must be done *by* the people; or it is ridiculous to talk of doing anything *for* them. Whenever the interests of two sets of people are combined together in one concern, if the entire management be left to one, it is perfectly clear that this managing set will draw, by degrees, all the advantages to their own side, and thus all the disadvantages to the other.⁴²

³⁹ *Growth of Philosophical Radicalism*, p. 255.

⁴⁰ M. P. Mack, *Jeremy Bentham; 1748-1792*, Heinemann, London, 1962, pp. 438-41.

⁴¹ 'Leckie's Foreign Policy', *Edinburgh Review*, Oct. 1808, vol. XIII, p. 197.

⁴² 'Emancipation of Spanish America', *Edinburgh Review*, Jan. 1809, vol. XIII, p. 305. See also p. 308 where he says that if the basis of representation is made too wide 'you incur the inconvenience of the ignorant and precipitate passions of the

These articles contain the essence, if not the later display of logical rigour, of Mill's *Essay on Government* (1820); and they were published before Bentham began work in 1810 on his Plan of Parliamentary Reform. Mill and Bentham approached radicalism from different directions. Both went through a period of believing that change could be brought about through existing aristocratic institutions; both became disillusioned. The difference was simply that Bentham was a disillusioned Tory while Mill was a disillusioned Whig.

It appears then that Bain was wrong in suggesting that prior to the *Essay on Government*, 'Mill had little or no opportunity for explaining his view of the theory of government' because 'Jeffrey would not trust the subject to him in the *Edinburgh*'.⁴³ But Bain was quite right to believe that Jeffrey had considerable misgivings about Mill's views and thought it necessary to edit his contributions severely. This fact emerges from a letter which Jeffrey wrote to Brougham in 1809 defending himself from what was obviously a strongly-worded attack on Mill's articles by the latter; the letter also gives some idea of the opposition aroused by Mill's relatively mild views on reform at this time. Jeffrey claimed that it was difficult to fill the review with first class material so that he was not always in a position to refuse Mill's contributions. He promised to cut them down to size in future and went on to say: 'I think him a clumsy verbose and rash writer, rather vulgar minded and not a little presumptuous, and for all these reasons more safely employed in drudgery than high speculation.' In his next letter Jeffrey said that he saw clearly 'the necessity of keeping [Mill] to lower ground, for there is a vulgarity in his arrogance and his Jacobinism that not only does us discredit but puts one out of humour with decidedness and love of liberty'.⁴⁴ Mill had ample revenge later for the indignities which he suffered at Jeffrey's hands; he wrote a withering denunciation of the timidity of the *Edinburgh Review* in matters of reform for the first number of the *Westminster Review*.

Mill continued to write for the *Edinburgh Review* for a number of years, but in 1816 he found a better platform for expounding the

vulgar. In rendering it too narrow, you incur what is still worse, the mischief of bribery and corruption.'

⁴³ *Op. cit.*, pp. 216-17.

⁴⁴ Letters to Brougham, 19 Oct. 1809 and 25 Nov. 1809, Brougham MSS., University College, London. The second letter was written after Mill's article 'Bexon's Code' had appeared in the review (Oct. 1809, vol. XV).

utilitarian creed in the *Supplement to the 4th, 5th and 6th editions of the Encyclopaedia Britannica*. The articles which he wrote for the *Supplement* over the period up to 1823 eventually covered the whole range of utilitarian interests⁴⁵; they were among Mill's most effective pieces of propaganda, and several of the most important of them were widely circulated when separately reprinted. The best-known of these articles was Mill's *Essay on Government*, which laid down succinctly, though not unequivocally, the utilitarian theory of government. In this essay he put forward a case for democratic forms of government, based not on natural rights, but on the view that only under democracy could the selfish interests of rulers be made to coincide with those of the community at large.

One controversial feature of this essay, which deserves mention here because it has a bearing on Mill's economic ideas, is the eulogy of the middle-classes with which the essay closes. Although Mill did not wish to exclude the working-classes from the suffrage, he clearly believed that they would and should be guided in their social and political habits by the example of a numerous, enlightened middle-class.⁴⁶ Mill's stress on the importance of middle-class virtues as a political bulwark was not simply part of an attempt to curry favour with this growing section of society. He was in fact quite critical of existing middle-class attitudes; and it seems likely that the English middle-classes would have had considerable misgivings about accepting Mill as their spokesman. Mill's ideal society or polity appears to have been one in which an educated bourgeoisie, untainted by excessive wealth or poverty, predominated.⁴⁷ This view, which does not seem to have been a part of Bentham's way of thinking, is Mill's inheritance from the Scottish sociological tradition. Mill followed Millar, Smith and Hume in believing that a wider distribution of property was favourable to liberal political institutions and economic progress. A society in which wealth (and consequently power) was concentrated in a few hands was inimical to the development of intellectual virtues, prudence and thrift. The only consistent 'countervailing force' against the constant ten-

⁴⁵ For a full list see the bibliography appended to this volume.

⁴⁶ For an interesting discussion of this point see J. D. Hamburger, 'James Mill on Universal Suffrage and the Middle Class', *The Journal of Politics*, 1962, vol. 24, pp. 167-90.

⁴⁷ For further discussion of this in relation to Mill's economic writings see below, pp. 195-6.

dency towards aristocratic encroachment and a 'dependent' society lay in the middle-classes. Mill's views on this question were well-defined by as early as 1811:

A middling class is itself . . . a creation of civilisation. It had no existence in the rude state of society; and it increases as the benefits of civilisation increase. It has always been our faith and trust, that in this class, and the circumstances connected with it, a power is really provided sufficient to prevent the passive or active principles of despotism in other classes from finally consummating their deplorable consequences . . .⁴⁸

These elements, quite as much as the principle of utility, went into the making of Mill's case for political reform.

The reform of political institutions, chiefly through a widening of the suffrage and the introduction of the ballot, was only one plank in the utilitarian programme for the reorganisation of society on rational and just lines. Bentham had started out as a legal reformer, anxious to eliminate the uncertainties and illogicalities of the English legal system; and it was this which originally brought Bentham and Mill together. When Mill first arrived in London he entertained the idea of giving classes in law and even of entering for the Bar.⁴⁹ It was this early interest in law and jurisprudence that led Mill to read Bentham's works.⁵⁰ Most of the early projects undertaken by Mill in Bentham's service concern legal reform; in the course of their long collaboration Mill edited many of the master's writings on these subjects, and wrote a good deal himself on prisons, penal law, codification and the laws of evidence.

On one topic, namely the law relating to freedom of the press, Mill with his practical experience as a journalist had much to offer Bentham. As a lifelong propagandist who placed great faith in the power of reason and the written word, the freedom of the press was of particular interest to Mill. He believed that a free press was an essential adjunct to a working democracy, for by this means public men could be brought under the constant pressure of public approval

⁴⁸ 'Sur la Souveraineté', *Edinburgh Review*, Feb. 1811, vol. XVII, p. 417.

⁴⁹ Bain, *op. cit.*, p. 38.

⁵⁰ He claimed to be acquainted with Bentham's writings before they actually met. In his notes to Villers's *Essay* Mill speaks of the Prussian Code with apparent authority and adopts the Benthamite position in criticising those legal systems 'which consist of vast unmanageable accumulations of cases and precedents' (*op. cit.*, p. 187).

or disapproval. It follows from this attitude that in his eyes the worst crime a man could commit was that of misleading the public. He constantly sought new 'means of obtaining access to the public mind', new channels through which the 'truth' could be put before a large audience.

As any reader of his son's *Autobiography* must be aware, James Mill held strong views on education. He was the schoolmaster *par excellence*. To a large extent his fame rests on his rôle as teacher and guide to a whole generation of utilitarians, of whom, his son, Ricardo, Place and Grote were only most notable. He was also discreetly involved in many of the early nineteenth-century schemes for making education available to those who by virtue of poverty or religion were excluded from the existing system. He entered into the Lancaster-Bell controversy in opposition to Bell's Anglican supporters who wished to keep popular education in the hands of the established Church⁵¹; he helped to found the West London Lancasterian Association in 1813; and was probably responsible for stimulating Bentham's interest in establishing a Chrestomathic School. Most of these early efforts, however, were unsuccessful.

Mill's financial burdens were lightened to some extent by his association with Bentham. In 1814, after an abortive earlier attempt, Bentham succeeded in settling Mill's family in a house near his own. Bentham leased a house in Queen's Square which Mill rented, initially at least, at half-price. From 1809 until 1818 it was customary for the Mill family to accompany Bentham for part of the year to his country residence, Barrow Green, and later, Ford Abbey. Here Bentham could call on Mill's company and assistance, while Mill was free to work on his *History of British India*.⁵² This situation of close intimacy and partial dependence was not without friction. In 1814 an incident occurred which nearly led to complete separation: Bentham took umbrage because Mill went riding with Joseph Hume instead of walking with him. Mill's restrained and dignified letter to Bentham after the event does him great credit. He proposed that they should cease to live so closely in the future; but was most anxious that, for the good of the 'grand cause' in which they served as master and 'faithful and fervent disciple', they should conceal their personal differences from the outside

⁵¹ See his pamphlet *Schools for All*, London, 1812.

⁵² In 1817, the year the *History* was published, ten months were spent in the comparative solitude of Ford Abbey.

world. He entertained the idea of leaving the house which he rented from Bentham to take up residence in France, where he believed that he could live more cheaply.⁵³ Mill's insecurity and money worries at this time were a source of anxiety to his friends. Francis Place proposed to raise £3,000 by subscription and to have it secretly deposited to Mill's account. The scheme came to nothing, probably as a result of fears of offending Mill's pride.⁵⁴ Nevertheless, it seems likely that Place, who managed Mill's financial affairs, lent him money during this period.

The break with Bentham did not take place in 1814, but the situation was never completely satisfactory after this. Bentham continued to find Mill indispensable, while Mill for his part felt a sense of obligation to his ageing and irascible master. The nature of their relationship can be illustrated by the following letter which Mill wrote to Place when Bentham decided to undertake expensive repairs to Mill's house.

Ought I to permit so much expense to be incurred on my account when it may not be in my power to fulfil the expectations grounded upon it – this I do indeed feel to be a mighty consideration, but on the other hand there are considerations too – If this [outlay?] has a reference to my abode it stresses he thinks my being near him a thing of no small importance to his happiness and though I have no doubt he would soon learn to do without me, yet I could not forgive myself if I did anything to impair his happiness for any part of his now contracted time. [Bentham lived a further thirteen years] Another thing is, it is really a source of happiness to myself to be near him, and [though?] there are no small incompatibilities between us I could not part from him without a good deal of emotion. The union in intellectuals, which is perfect, with the first man for intellectuals in his age, cannot fail to be a source of pleasure, and

⁵³ See Bain, *op. cit.*, pp. 136–40; and letter from F. Place to E. Wakefield, Dec. 1814, B.M. Add. MSS., 3512, f. 116.

⁵⁴ The tone of the proceedings can be gauged by a letter from F. Place to E. Wakefield, 7 Oct. 1814. (B.M. Add. MSS., 35142, f. 89 and reply, f. 100.) Place writes: 'I was convinced that he was struggling with poverty, and that it was a disgrace to his friends to *permit* him to remain in such a situation . . . Shall such a man be left to the chance of sickness to reduce him to absolute want, shall he be destroyed by anxiety and corroding cares, which the firmest mind cannot always repel when no prospect of better days presents itself . . . I will put down £250, Lamb I cannot doubt will do the same, Mr Bentham should put down £500 – then there is Mr Allen, Ricardo, Brougham, Romilly, Wedgewood, etc.'

in the morals and sympathies with a good many clashings between him and me, there is also much in his character to love, his sincerity and simplicity of character it would not be easy to match and there is nothing which goes so far as these two qualities in laying the foundation of attachment.⁵⁵

Towards the end of 1817 Mill completed his *History of British India*. Not long after its publication in Jan. 1818 the possibility that Mill might get a job with the East India Company was mentioned⁵⁶; and in the following year he was appointed Assistant Examiner at a salary of £800 per annum. Influence may have been exerted in Mill's favour by Joseph Hume, Ricardo and Grote, but the *History* was undoubtedly the main factor making for success.⁵⁷ Mill was aware that Canning, the President of the Board of Control, was favourably impressed by his book, but felt, quite naturally, that his radical opinions on domestic political issues would make him unacceptable to the Company. But the Company needed able men at this time to accomplish the reform of their legal and administrative machinery. The Evangelical group rising to power within the Company did not accept Mill's political and religious ideas, but they were in basic agreement with the view which Mill stressed throughout his *History*, namely that India should be governed according to British rather than 'native' standards.⁵⁸

Mill's appointment placed him in a position of power for the first time; he now had a unique opportunity to put into practice the legal, administrative and economic ideas of philosophical radicalism. His pleasure at finding himself in this position emerges plainly from the following letter which he wrote to Dumont explaining his duties:

⁵⁵ Letter to Place, 13 Sep. 1818. B.M. Add. MSS., 35153, f. 50. See also Letter to Ricardo, 24 Aug. 1817, Ricardo's *Works*, vol. VII, p. 182.

⁵⁶ See letter from Mill to W. Thompson, 22 Feb. 1818, in Bain, *op. cit.*, p. 167.

⁵⁷ Place's account in a letter to T. Hodgskin, 8 Sep. 1819 (B.M. Add. MSS., 3513), makes this clear.

⁵⁸ On this see below, pp. 385-91. The Evangelical and utilitarian contributions to the change which took place after 1818 in the British attitude to Indian government are discussed by P. Spear, 'Bentinck and Education', *Cambridge Historical Journal*, 1938, vol. X, pp. 78-101. The two doctrines are compared and contrasted in E. Stokes, *The English Utilitarians and India*, Oxford University Press, London, 1959, pp. 54-58. Before his appointment, Mill gave assurances to one of the leaders of the Evangelicals, Zachary Macaulay, that he would fall in with Charles Grant's views or resign if he could not agree. See letter to Macaulay, 13 Apr. 1819 reprinted in Lady Knutsford's *Life and Letters of Zachary Macaulay*, London, 1880, pp. 341-8.

The time of attendance is from 10 till 4, six hours; and the business though laborious enough, is to me highly interesting. It is the very essence of the internal government of 60 millions of people with which I have to deal: and as you know that the government of India is carried on by Correspondence, and that I am the only man whose business it is, or who has the time, to make himself master of the facts scattered in a most voluminous correspondence, on which a just decision must rest, you will conceive to what an extent the real decision on matters belonging to my department rests with the man in my situation.⁵⁹

A further result of Mill's appointment was that he became financially independent. When his salary rose to £1,000 per annum in 1821 he informed Dumont that 'with my humble habits, large as my family is, I now think myself rich'.⁶⁰ Although he continued to live close to Bentham in Queen's Square until 1830, his increasing absorption in Indian affairs meant that the two men saw less of each other; and while in all intellectual matters they remained allies, their personal relations gradually became less friendly and more diplomatic.⁶¹

In the 1820's, under the fatherly eye of James Mill and with the aid of the enthusiasm of the younger utilitarians led by John, the philosophical radical movement gained in strength and confidence. The most obvious external sign of this was the foundation of the *Westminster Review* in 1824. Mill's duties at India House made it impossible for him to accept the post of editor for which he was eminently qualified. But despite his dislike of Bentham's choice as editor, John Bowring, Mill made ample use of the opportunity to express his views in a radical journal, freed from the interference of a Jeffrey, and the restraint required when writing for the *Encyclopaedia Britannica*. Apart from the thunderous articles which he wrote for the *Westminster Review*, Mill also found time from his official duties to write two major works

⁵⁹ Letter to Dumont, 13 Dec. 1918. Dumont MSS., Bibliothèque Publique de Genève.

⁶⁰ Letter to Dumont, 8 Jun. 1821, *ibid*.

⁶¹ In 1827 they quarrelled once more, this time over books borrowed by Mill. They were removed from Mill's house (together with some of Mill's own books) by Bentham's nephew. In the Bentham MSS. at University College, London, there is a very curt, sarcastic note from Mill congratulating Bentham on the 'handsome manner' in which his nephew had acted. (Box 10, f. 187.) Bentham passed on to Bowring a number of sharp criticisms of Mill's character, which drew an indignant defence from John Stuart Mill when they were repeated by a reviewer of Bowring's edition of Bentham's *Works*.

during this period: the *Elements of Political Economy* (1821) and the *Analysis of the Phenomena of the Human Mind* (1829).

By 1830 Mill had reached the zenith of his career and influence. He was by this time in a position to adopt a comfortable style of life, with a new house in Kensington and a cottage in the country at Mickleham. Added to this was the satisfaction of seeing many of the causes for which he had worked so long, reaching fruition. University College, an outgrowth of earlier education schemes, had been launched; and the Society for the Diffusion of Useful Knowledge had begun its series of publications in an effort to acquaint the adult working classes with the reasons and appropriate remedies for their condition. Together with Brougham, Mill had played an important part in both of these projects. At India House he was now Chief Examiner, and his importance to the Company was made plain by the dominant part which he played in explaining and defending the Company's policy before the Select Committee in 1831-2.⁶² In 1834 he felt able to claim that 'India will be the first country on earth to boast a system of law and judicature as near perfection as the circumstances of the people would admit'.⁶³ On the domestic political front the reform movement was gradually achieving success. After the Reform Bill had been passed, Mill found himself in the flattering position of elder statesman and adviser to Brougham, the Lord Chancellor, and to the radical group which was then represented in Parliament. Moreover, when he died in 1836, he had the satisfaction of knowing that he left behind him in John Stuart Mill a 'worthy successor'.

James Mill was the most uncompromising exponent of the utilitarian point of view in the early nineteenth century; he contributed to every aspect of its theory – legal, political, ethical and psychological – and was involved in most of the schemes to put these principles into practice. There were no loose ends in Mill's make-up; precept and practice were united; the man, his life, personality and writings were one. For this reason it is impossible to avoid making some reference to his character. It must be admitted that the picture which emerges from Mill's writings is not a very engaging one. He seems to personify many of the worst characteristics of 'steam intellect' utilitarianism. The list of charges against him is formidable: he has been described as

⁶² For more on this see below, p. 393.

⁶³ Letter to Brougham, 27 Aug. 1834 in Bain, *op. cit.*, pp. 374-5.

pedantic, dogmatic, pontifical, narrow, austere and authoritarian. Readers of his son's *Autobiography* will not be able to avoid the impression of a stern, humourless disciplinarian, antipathetic to spontaneity and feeling. When so much has been said against Mill, it can hardly do much harm to remember a few of the things to be said in his favour.

For many, the most telling evidence of Mill's shortcomings as a person is to be found in the manner and aim of his son's education.⁶⁴ It may be worth recording that Mill was not entirely unaware of his faults in this respect. In advising Francis Place on the education of his son, Mill gave the following warning:

Neither expect nor exact too great things from him – that is the fault of all of us whose notions of perfection are high and aspirations after it keen. You will find him all that you are *entitled* to expect and more, after that you must be prepared with a proper stock of allowance. This is a doctrine you have full as much need to preach to me as I to you.⁶⁵

There was obviously more to Mill than can be gleaned simply from his writings, otherwise it is difficult to explain his wide circle of friends and the influence which he exerted on contemporaries who were at least his equal in intellect. We know that he made a special study of rhetoric, and all those who met him testify to the impressiveness of his conversational powers. One did not have to be a small boy to be swayed and dominated by Mill's powerful personality. A good example of this can be found in Mrs Grote's biography of her husband. When they first met George Grote recorded of Mill that 'his mind, has indeed, all that cynicism and asperity which belong to the Benthamian school, and what I chiefly dislike in him, is the readiness and seeming preference with which he dwells on the *faults and defects* of others – even of the greatest men!' This view did not last long.

Before many months, ascendancy of James Mill's powerful mind over his younger companion made itself apparent. George Grote began by admiring the wisdom, the acuteness, the depths of Mill's character. Presently he found himself enthralled in the

⁶⁴ For a recent defence of Mill's methods, however, see H. O. Pappé's review of *The Early Draft of John Stuart Mill's Autobiography* (ed. J. Stillinger) in the *Journal of English and German Philology*, Jul. 1962, vol. LXI, pp. 657-9. Dr Pappé concludes that 'James Mill was a remarkable educator for a pupil such as his son, and that John gained more than he lost from the mode of his education'.

⁶⁵ Letter to Place, 27 Oct. 1816. B.M. Add. MSS., 3512, f. 227

circle of Mill's speculations, and after a year or two of intimate commerce there existed but little difference, in point of opinion between master and pupil . . .

Although his own nature was of a gentle, charitable, humane quality, his fine intellect was worked upon by the inexorable teacher with so much persuasive power, that Grote found himself inoculated, as it were, with the conclusions of the former, almost without a choice; since the subtle reasoning of Mr Mill appeared to his logical mind to admit of no refutation . . .

This able dogmatist exercised considerable influence over other young men of that day, as well as over Grote. He was, indeed, a propagandist of a high order, equally master of the pen and of speech. Moreover, he possessed the faculty of kindling in his audience the generous impulses towards the popular side, both in politics and social theories; leading them, at the same time, to regard the cultivation of individual affections and sympathies as destructive of lofty aims, and indubitably hurtful to the mental character.

So attractive came to be the conceptions of duty towards mankind at large, as embodied in James Mill's eloquent discourse, that the young disciples, becoming fired with patriotic ardour on the one hand and with bitter antipathies on the other, respectively braced themselves up, prepared to wage battle when the day should come, in behalf of 'the true faith', according to Mill's 'programme' and preaching.⁶⁶

Mill was equally capable of winning the respect of his opponents. Thomas Macaulay, for example, had attacked the utilitarian point of view, as expressed in Mill's *Essay on Government*, root and branch. Yet Mill, acting in an entirely non-partisan spirit, recommended Macaulay for a post in the government of India which Mill had specifically advised should go to a man capable of taking a philosophic view of politics. As a result of this the two men met and became friends. Even though Macaulay's political views were unchanged, he omitted from the collected edition of his writings the articles in which he attacked Mill, because he felt that they did not do justice to his opponent's talents.

Mill's virtues were considerable, but they tended to be public rather than private virtues. As his close friend and admirer Francis Place put it: 'He could help the mass, but he could not help the individual, not even himself, or his own.'⁶⁷ He was diligent, scrupulous

⁶⁶ *The Personal Life of George Grote*, London, 1873, pp. 22-24.

⁶⁷ G. Wallas, *op. cit.*, p. 79.

and dedicated in the service of what he believed would be for the good of the greatest number. The moral intensity of his religious upbringing was transferred to his faith in the 'march of the mind'. In spite of a personal belief that human life was 'a poor thing at best, after the freshness of youth and of unsatisfied curiosity had gone by', his confidence in the power of reason, education and good government to improve the lives of the mass of society made him an impatient optimist, anxious to force the pace of change. And when one remembers the abuses and the nature of the opposition to change at the time, it is easy to understand his impatience.

So far as Mill's writings are concerned, it must be said that he never claimed originality, merely certainty. He would have been the first to admit that most of his works were expositions or elaborations of systems of thought which others had initiated. Despite the philosophic or 'scientific' tone of many of Mill's writings, they were, for the most part, written with a limited propaganda target in view. This is the source both of their weakness as enduring or subtle contributions to social and political theory, and of their interest to the historian. His son, who felt the full weight of his father's personality, has left us with what is still the best epitaph for James Mill: 'He did injustice to his own opinions by the unconscious exaggeration of an intellect emphatically polemical.'

II. EARLY ECONOMIC WRITINGS: 1804-1808

James Mill is known among economists chiefly for his rôle as midwife in the birth of Ricardo's *Principles of Political Economy* (1817), and for his efforts as a Ricardian propagandist. But Mill did not meet Ricardo until 1808, by which time he had already written two pamphlets and a number of review articles on economic questions, while Ricardo had hardly begun his career as an economist. Apart from the two pamphlets and the extract from one of Mill's articles which are reprinted and introduced below, much of Mill's early economic journalism suffers from the fact that he relied exclusively on such work to support himself.¹ Nevertheless, it is of considerable value to those interested in the development of economic thought in the neglected period between Adam Smith and Ricardo. Mill's original contact with the science of political economy probably came when he attended Dugald Stewart's lectures while a student at Edinburgh. Stewart had studied under Adam Smith, and lectured on political economy in a Smithian vein, though with some physiocratic deviations. James Mill, therefore, has some claim to be considered as a link, albeit indirect, between the founder of classical economics and Ricardo, its next great exponent.

Mill possessed in full measure what the philosophers of the eighteenth century referred to as *l'esprit de système*; in all spheres of his considerable intellectual activity he appears as the disciple and determined partisan. Adam Smith was the dominant influence on Mill's work at this time, and all of his early economic writings take the form

¹ The bulk of Mill's economic writings at this time appeared in the *Literary Journal* and the *Eclectic Review*: a list of such reviews as can with some certainty be attributed to him can be found in the bibliographical appendix to this volume. Mill was responsible for the reviews of political works (which included political economy) in the *Literary Journal*, and as editor it is unlikely that he would have published anything which ran counter to his own strong views on these subjects. Although there is no contemporary identification of authorship for the *Literary Journal* or the *Eclectic Review*, all of the articles cited here and in the bibliography contain internal evidence of his hand, chiefly in the form of passages which also appeared in acknowledged work.

of defences of Smith's doctrinal and policy views. Although this is evident in the works reprinted here, in some respects their chief interest lies in the hints they provide of future developments, rather than in their Smithian basis. Mill spoke of Smith at this time as 'that matchless political philosopher', comparing him with Copernicus and Newton to the detriment of his Ptolemaic critics. This feature of Mill's early writings can be illustrated by the following comparison which he made between Smith and Sir James Steuart; it also provides insight into the characteristics which Mill prized in works of political economy.

Sir James surveyed the current systems with an eye more than ordinarily enlightened. It perceived that they were not sufficient. But it did not enable him to see through the subject, and to find out what was wanting to the establishment of satisfactory doctrines. He rather aimed at improvements than made any. His mind was not of that first order which lays hold of general relations, and by happy classifications is enabled to disentangle confusion, and ascend to simple and comprehensive axioms. To Sir James's eye the subject presented itself as a rude chaos; and he found himself unable to reduce it to light and order. He laboured zealously, but his labours came to nothing. He explained some old errors, and established some new truths. But his opinions have no general bearing. The mind is bewildered in following Sir James's speculations. The general principles of Political Economy seem to become more obscure in his hands than they were before. Dr Smith was accustomed to say that he understood Sir James Steuart's system better from his conversation than from his volumes; and at this we do not wonder. For, in truth, there is no combination of principles in his volumes which can be called a system at all. He adheres to the old commercial system; that is to say, the general strain of his reasonings and observations is more in conformity with this than with any other; yet he departs from it in many important doctrines, without perceiving whither these departures lead.

The labours of Dr Smith were of a different kind. He not only perceived that the preceding systems were deficient, but he perceived wherein they were deficient. He looked through the confusion of the subject; and after removing the unfounded theories of his predecessors, established with the evidence of demonstration a number of propositions, which truly deserve the name of principles. Sir James Steuart's book added very little to the knowledge of Political Economy. He had a confused perception of the insufficiency of what had been done before him; he discovered here and there an error, and added here and there an ingenious thought of his own. But Dr Smith reared the

study to the dignity of a science. He explained the real sources of wealth, which till his time had been so grossly misunderstood; and conferred as great a benefit upon Political Economy, as was conferred on Astronomy by those philosophers who first confuted the perplexed doctrine of the cycles and epicycles, and established the simple principles of the Copernican system.²

Each of the works reprinted here was undertaken as a contribution to contemporary discussions of issues raised or connected in one way or another with government policy during the early phase of the Napoleonic Wars. The first work deals with the problem of grain scarcity and the policy of the government towards domestic agriculture and the importation of foreign foodstuffs. The second concerns the gains from international trade and Britain's commercial policy in the light of Napoleon's economic blockade: in dealing with this, Mill was drawn into wider questions, such as the causes of economic growth and the effect of government expenditure. In the last work belonging to this period we see Mill's contribution to the debate on monetary questions initiated by the restriction on cash payments during the war.

1. *An Essay on the Impolicy of a Bounty on the Exportation of Grain* (1804)

This was Mill's first separate work and has been described by D. G. Barnes, the author of the standard history of the Corn Laws, as 'probably the ablest pamphlet against the bounty which was produced during the entire controversy over the merits of that system'.³ It appeared originally in the *Literary Journal*, Oct. 1804, as a review of a pamphlet by James Anderson⁴; and was expanded and published anonymously in the same year.

The background to Mill's pamphlet, like the Corn Laws themselves, is rather complex. One sign of the structural changes in the British economy associated with the industrial revolution was that towards the end of the eighteenth century Britain became a net importer of corn in contrast to her net exporter position at the beginning of the century.

² See the review of Steuart's *Collected Works*, *Literary Journal*, Mar. 1806, Vol. 1 (2nd Series), pp. 231-2. Lauderdale's *Inquiry into the Nature and Origin of Public Wealth* was also made the object of unfavourable comparison with Smith in the same journal, Jul. 1804, pp. 1-18.

³ *A History of the English Corn Laws, 1660-1846*, Augustus M. Kelley reprint, New York, 1961, p. 90.

⁴ *A Calm Investigation of the Circumstances that have led to the Present Scarcity of Grain in Britain*, London, 1801.

Although domestic agriculture had expanded by means of enclosure, cultivation of waste land, and improvement of farming methods, the expansion was not sufficient to keep pace with the growth of population and of the manufacturing sector. Together with this secular change, and to some extent confused with it, were periodic crises brought on by poor harvests and exacerbated by the hindrance to foreign supplies during the Napoleonic Wars. In Dec. 1799 a crisis of this kind led to a panic rise in the price of wheat. Prices continued to rise throughout the following year after another bad harvest, reaching a peak of 156s. per quarter in Mar. 1801.⁵

It was during this period of scarcity that James Anderson's pamphlet appeared. Anderson was a strong supporter of schemes to protect and encourage domestic agriculture, and held that a return to the export bounty system would solve the problems of recurrent scarcity and dependence on foreign supplies. He supported this opinion by reference to what he considered to be past experience. When the bounty system had been in full operation between 1689 and 1773, agriculture had flourished, prices had fallen, and Britain had been a net exporter of grain products. After the Corn Law of 1773, which was regarded by friends and opponents of agricultural protection alike as marking a change towards diminished protection,⁶ agriculture had suffered, exports had fallen, and prices had risen. The change in Britain's status from exporter to importer of corn was due entirely to legislation inspired by 'speculative' opinions; and here Anderson singled out Adam Smith for criticism, since Smith had attacked the bounty system and welcomed the law of 1773.⁷

The acute scarcity abated later in 1801, and for the next three years prices continued to fall, reaching 50s. per quarter by the spring of 1804, just above the pre-war level. This naturally aroused concern among land-owners. A Select Committee was appointed in May 1804 to reconsider the Corn Law of 1791, which had given an increased measure of protection at the time, but was now thought not to guarantee a 'fair and reasonable price' to the farmer. As a result of the Committee's

⁵ See W. F. Galpin, *The Grain Supply of England during the Napoleonic Period*, Macmillan, New York, 1925, Appendix 5.

⁶ Barnes, *op. cit.*, pp. 43-45 has shown this to be a misinterpretation of the law of 1773.

⁷ *Wealth of Nations* (ed. E. Cannan), Modern Library edn., bk. IV, ch. V. For Anderson's criticisms see *op. cit.*, p. 16f.

findings a Bill was passed later in the year which conceded higher protection and endorsed the bounty principle.⁸ The measure proved to be unnecessary. Between 1804 and 1813, poor crops, and after 1807, the operation of the Continental System, kept prices above the level specified. Its true significance has been explained by Barnes as follows:

In reality the Act of 1804 was merely a link between that of 1791, which marked the first decided use of political power by the landed interest to secure class legislation, and that of 1815, which marked the most extreme use of this power.⁹

It was this Act and the reasoning of its supporters that Mill set out to attack. Mill upheld Smith's position with regard to the bounty system, but added a number of touches of his own. He believed that Britain had become a net importer of grain as a result of the growth of manufacturing and population relative to agriculture; and that the bounty had nothing to do with this. He went on to advance the proposition, based on the Malthusian principle that population and the demand for corn always rise to a level determined by subsistence, that a bounty is never required to ensure a 'sufficient' market for agricultural products. It is an elementary principle of society 'that a sufficient market is always provided at home, for all the corn which the land with the utmost exertions of the farmer can ever be made to produce; that the demand will always be proportioned to the supply, however great that supply may be; and that a foreign market can never be wanted for any quantity of corn that can be regularly produced'.¹⁰ In his later pamphlet, *Commerce Defended*, a similar conclusion regarding foreign markets, derived from Say's Law, was applied to all goods.¹¹

The bounty was unnecessary and could have no effect on agricultural production because although it raises the home price of corn, it does not raise the farmers' profits, except perhaps temporarily. Competition among farmers and the ability of the landlord to raise his rent combine to bring profits down to the 'lowest consistent with the nature of the business'. Adam Smith in his criticism of the bounty had said that with higher prices the farmer pays 'his landlord a money rent proportionable to the rise in the money price of his produce'¹²; but had stressed the fact that neither landlord nor farmer would be better off in real terms owing to the effect of a rise in the price of corn on the price

⁸ 43, 44 Geo. III, c. 109.

⁹ *Op. cit.*, p. 89.

¹⁰ See below, p. 56.

¹¹ See below, pp. 150-1.

¹² *Wealth of Nations*, p. 477.

of all other goods. Mill also makes the point that since 'the money price of corn regulates the money price of everything else', the effect of the bounty is to lower the value of money. But it is possible to detect the germ of the later Ricardian attack on the Corn Laws in Mill's view that by enabling land-owners to charge higher rents, the 'sole effect' of the bounty 'is to put money into the pockets of the proprietors of land, by taking it out of the pockets of all other classes of the people'.¹³ Nevertheless, in the concluding chapters of his pamphlet, where he puts forward a case for free exportation and importation of corn, Mill is closer in spirit to the world of Adam Smith than to Ricardo and the debate on the Corn Laws as it was renewed in 1815. He concerns himself mainly with the benefits of free trade as a device for overcoming scarcity and minimising fluctuations in the price of corn, rather than with the effect of free trade on the division of the total product between rent, profits and wages.

2. *Commerce Defended* (1807)

Napoleon's campaign of economic warfare against Britain was initiated by the Berlin and Milan Decrees of 1806 and 1807 which prohibited all trade with Britain. In retaliation, Orders in Council were issued in 1807 confirming the blockade already maintained by the British navy on the Continental coast, and placing restrictions on all neutral ships trading with the Continent.¹⁴ Before writing *Commerce Defended*, the treatment of neutral ships had received Mill's attention in the *Literary Journal*. The question arose first in connection with the attempt to reconstitute the British colonial system by a series of Orders in Council after the American Revolution. This system was designed to protect British economic and naval interests by maintaining the monopoly of the colonial trade and its carriage. Under conditions of war the system proved difficult to operate without causing hardship to the West Indies, and ad hoc concessions were made which allowed American ships to share in the trade with British colonies. As the war on the economic front spread, a connected question arose as to the treatment that should be given to neutral ships trading with Britain and Europe. Mill consistently upheld the liberal view on this matter as put forward by Adam Smith; he attacked exponents of the old

¹³ See below, p. 59.

¹⁴ The economic background to the blockade has recently been treated exhaustively by F. Crouzet, *Le blocus continental et l'économie britannique*, Paris, 1958.

colonial system like Lord Sheffield,¹⁵ and defended the neutral trade against those who held that it was aiding the enemy.¹⁶

The really important phase of the economic controversy aroused by the Napoleonic blockade opened in 1807 when William Spence published his *Britain Independent of Commerce*. Under the guise of dealing with the current crisis, Spence set out to show 'that though Europe and America, Asia and Africa, were to resolve never more to use an article of British manufacture, still this favoured isle has the means within itself, not merely of retaining the high rank which she possesses, but of progressively going on in her career of prosperity and of power'. In the circumstances, it is hardly surprising that this position was eagerly taken up and widely discussed. Spence's pamphlet eventually ran to seven editions, and his views were given wider currency by William Cobbett who reprinted large extracts from the pamphlet in his *Political Register*.¹⁷ Spence elicited two important rejoinders, one by Robert Torrens entitled *The Economists Refuted* and the other by James Mill which is reprinted here.¹⁸

Spence's pamphlet was one of a number of works published at this time which set out to revive certain notions derived from the physiocrats in opposition to the 'orthodox' views of Adam Smith.¹⁹ This does not mean that Spence can be taken as a fair representative of physiocratic ideas since he does not hesitate to abandon them in favour of arguments derived from mercantilist writers, and even Smith himself,

¹⁵ See e.g. his review of Sheffield's *Strictures on the Necessity of Inviolably Maintaining the Navigation and Colonial System*, *Literary Journal*, Jan. 1806, vol. I (2nd Series), pp. 51-61. Some of the points Mill made later in his article on 'Colonies' for the *Supplement to the Encyclopaedia Britannica* are anticipated here.

¹⁶ See the articles on this subject in the *Literary Journal* for Dec. 1805, Feb., Mar. and Jun. 1806.

¹⁷ See articles entitled 'Perish Commerce' in *Cobbett's Weekly Political Register*, Nov. 7, 21, 28 and Dec. 5, 12, for 1807. Correspondence on the question continued until Mar. 1808.

¹⁸ As a curtain-raiser Mill reviewed Spence's work in the *Eclectic Review*, Dec. 1807, vol. III, pp. 1052-8. Other contributions to the discussion include a review of Spence in the *Edinburgh Review*, Jan. 1808, vol. XI, pp. 429-48; P. Williams, *Remarks Suggested by Britain Independent of Commerce*, London, 1808; and (anon.) *Sketches on Political Economy intended as a Reply to Mr Mill*, London, 1809.

¹⁹ On this see R. L. Meek's 'Early Theories of Under-Consumption' and 'Physiocracy and Classicism in Britain' as reprinted in his *Economics of Physiocracy*, Allen and Unwin, London, 1962, and J. J. Spengler 'The Physiocrats and Say's Law of Markets', *Journal of Political Economy*, Sep. and Dec. 1945, vol. LIII, pp. 193-211 and pp. 317-47.

where convenient to his case. Spence was nothing if not an eclectic. Mill certainly recognised this. He was willing for polemical purposes to make good use of the inconsistencies in Spence's hotch-potch of doctrines, but he also saw the need to go beyond a simple refutation of physiocracy to answer Spence's case.

Spence begins, at least, as a physiocrat. Agriculture is the real source of a nation's wealth because only in agriculture does labour earn a return which exceeds that required to replace capital and support labour during the production period. This net surplus accrues to the land-owner in the form of rent. Labour employed in manufacturing yields a subsistence-wage together with a 'normal' profit for the employer. Any 'abnormal' profit must be earned at the expense of other members of society, and this means, ultimately, at the expense of the rent-receiving classes. Under no circumstances, therefore, do manufacturing profits add to the net surplus of the society. But manufactures should not be discouraged: on the contrary, the existence of a manufacturing sector is necessary as a stimulus to the raising of an agricultural surplus. Agriculture and manufacturing 'are the two chief wheels in the machine which creates national wealth'²⁰; to set this machine in motion and keep it running smoothly the expenditure of the landowning classes is essential.

This leads Spence on to a criticism of Smith's view that parsimony and accumulation are the foundation of a nation's prosperity. Like Malthus, whose point of view he anticipates, he attacks savings not because they are hoarded, but because they entail a diversion of expenditure towards investment and away from immediate consumption. The fall in consumption expenditure brought about by an increase in investment leads to a decline in national prosperity.²¹ Since 'expenditure not parsimony is the province of the class of land proprietors', they perform their 'duty' best if their expenditure increases progressively. To this end, Spence extols the virtues of all forms of luxury spending. Even expenditure on frivolous luxuries helps to maintain *prosperity*, though he admitted that it would be more advantageous to a nation's *wealth* if expenditure were to be concentrated on such durable goods as 'splendid palaces'.²²

²⁰ See *Britain Independent of Commerce*, p. 24. All page references are to the 7th edition as reprinted in Spence's *Tracts*, London, 1822.

²¹ *Ibid.*, p. 28.

²² To the possible objection that an increase of luxury would debilitate the nation, he makes the following reassuring response: 'However great may be the quantity of

Land-owners had not always carried out their spending duties to the full, but fortunately the growth of the National Debt had come to the rescue by converting 'what was destined for capital into consumable revenue', thus averting the problem of over-accumulation of capital.²³ It is true that the National Debt brought with it a heavy tax burden, but 'this very oppression is the means of bettering the condition . . . of the lowest ranks of society'.²⁴ For these reasons he considered high levels of government expenditure, as during periods of war, to be favourable to prosperity, and agreed with Lauderdale in opposing the setting up of a sinking fund.

It is in this context that Spence's attitude to commerce as a source of wealth must be considered. Wealth is primarily the result of interaction between domestic agriculture and manufacturing; commerce has a minor and dispensable part to play. Commerce is simply an exchange of equivalents; a nation gains nothing apart from 'conveniences' from importing because an equivalent outpayment must be made. Profits may be earned by individual importers, but these are gained at the expense of domestic consumers. He does admit that where exports exceed imports, the profits on such excess, being earned at the expense of foreigners, make a positive, if much overrated, contribution to wealth. Here he makes use of an argument borrowed from the mercantilist writers, namely that durable commodities are more valuable than 'fugitive and evanescent' goods. Viewed in this light it is obvious that Britain loses by trade.

We supply them with commodities of absolute necessity to comfortable existence, and we receive in return from them such precious articles as tea - which debilitates us, without affording an atom of nourishment: as wine, rum, brandy, which do us the favour of shortening the days of a great proportion of our population. It is the countries we trade with, and not we, that get rich by our commerce.²⁵

He admitted though, that any sudden loss of foreign markets could bring temporary distress, and it is perfectly in keeping with Spence's views on government expenditure that he should advocate a pro-

luxuries produced by the manufacturing class, the bulk of that class, from which the army of the state must be directly supplied, will never enjoy more than the bare necessities of life, and consequently cannot be enervated by the luxuries it brings into existence.' *Ibid.*, p. 31.

²³ *Ibid.*, p. 71n.

²⁴ *Ibid.*, p. 72n.

²⁵ *Ibid.*, p. 52.

gramme of public works to deal with such disorders.²⁶ In the long run, however, he appears to have felt that the best solution would be to divert spending from foreign to home-produced luxuries and necessities.

Mill's reply to Spence begins in earnest in Chapter IV with an attack on the fundamental physiocratic proposition that manufacturing profits, unlike rent, form no part of the net surplus of a society.²⁷ He maintains that profit is a legitimate return on invested capital resulting from the enhanced productivity of labour when employed by capital, and not merely a transfer income earned at the expense of the consumer. He considered that Spence had fallen into a related fallacy when dealing with the gains derived from international trade. A nation gains from trade by the resultant increase in the 'productive powers' of its labour and land. These gains can be measured by the savings in real cost (expressed in physical terms of the wage-good corn) obtained by importing goods which, if produced at home, would cost more than the goods exported in exchange.²⁸ This is not a statement of the comparative cost doctrine enunciated later by Ricardo; it does not make explicit the idea that importation would involve gain even if the cost of producing the good was higher abroad than at home. Mill's statement is one version of an eighteenth-century rule, of which the comparative cost doctrine was a refinement; but as Professor Viner has pointed out, the comparative cost doctrine 'adds nothing to [the rule] as a guide for policy'.²⁹

Mill moves on to counter Spence's under-consumptionist interpretation of the relationship of capital accumulation, consumption and government expenditure. *Commerce Defended* supplies an important link in the continuity of 'orthodox' macro-economic views between Smith and Ricardo. Mill, making use of ammunition provided by Smith, fires the opening salvo in the battle between those who saw only benefit in the process of capital accumulation, and those who believed that it was possible for accumulation to be 'excessive' in some

²⁶ *Ibid.*, pp. 58-59.

²⁷ It is worth noting that Mill was favourably inclined to the physiocratic account of the foundation of society and their Hobbesian view of sovereignty. He also approved of their advocacy of commercial liberty, but felt that their economic ideas had been superseded by the work of Adam Smith. See his article on the 'Economists' for the *Supplement to the Encyclopaedia Britannica*, London, 1824, vol. III, pp. 708-24.

²⁸ See below, pp. 108-9. A different approach to the gains is attempted on pp. 149-50.

²⁹ *Studies in the Theory of International Trade*, Harper, New York, 1937, p. 440.

sense: between those who regarded the economy as being self-regulating, and those who considered that some form of intervention might be required to achieve the 'correct' level of consumption expenditure and to avoid economic breakdown. Mill versus Spence gives a foretaste of Ricardo versus Malthus.

Mill accepted the growth-oriented interpretation of the wealth of a nation made popular by Smith: that wealth consists of a nation's 'powers of annual production' rather than its total accumulated stock of capital. The only part of the total stock of accumulated capital which was important to the growth of annual produce was that destined to support or aid productive labour.³⁰ Mill does not define the terms productive and unproductive labour; he reformulates Smith's idea in terms of the goods (but not services) consumed or used by the two types of labour. Under unproductive consumption he includes all luxuries (whether consumed by productive or unproductive labour) and the 'necessaries of life' consumed by unproductive labour. Productive consumption consists of the machinery, raw materials and wage-goods used by productive labour. The first form of consumption 'means extinction, actual annihilation of property' whereas the second 'means, more property, renovation, and increase of property'.³¹ The distinction can be related to the point made earlier about profit: that part of the annual produce which is consumed unproductively is not available for use as capital; it does not add to the productive powers of labour and thereby earn a profit.

This line of reasoning leads on in Chapter VI to a full examination and rebuttal of Spence's case for encouraging unproductive consumption. In the interests of growth, Mill argues, it is essential to increase the volume of productive consumption at the expense of unproductive consumption. Spence's fears concerning excessive capital formation rest on a confusion which Mill sets to rights by invoking Smith's famous doctrine that 'what is annually saved is as regularly consumed as what is annually spent, and nearly in the same time too; but it is consumed by a different set of people'.³² He takes this doctrine one stage further by asserting that general over-production is impossible. 'The production of commodities creates, and is the one and universal cause which creates a market for the commodities produced.'³³ His

³⁰ See below, p. 118. For comment see E. Cannan, *Theories of Production and Distribution*, Staple Press, London, 1937, pp. 12-14.

³¹ See below, p. 128.

³² *Wealth of Nations*, I, p. 320; cf. below, p. 132.

³³ See below, p. 135.

elaboration of this principle is conducted on the assumption of a barter economy, and under these circumstances it is tautologous: though an excess supply of a particular commodity matched by an excess demand elsewhere can exist, aggregate supply must equal aggregate demand. He obviously intended to imply that the same conclusion applied to a money economy; but since he does not show how the result would be established in such an economy, it is impossible to say whether he held to what is now known as Say's Identity or to Say's Equality, i.e. whether equality between aggregate demand and supply is established regardless of money, assuming money to be simply a medium of exchange, or whether the value of money relative to goods provides the mechanism for equating aggregate demand and supply.³⁴

Mill's name is sometimes bracketed with that of J. B. Say as discoverer of this Law of Markets. In the discussions between Ricardo and Malthus on general over-production, the idea 'that in reference to a nation, supply can never exceed demand' was spoken of as 'Mr Mill's'.³⁵ But in the Preface to his *Principles of Political Economy*, Ricardo acknowledged Say as the originator of the doctrine. In view of the close friendship between Ricardo and Mill, and Mill's co-operation in producing the *Principles*, this might seem strange. Mill had in fact read the initial statement of the Law in Say's *Traité* before writing *Commerce Defended*, and went out of his way later to acknowledge Say's claims to priority.³⁶ In a note to his article on 'Economists' for the *Supplement to the Encyclopaedia Britannica* he mentions *Commerce Defended* and says:

The only part of Mr Mill's pamphlet to which it is of any use at present particularly to refer, is where he proves that a balance necessarily exists between production and consumption; and that no amount of production can ever be without a market; a doctrine of cardinal importance, first illustrated by M. Say in his very able work, entitled *Traité d'Economie Politique*, but of which the evidence will perhaps be found more clearly deduced in this pamphlet than in any other treatise yet published.

Having shown that Spence's fears concerning the rate of capital

³⁴ On this question see G. S. Becker and W. J. Baumol, 'The Classical Monetary Theory: The Outcome of the Discussion', *Economica*, Nov. 1952, vol. 19, pp. 355-76.

³⁵ Ricardo's *Works*, vol. VI, pp. 132, 134, 141-2, 149.

³⁶ He reviewed Say's book in the *Literary Journal*, Apr. 1805, vol. V, pp. 412-25, and drew attention to the law (p. 419). There is also a reference to Say in *Commerce Defended* itself, p. 132n below.

accumulation are groundless, Mill attacks the welcome given by Spence to the growth of the National Debt and to Henry Petty's schemes for alienating the sinking fund. Mill's fervour on this issue is due partly to his acceptance of the Smithian view that government expenditure is 'unproductive', and partly to his political opinions regarding the burden on the people of current war expenditure.

Perhaps the most surprising fact about Mill's reply to Spence is that he concludes by agreeing with Spence's main conclusion, that the value of commerce to a nation's wealth is much overrated.³⁷ Foreign trade leads to a better distribution of resources, but owing to the beneficent operation of the Law of Markets, trade is never necessary to guarantee full employment of those resources. He hints that 'the national prosperity may in some cases even be consulted by abstaining from [foreign trade]' so as to minimise economic instability.³⁸ Mill thus moves away from Smith's 'vent-for-surplus' view of the gains from trade to take the position later upheld by the Ricardians on this issue.³⁹

3. 'Thomas Smith on Money and Exchange', *Edinburgh Review*, Oct. 1808

One of the most important questions discussed in the early 1800's was the state of the currency in the light of the restriction of gold payments introduced by the Bank of England in 1793, and renewed throughout the war. Mill reviewed some of the important contributions to the first stage of the debate between 'bullionists' and 'anti-bullionists' in the *Literary Journal* and the *Eclectic Review*.⁴⁰ But the best statement of his views on monetary matters at this time was made in an article for the *Edinburgh Review*, part of which is reproduced below.

³⁷ See below, pp. 150-6. Torrens also accepted Spence's conclusion. 'However I may differ with Mr Spence and Mr Cobbett on subjects of political economy, yet I honour them for being the foremost to controvert the degrading opinion that England's greatness depends on anything which foreigners can grant or take away.' *The Economists Refuted*, reprinted in *Principles of Sir Robert Peel's Act of 1844*, 2nd ed., London, 1857, p. 56.

³⁸ See below, p. 156. An earlier statement of this position can be found in the *Literary Journal*, Oct. 1803, vol. II, pp. 366-74; 385-400; 433-41.

³⁹ For comment on the differences between the Ricardian and Smithian positions, see Hla Myint, 'The "Classical Theory" of International Trade and Underdeveloped Countries', *Economic Journal*, June 1958, vol. LXVIII, pp. 317-37 and D. N. Winch, 'Classical Economics and the Case for Colonization', *Economica*, Nov. 1963, vol. XXX, pp. 381-99.

⁴⁰ See the bibliography appended to this volume.

Mill took a poor view of most of the contemporary writers on the subject of money: so far as he was concerned 'the doctrine of money . . . remains as it was left by the great Father of political economy'. Unfortunately, this was one subject on which Adam Smith gave very little guidance; his views could be cited on both sides of the currency debate. Mill's strict adherence to the line laid down by Smith left him sitting on the fence between the opposing parties; it required Ricardo's intervention later to end Mill's indecision.⁴¹ Mill was not in favour of continuing the restriction on gold payments because he felt that it would gradually undermine confidence in paper money. But unlike the bullionist writers he refused to believe that with or without the restriction it was possible for the banks to over-issue paper money in the normal course of their business. According to Adam Smith, a certain quantity of money was required to circulate the annual produce of a nation; any addition to this 'channel of circulation' in the form of an increase in paper money would merely lead to the export of the precious metals.⁴² Mill followed Smith in believing that the quantity of money in circulation was controlled by the 'real' needs of the community. He rejected Thornton's idea, based on the quantity theory of money, that an excess issue would 'widen' the channels of circulation by raising prices; the excess would overflow and would not depreciate the currency. Mill's earliest statement of his disagreement with Thornton is given in a review article written in 1804 on the Irish currency problem.⁴³

We advance a position which is directly the reverse of his [Thornton]; and we say that prices are very little affected, if they are affected at all, by an increase or diminution of the circulating medium. To see the truth of this position it is necessary to recollect what it is that purchases are in reality made by. Purchases are in fact the exchanges of commodities for one another; . . . Money is only the instrument by which the exchanges are performed. No man estimates the expenses which he shall be able to make, by the money he possesses; but by the valuable commodities he has to dispose of . . . It is very well established that it is the demand for commodities which determines their price. If the demand increases price rises; if it diminishes prices fall. If then we would ascertain whether an increase in the circulating medium

⁴¹ See below, pp. 179-81.

⁴² *Wealth of Nations*, bk. II, ch. II.

⁴³ Boase's 'Observations on Lord King', *Literary Journal*, Jun. 1804, vol. III, pp. 627-35; 694-701; 753-60.

produce a rise of prices, we have only to examine what effect it is capable of producing upon the demand for commodities. The effect we think it will clearly appear, is very little.

On the basis of this simple argument, Mill concluded:

... that currency of a country can never be rendered excessive by the issues of banks; that currency can never sustain depreciation by the magnitude of these issues; and that the unfavourable state of exchange in Ireland, the high price of bullion, and the premium on guineas must be owing to something different from the paper issued by the bank of Ireland.⁴⁴

The 'something different' was, he conjectured, political and social disorder.

This was basically the position which Mill developed in his *Edinburgh Review* article. Malthus, a moderate bullionist, thought highly of Mill's article,⁴⁵ but Francis Horner considered that Mill was guilty of 'deplorable heresies' and begged Jeffrey not to allow Mill to review the Report of the Bullion Committee.⁴⁶ The work reviewed by Mill was Thomas Smith's *Essay on the Theory of Money and Exchange* (1807). Smith was an anti-bullionist, and as part of his attack on those whom he regarded as being unduly impressed by the virtues of the precious metals as standards of value, he advanced the idea of regulating the value of currency by recourse to an 'abstract standard' to be determined by convention. After a good deal of rather pretentious philosophical discourse on the nature of definitions and abstract terms, Mill accuses Smith of confusing the two functions of money: as a medium of exchange and as a unit of account. Accounting can be carried on in terms of abstract symbols but they are of no use in the market place; even symbols must represent real objects. Mill concludes that 'nothing can measure value, but value itself'. Money is simply a commodity like any other, chosen for its convenience and relative stability in value.

Mill then proceeds to an examination of the nature and properties of paper money, and it is here that our extract begins. Paper money issued by the banks can only be depreciated by loss of confidence in the issuer. An issue of paper money in excess of that required for the normal 'channels of circulation' would merely lead to paper replacing the gold

⁴⁴ *Ibid.*, pp. 757-9.

⁴⁵ See a letter from Francis Jeffrey to Henry Brougham, 19 Oct. 1809, Brougham MSS., University College, London.

⁴⁶ See the letters quoted in Ricardo's *Works*, vol. III, pp. 9-10.

which would now be exported. But paper would not depreciate in terms of gold because the price of gold in world markets must remain on a level, and is unaffected by the loss of gold from one nation. By the same token Mill did not believe that it was possible for paper money to depreciate in terms of commodities. The banks cannot over-issue paper because 'every man desires to have no more currency than what is absolutely necessary for his immediate payments, that he may continue to make a profit with the larger portion of his funds'. The money drawn by individuals from the banks is thereby automatically regulated because it is 'never called upon but to answer the natural exigencies of business, and in this way cannot become superabundant'. Moreover, bills issued by the banks are constantly returning to be retired. It is with this version of the 'real bills' doctrine that Mill answered those who believed that paper money had been issued to excess since the restriction on cash payments. Although he felt that the dangers to the Bank of England of a drain on gold were exaggerated, he was aware of the difficulties inherent in a situation in which the central issuing bank was also called upon to make advances to the government. The solution was simple: divest the Bank of England of its functions as banker to the government.

An ESSAY of the
IMPOLICY of a BOUNTY on the
EXPORTATION of GRAIN

An ESSAY of the
IMPOLICY of a BOUNTY on the
EXPORTATION of GRAIN;

and on the Principles which ought to
Regulate the Commerce of Grain,

Divided under
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J. Anderson, Edinburgh.

1804

(Price 2s. 6d.)

INTRODUCTION

Corn, being the only necessary article, is affected by certain circumstances which render the trade in Corn somewhat more complicated and mysterious than the ordinary cases of trade. This obscurity however might be easily removed, if the real difficulties of the subject were all that we had to contend with. But a number of theories have been formed with regard to it; these have taken possession of people's minds, and to remove these is the first, and probably the greatest task which we have to perform, to diffuse a general knowledge of the principles which ought to regulate this important branch of the national affairs.

The great object is to procure a proper supply of the necessaries of life. During the scarcity which we endured in this country a few years ago, the minds of men were more turned to the subject than they had been before. By the inquiries then made it appeared that during the last forty years this country had not raised all the Corn necessary for its own subsistence; and it was known that during all periods the country had been occasionally subject to the disadvantages and miseries of scarcity. There were two evils therefore existing in this department of the national interests; that of being, in some measure, dependent upon our neighbours for the necessaries of life; and that of being liable to the hardships of scarcity. It was the policy of the State to contrive means for removing both of those disadvantages. They were acknowledged to be disadvantages of the greatest magnitude.

It was properly, and naturally, the chief object of concern, during the pressure of that scarcity, to find the means of redressing the evils immediately felt. The first of these was the importation of the article wanted. But various other measures were talked of. One became so much applauded that Mr Burke, a very short time before his death, thought it necessary, in a memorial presented to Mr Pitt, to prove the utter impolicy of it, under immediate fear that it was about to be adopted by the legislature.¹ This was to fix by authority the rate of labourers' wages, according to the price of corn; it being understood

¹ [*Thoughts and Details on Scarcity originally presented to the Rt. Hon. William Pitt*

that at the rate of wages, and the price of corn then existing, the labourer was unable to procure the means of subsistence, and that the farmer was making extraordinary and unreasonable gains.

Besides the means of removing the evils immediately felt, the means were sought of preventing the recurrence of scarcity. For this object also one contrivance, that of public granaries, became so much a favourite, that Mr Burke thought it necessary to warn the public against it in that performance to which I have already alluded, and in which he has told us many things, which it is to be lamented so few of us seem to know.

While such projects were devised for removing scarcity, the second of the evils above-mentioned, and for preventing its recurrence, our attention was attracted, in some degree, to the first of those objects too, our dependence upon foreign countries for a part of our supply; and various schemes for the improvement of agriculture were daily discussed. The return of plenty put an end to those speculations; and we should have gone on without any further inquiry, till a new scarcity had overtaken us, if it had not been for an effect of the preceding scarcity which began to be experienced.

During the reign of enormous prices and of high profits, it is well known that the ideas of the farmers became too high. They estimated, as was not unnatural, at much more than its proper value, the continuance of the gains they were then making. They were so eager in their business that they became willing to promise any rent for their farms. New leases were in almost all cases granted upon terms proportioned, or nearly proportioned to the price of corn at that time. When the price of corn fell they found themselves of necessity reduced to distress, having bound themselves in an unwise, and unequal contract. But, as is usual with men, they did not blame themselves for the evils which they felt; they blamed the low price to which corn had fallen; and one of the happiest circumstances which could arrive to this country became the object of their clamour and outcry. The farmers had not sufficient profits; they could not carry on their trade; prices must be raised. Of course the landlords liked this cry much better, than that against unreasonable and ruinous leases. They joined in it; for their interest naturally prevented them from seeing its absurdity. They came to parliament for assistance to export corn, till the farmers *in the month of November 1795*, London, 1800. The theme of Burke's memorandum was that 'to provide for us in our necessities is not in the power of Government'.]

could sell it high enough to pay them their present rents; and, wonderful to tell, parliament granted that assistance!²

Of course it was not for the declared purpose of enabling them to draw great rents that they sought or obtained the law. The old mercantile theory of politics suggested certain vague ideas of the efficacy of bounties; and they persuaded parliament, and endeavoured to persuade the world, that to grant a bounty on the exportation of corn, and a duty on importation, was one of the most effectual means to promote the interests of the country.

The advocates for the law enacted upon these reasons tell us, that the effects of a bounty upon the exportation of corn are to encourage in such a manner the production of corn, that in all ordinary years we shall not only supply ourselves, but have a surplus to export, and that in deficient years we shall have this surplus in reserve, to prevent the effects of scarcity; that the happy consequence of this law therefore will be a deliverance from both the evils under which we labour, of being dependent upon our neighbours for the necessaries of life, and of being subject to the hardships and dangers of scarcity.

This is unquestionably a very lofty promise. It is not a trifling benefit which the inventors of this expedient will have the honour of bestowing upon their country. Their merit is not diminished by the simplicity of the means employed to attain so important an end. But it may be reckoned somewhat wonderful, that a discovery of this magnitude should so long have escaped the intellectual eyes of all the great men who have spent their days in studying the means of national prosperity; and should be reserved to distinguish and immortalize those profound thinkers, and indefatigable inquirers who brought forward the late corn law. From the infinite diligence with which they have been long known to study all the profoundest questions of political economy, it was to be expected that they would go much deeper than any of their predecessors; and things of no small importance which had escaped all who went before them we justly hoped that they would bring to light. But a discovery so extraordinary as this even the great hopes which they had raised did not entitle us to expect. So much the greater therefore are our obligations.

They present their reasons to us in abundance of words, and they are composed of various particulars. They may all however be reduced to two heads; and it will assist us in obtaining a clear idea of them to

² [43, 44 Geo. III, c. 109.]

consider them under that division. The first may be denominated their argument from *experience*; the second their argument from the nature of the case. Under these heads will be included everything which has been advanced in favour of the bounty upon exportation by Dirom and Mackie,³ by Dr Anderson,⁴ and Mr Malthus,⁵ and indeed every thing which the author of this essay conceives it to be possible to adduce in behalf of this doctrine. It is his intention to examine these arguments in every light in which they can be presented. And he has distributed the different parts of that examination under separate titles in the chapters which follow.

³ [*An Inquiry into the Corn Laws and Corn Trade of Great Britain and their influence on the Prosperity of the Kingdom, with a suggestion for the improvement of the Corn Laws by the late Alexander Dirom. To which is added a supplement by William Mackie, Edinburgh, 1796.*]

⁴ [*A Calm Investigation of the Circumstances that have led to the Present Scarcity of Grain in Britain, London, 1801.*]

⁵ [In the 2nd edn. of his *Essay on Population* (1803) Malthus included a section praising the export bounty on corn.]

ESSAY
ON
THE CORN LAWS

CHAP. I

Of the History of the Corn Laws

To prove from *experience* the good effects of granting a bounty on the exportation of corn and of imposing a duty on importation, the advocates for that measure give us a chronological account of the corn trade, from the time of Edward the 3d. It will contribute to distinctness, if I make a division of this period. In the year 1688, a law was passed for the first time, granting a bounty on the exportation of corn, and imposing a duty on importation.⁶ This law continued in force till about the year 1770, when it was in a great measure repealed.⁷ And since the year 1770, the exportation of corn has scarcely been encouraged. We may therefore consider the history of the corn trade, as comprehending three great periods; 1st. That preceding the enactment of the exportation law in 1688; 2d. The period during which that law was in force; and 3d. The period during which that law has been repealed. According to this division we may state the argument from experience, adduced by the patrons of the law, very shortly, thus:

During the first period, exportation was either not permitted at all, or was at least burthened with a duty. No register was kept of exports and imports during this period; so that no conclusion can be drawn from the balance of this account, with regard to the quantity of corn

⁶ [1 W & M, c. 12. When wheat prices fell below 48s. per quarter a bounty of £200 for every 100 tons exported was to be paid.]

⁷ [11 Geo. III, c. 1. Export of corn prohibited.]

produced. But we have a register of prices. During the last forty years of this period, the average price of the quarter of wheat was £2 14s. 9d. whereas during forty years posterior to 1720, while the law of 1688 was in full force, the price of the quarter of wheat was £1 16s. 2d. This is sufficient to prove that the cultivation of corn was much more prosperous during the latter than during the former period.

At the commencement of the second period, a bounty for the first time was granted upon the exportation of corn; and importation was subjected to a duty, or altogether prohibited. During this period our exports of corn rose greatly above our imports; and at the same time the price of corn was very low.

During the last period, the operation of this law of bounty on exportation and duty on importation has not been steady; sometimes it has been suspended, sometimes permitted, and sometimes even inverted. And during this period our exportation of corn has fallen greatly below our importation, and the price of corn has become very high.

It appears then, that during the time when the law of bounty was in full force, the exportation of corn was great, and the price low; and that during the times both before and after, when that law was not in full force, the exportation was little or none, and the price high. From this they conclude that to grant a bounty on the exportation of corn, and to impose a duty on the importation, is proved by experience to be wise and politic.

No arguments are more satisfactory than those from experience when the conclusions are legitimate. But no species of false reasoning is more deceitful than that from experience; nor is any more common. Lord Bacon, the great father of the Philosophy of Experience well understood this source of error; and when he divided all false philosophy into three species, he represented those who reason fallaciously from experience as composing, the second of the three classes; and their errors, he said, were still more monstrous and deformed than those of the hypothetical, or speculative philosophers. Some of the greatest and most fatal errors which have ever been offered to the world have been the fruit of an imperfect argument from experience. Such was Mr Hume's famous argument against Christianity. This too was the origin of the monstrous doctrines of Mr Hobbes both in religion and politics. How often does false reasoning from the immoral lives of persons who profess to be very religious lead others to become infidels? or how often does false reasoning, from the abuses observed in the

management of existing governments, lead people to wish for the subversion of government? What was it but an argument from experience of this sort which brought forward all the horrors of the French revolution? Nothing is more common, since the honours of the experimental philosophy were so generally acknowledged, than to find shallow thinkers bring forward their arguments from experience on every subject. Among the common herd too of readers or hearers you very often find them with the most absurd pretensions of this sort gaining absolute credit. There is no species of pretension, however, against which the man of sense ought to be more on his guard. He will find, if he takes the trouble to examine, that one half of the popular errors which at present prevail are derived from no other source.

When we come to examine a little closely this experience of the advocates for the exportation bounty, we find it to consist in the single circumstance of being co-temporary. The low price of corn, and a great exportation was co-temporary with the law for the bounty; and this is all. To make their argument good then, they must prove that every thing which is co-temporary with another, is absolutely owing to that other. The national debt began about the very time when the bounty law was passed. Do they maintain therefore that the exportation and low price of corn during 50 years was owing to the existence and progress of the national debt? A very pretty theory however we think might be formed on this idea. It is the opinion of a numerous class of speculators, that a national debt is advantageous; but that it may be increased so far as to become burthensome and ruinous. Now observe; Great Britain had a national debt from the beginning of the eighteenth century; it went on gradually till the middle of that century, and during that time she continued to export corn and the price of it fell; but about that time the national debt passed the bounds of propriety, and ever since, the importation of corn has increased, and the price has risen. Is not this a demonstration from experience, that a national debt is advantageous till it amount to a certain sum, and is disadvantageous when it goes beyond that sum? It was not from any idea of assistance to the cultivation of corn, or any intention to benefit the nation, that the king's ministers in 1688 proposed, and obtained the law for granting a bounty on the exportation of corn. We are expressly informed in the history of that time, that it was passed to give a premium to the country gentlemen, in order to obtain their consent to the imposition of the land tax. This land tax, therefore, has been co-temporary with the

bounty law. Accordingly we may argue that the prosperous state of the corn trade, during the period described, was owing to the land tax. The only very disastrous period too of that trade has been since the alteration was introduced into the state of the land tax. The benefit of the land tax then for the encouragement of agriculture is fully proved. I see not why the poor laws should not be entitled to the same distinction. They were in full force during all the time of this prosperity. Some time ago, however, Mr Pitt introduced certain alterations of the poor laws; and since agriculture has been terribly on the decline. Agriculture has never flourished too since the sinking fund was established; indeed it has declined ever since his present Majesty came to the throne. But it flourished greatly during the reigns of the first two princes of the Brunswick line. Why, therefore, should we not conclude that the existence of those two princes was very favourable to agriculture, but that the existence of the last is very unfavourable to it? Or what if we should say, that the administration of Sir Robert Walpole, the Duke of Newcastle, &c. was very favourable to agriculture, but that of Mr Pitt is very unfavourable to it; let us, therefore, have done with him, that we may export plenty of corn, and have it cheap! Were nothing more proposed than to refute the patrons of the bounty law, what has been already said, is fully sufficient to shew the futility of their argument from experience. But as it is of importance that the public should receive as complete information as possible, respecting a subject so interesting as this, I shall examine a little more particularly the different periods which I have assigned; and we shall see whether the circumstances of the times do not point out to us causes of the variations in the state of the corn trade, altogether different from the law of exportation.

In the first period, the 40 years immediately preceding the year 1688, are particularly specified. This was that period of tumult, contention, distraction, and distress which succeeded the death of Charles the First; the period of the Protectorate, during which the affairs of the nation were in a state of so much derangement; and that of the reigns of Charles the Second and James the Second, during which the nation was kept in continual agitation by the fears of popery and arbitrary power. The unhappy circumstances of those times are surely sufficient and more than sufficient to account for the state of the corn trade, which was not more unprosperous than any other branch of national affairs. We have therefore no reason whatever to have recourse to the want of a bounty

on the exportation of corn, to explain all the appearances in this first period.

The second period began with the establishment of that admirable constitution, of that balanced system of liberty and coercion, which unites the freedom and the protection of the individual more effectually than has ever yet been done by any other government on the face of the earth. This extraordinary advantage gave an encouragement to every species of industry which could not fail to be speedily and powerfully felt. It was felt accordingly; and the nation went forward in a career of prosperity, of which there is hardly any example.⁸ Agriculture experienced the first effects of the happy change, as necessarily happened from the circumstances in which the country was placed. Agriculture was that species of industry which was then best known in the nation, and to which the greatest capital was applied. Manufactures, at least for foreign trade, had previous to this time been very little known. During the tempestuous period too which preceded, when the security of property was greatly impaired, the capital employed in manufactures was the most easily dispersed; and manufacturing industry and enterprize, being most easily discouraged and checked, necessarily suffered more in proportion than the more hardy and indispensable business of agriculture. Agriculture then was in a much better condition to take advantage of the happy circumstances of the revolution; and advanced with very rapid strides for many years. Whoever considers duly these circumstances will not be surprized at the prosperous state of agriculture during this period. He will not find any occasion to account for it by any extraordinary cause, as that of a bounty on exportation. He will rather, if he is surprized at any thing in the case, wonder that, great as the prosperity was, it was not still greater. It will not then I think be denied that all the appearances of the first two periods which afford our experience of the corn trade, may be completely accounted for without the operation of the bounty law.

But what, it may be asked, can be said with regard to the third period? The operation of that law was interrupted during this period, and the prosperity of the Corn trade declined. To what other cause could this be owing but to the want of the duty on exportation? Let me finish the historical sketch which I have begun, and a cause will

⁸ [Mill is following Smith closely here. Cf. *Wealth of Nations* (ed. Cannan), Modern Library edn., bk. IV, ch. V, p. 508.]

appear which will probably be judged satisfactory. While agriculture was advancing in the manner I have above described, all other branches of national industry began, from the same causes, to make progress. The movements of commerce were feeble at the beginning, from the extreme state of debility in which they began. It gathered strength however every day; and in a short time its progress appeared evidently to be more rapid than that of agriculture. Agriculture was greatly before commerce at the beginning of the century; but commerce continued to gain ground till toward the middle of the century, or perhaps a little after the middle; when it may be fairly reckoned to have got the start, and it has continued to increase its distance ever since. Whoever is acquainted with the 3d book of the *Nature and Causes of the Wealth of Nations*, in which Dr Smith explains so admirably how much more commerce has been encouraged in modern Europe than agriculture, will be at no loss to account for the more rapid progress of commerce than that of agriculture in Great Britain during the last century.

Of the different states of thing here described the necessary effects were these; during the time that agriculture kept before commerce, the produce of agriculture was more than sufficient to supply all those who were employed in agriculture, and those who were employed in manufactures, and in the other business of the nation; it furnished therefore a surplus to export; but when commerce on the other hand advanced greatly before agriculture, then agriculture could no longer afford enough to maintain all those who were employed in manufactures and the other business of the nation, and a deficiency remained to be supplied by importation. This is the cause that since the middle of the last century our importation of corn has exceeded our exportation, and not the temporary suspensions of the bounty on exportation.

If this conclusion be just, all the appearances in the three periods into which they divide the history of the corn trade are then fully accounted for; and the bounty on exportation had nothing to do with them. Let us examine still farther if there is any objection which they can possibly bring to that conclusion. They cannot pretend to doubt that this country was much farther back as a manufacturing country than as an agricultural country at the time of the revolution. This is a point which is too well known to admit of any dispute. They will readily admit too that this country is now much farther forward as a manufacturing country than as an agricultural country; for this is the thing of which they complain. The particular point of time likewise at

which manufacturing industry got before agricultural, they will probably be willing to grant, was that time when exportation of corn began to be changed for importation. We are agreed then with regard to all the facts. We can only dispute therefore concerning causes. Perhaps they will say that the manufacturing business got the start of the agricultural, not on account of those general discouragements imposed upon agriculture, which are so ably illustrated by Dr Smith, and to which we have referred; but on account of the suspension of the bounty on the exportation of corn. If we saw two ships, the one a great way behind the other, but sailing in the same direction; if we saw too that the last was the fastest sailer, and gradually advanced upon the other, till at last she overtook her; and if we saw that at this time the slow sailing vessel dropt a sail, and the fast sailing vessel advanced before her, but did not increase her distance any faster than she diminished it before, should we say that the lowering of that sail was in any degree the cause why the fast sailing vessel got before the slow sailing one? Surely not. As the comparative velocity of the two ships was exactly the same both before and after that sail was down, we cannot assign to it any influence whatever in the progress of either.

During the first part of the last century, the bounty on the exportation of corn was in full force; during the latter part it was interrupted. But if it appears that the progress of manufacturing industry in its advancement upon agricultural was just as rapid during the time the bounty was operating, as it was in getting before agricultural industry after the bounty was interrupted, it will be ridiculous to ascribe the more rapid motion of manufacturing industry to the want of the bounty on the exportation of corn. Because it will appear that this motion is equally rapid both when the bounty acts, and when it does not act. We have fortunately a series of facts which place this matter beyond all doubt, and prove most decisively that it is not to the bounty on the exportation of corn that we are to ascribe the comparatively slow progress of agricultural industry.

Let us observe the comparative progress of agricultural and commercial industry, during the period when the bounty on the exportation of corn was operating. The test to which the example of the advocates for the bounty leads us to apply is the account of the exports and imports. In the year 1697, the first in which a register was kept of the quantity of corn exported and imported, the excess of the exports above the imports was 101,643 quarters: in the same year the general

exports from Great Britain, including this corn, were £3,525,906 official value. In the year 1764, the last year of the full operation of the corn bounty, the excess of the exports above the imports of corn was 535,528 quarters; and in the same year the general exports from Great Britain amounted to £17,765,331; that is to say, during this period of nearly 70 years, the corn trade exhibits an improvement of about 400,000 quarters for one year, worth not so much as £800,000, while the general commerce of the country exhibits an improvement of more than fourteen millions. Such then was the comparative progress of commercial and agricultural industry, while the bounty on the exportation of corn was in full operation; the progress of commercial industry was many times more rapid than that of agricultural. Let us next observe what was the case after the operation of the bounty was interrupted. I shall only examine it down to the commencement of the war with republican France, because the extraordinary changes then experienced are not to be explained according to the ordinary course of events. The general exports from Great Britain then in the year 1792 amounted to £24,905,200. This compared with the account of the exports in 1764, exhibits an improvement of rather more than seven millions in thirty years, which is almost exactly the rate of improvement during the period in which the bounty operated. I have not immediately before me the state of the corn trade for the precise year 1792, but I have an account of the average of the five years immediately preceding. That makes the excess of imports amount to 411,819 quarters. This added to the 535,528 quarters exported in 1764, makes a difference of 947,347 quarters. But let us recollect what has to be done with this quantity of corn. It has to maintain all the persons who are employed in preparing merchandise for exportation to the amount of seven millions annually; for which it is not half sufficient. If we consider this we shall be at no loss to account for the necessity of importation without supposing any decay in the state of agriculture. If we consider too the vastly increased consumption of finer food for man, and of corn for horses, to which our great wealth has given occasion, we shall see how a still greater quantity of corn is rendered necessary; and from all these circumstances we shall be forced to conclude that unless agriculture had made rapid advances during the period since the suspension of the bounty on exportation, a much greater importation must have been necessary than we have experienced.

But we need not pursue these comparisons. The advocates for the

bounty admit all that is necessary for their own refutation. They do not pretend that agriculture has declined. They would only expose themselves to ridicule if they did. There are too many proofs that it has not declined for any one to dare to dispute it. These advocates therefore do not deny that so far from declining, agriculture is improving. I know not that there is one among them who will hesitate to admit that it has improved as fast during the last 50 years, as it did during the 50 years preceding. But whether they will admit this willingly or not, the fact is certain. And every document we have tends to prove that the augmentation of capital, of skill, and by consequence of produce in agriculture, has been much greater during the latter period than during the former. Agriculture, instead of declining, has advanced therefore since the suspension of the bounty, and has advanced more rapidly since it was suspended than before.

Observe then the admirable consistency of the advocates for the bounty. They say that this law greatly promoted agriculture, and that agriculture, suffered much when it was repealed; yet they allow that agriculture has been more rapidly improved since that law was repealed, than it was during the time when that law was in operation. An ordinary reasoner would think that a contrary conclusion were fully as reasonable; that because agriculture has been more improved since the bounty law was repealed, therefore the bounty law was injurious to agriculture. Oh! but, say those ingenious speculators, we then could export corn, and we now must import it. What can be concluded from this but that we have more people to eat corn? They want however to bring the quantity of corn we raise on a level with the quantity of people we have to eat it; that is to say, they want to make agriculture increase as fast as commerce. So do I; and so does every one who understands and wishes well to the interests of his country. But is granting of a bounty on the exportation of corn the way to do this? Certainly not. Have we not shewn by the fact that commerce increased as much faster than agriculture while such a bounty existed, as it has done since that bounty was taken away?

Their argument from experience then is altogether inconclusive, and fallacious.

CHAP. II

Influence of the Principle of Population upon the Corn Trade

Beside the argument from experience, it was stated that the advocates for a bounty on the exportation of corn pretend to conclude from the nature of the case that this bounty is a beneficial thing. This argument may be expressed as follows. The bounty, they say, opens a large market to the farmer; secures to him a reasonable profit; thus encourages him to augment the produce of his land; and so improves agriculture.

The whole strength of this argument evidently depends upon the assumption, that without this bounty a sufficient market would not exist for the farmer. It is not enough that he enjoys the monopoly of the home market; it is not enough that you allow him the market of the whole world in a free exportation. You must pay him over and above for carrying his corn to this foreign market. But is this in reality the nature of the farmer's business? It requires the examination only of a single principle, a principle very well understood, and indeed thus far not very difficult to understand, to see that the nature of the farmer's business is altogether different, and is in this respect most remarkably distinguished from all other trades.

It is very extraordinary that the persons who have pretended to dictate laws on this subject have never reflected that corn is a peculiar commodity; that it has relations different from those of any other commodity which man possesses; that these are among the most important relations which are found in that vast chain of connected things, on which his being and animal nature depends; and that the very elements of society are interwoven with the laws which regulate the production of this primary article.

No proposition is better established than this, that the multiplication of the human species is always in proportion to the means of subsistence. No proposition too is more incontrovertible than this, that the tendency of the human species to multiply is much greater than the rapidity with which it seems possible to increase the produce of the earth for their maintenance. For the full elucidation of this proposition, if any one is capable of doubting it, we refer to Mr Malthus's ingenious

book on the principle of population.⁹ No one however will hesitate to allow all that is necessary for our argument, that the tendency of the species to multiply is much greater than the rapidity with which there is any chance that the fruits of the earth will be multiplied in Britain, or any other country in Europe. What is the consequence of this great law of society, but that the production of corn creates the market for corn? Raise corn as fast as you please, mouths are producing still faster to eat it. Population is invariably pressing close upon the heels of subsistence; and in whatever quantity food be produced, a demand will always be produced still greater than the supply. The exportation of corn, therefore, is not so very simple a thing as the advocates for the bounty wish to make it appear. By checking population it produces at least one effect, which no wise politician will disregard.

We see then that the nature of this elementary principle of society, of which we never ought to lose sight, is such that a sufficient market is always provided at home, for all the corn which the land, with the utmost exertions of the farmer, can ever be made to produce; that the demand will always be proportioned to the supply, however great that supply may be; and that a foreign market can never be wanted for any quantity of corn that can be regularly produced. A foreign market can never be necessary, but to take off the surplus of an extraordinary year. To send away any part of the regular produce of the country, however rapidly that produce may be increasing, is just to cut short a proportional part of the natural population of the country. That this ought not to be done but for very weighty reasons, surely needs no proof.

Two circumstances there are which alter this rule. In America, though population has increased so fast as to double itself every twenty years, a civilized people thinly scattered on a virgin soil have been able to increase the produce of the earth still faster than they have been able to multiply. This is a single instance in the history of the world. There is another circumstance of a different nature. When the natural tendency to multiply is checked by the vices of the government; when the wretched peasantry of a half-peopled country are in a great measure fed upon the spontaneous produce of the ground, and upon the cattle maintained on the waste lands, a great part of the little corn which is raised must be exported to nourish the pride of the great lords.

With the exception of these two cases I may lay it down as an in-

⁹ [*An Essay on the Principle of Population*, London, 1798. An expanded and modified 2nd edition of this essay was published in 1803.]

controvertible proposition, that in every country an adequate demand, and even an urgent demand is always provided at home for the greatest possible increase of the fruits of the earth; and that the very principles of population ensure an ample encouragement to the utmost exertions of the farmer. From this proposition too it appears a very clear deduction, that in every well governed country, and whose circumstances are not as extraordinary as those of America, there never will be any *voluntary* exportation of corn, unless of the extraordinary produce of a plentiful year; for that people will always be produced to consume at home the *regular* produce, however rapidly it may increase.

This view of the subject seems altogether to have escaped the advocates for the bounty. On its importance however, it is surely unnecessary to dwell. It is impossible that any thing affecting so strongly one of the primary laws of society should not be of the very first importance. If then it follows from this important fact that an ample market, and full encouragement is always afforded to the farmer without the assistance of a bounty, all, as far as I can conceive, that can, after this, be said in defence of the bounty is, that though the principle of population affords sufficient encouragement to the raising of corn, the bounty affords additional encouragement. Before entering into the merits of this point, I should be inclined to say at first, that the overdoing of a good thing never, in any case that I can remember, has been productive of beneficial effects. Why, if a sufficient market is provided for corn, and sufficient encouragement for its production, should you interfere, and disturb the natural course of things? But we will not be satisfied with this general presumption against the bounty; a presumption, however, in which there is no little weight. By examining the particular circumstances of the case with a little attention, we shall find that the advocates for the bounty have spoken completely without thought, and without observing the most obvious circumstances, when they ascribed to the bounty the power of increasing the production of corn.

CHAP. III

Effects of the Bounty on the Rent of Land

The Intention of the bounty on the exportation of corn is to prevent the price of corn from ever falling so low as otherwise it would often naturally do. This either raises the average price of corn in the country, or it does not. The advocates for the bounty sometimes express themselves as if it did not; for they are not very consistent with themselves on this point, sometimes endeavouring to recommend their doctrine by the popular promise of average cheapness; though at other times it suits their argument to shew the opposite face of the subject. If the bounty however does not raise the average price of corn, it is impossible it can encourage the production. This is a proposition which I think I may save myself the trouble of proving. It is not the having a greater price than usual for a commodity one year, compensated by as great a deficiency the next, which tends to encourage the production of any commodity. It is the average profit on the trade which determines the value of the trade. A high average profit encourages it. A low average profit the contrary. If the bounty then lowers the average price of corn, it must of necessity discourage the raising of corn.

I believe, however, that the advocates for the bounty will easily give up this opinion. They will admit that the bounty raises to a certain degree the average price of corn. This high price they say would so encourage the raising of corn, that we should have a considerable quantity to export, which would bring us a good deal of money in all good years, and save us from scarcity in all bad ones. Let us consider how far these effects can be produced by the bounty. We only desire too the advocates to consider a very obvious principle. It is nothing but that common competition which regulates every trade, and of which it is astonishing that they should be so unable to perceive the effects. This high price of corn immediately raises the profit of farming stock and labour somewhat above the ordinary rate of profit in other employments. This as immediately creates a competition. The demand for farms becomes greater. The landlords are enabled to let their land higher, till farming profit comes again on a level with the

profit of the general business of the country. Here then we are again in the very situation we were in before. Agriculture is a little more animated for a few years, till things find their proper level; and then it returns exactly to the condition from which it set out. The value of land is somewhat raised; and the price of corn has become higher; and these are the only effects. The first is an effect neither good nor bad, but as it is connected with the other; the last is one of the most unfortunate events that can befall any country. Nothing is more certain than that the landlords have it in their power to prevent the profits of the farmers from ever remaining any long time above the lowest, which is consistent with the nature of their business; that is, the rate common in the same country in other businesses equally agreeable. But surely no man in his senses can say that the farmer, if his profits are always the same, is in the smallest degree more encouraged when the price of corn is high than when it is low. The bounty then has no permanent influence to increase the production of corn. Its sole effect is to put money into the pockets of the proprietors of land, by taking it out of the pockets of all the other classes of the people; and to enrich a few present farmers who happen to have long leases; who will waste the ground with all their might to bring corn out of it, while these leases last; but will beware not to execute any expensive improvements, because they know they will be obliged to pay dearly for all their advantages, as soon as they have the lease to renew.

CHAP. IV

Effects of the Bounty on the Profits of the Farmer

W e have already seen that the contract which the landlord has to make with the farmer necessarily reduces the profit of the farmer to the very lowest consistent with the nature of his business; whatever may be the price of the commodity which he raises. There is another circumstance which, independently of this contract, would speedily produce the same effect, and prevent any bounty whatever from contributing to the improvement of agriculture.

Those persons must be ignorant indeed, who need to be told that

there is a balance of profits in all the different species of business carried on in any country. The per centage is not indeed exactly the same. Because some trades are less agreeable than others; some have more risk; and for those circumstances it is reasonable that a compensation should be made. But it is plain that reckoning all the agreeable, and all the disagreeable circumstances as profit or loss in every trade, there is an exact equality of profit in all the branches of free trade in any country. Any particular branch may obtain a temporary ascendancy, but it is soon reduced by the influx of rivals in the trade, who naturally flock to the most gainful business.

According to this principle it is abundantly certain that the profits of the farmer must be upon this level before any bounty is applied in his favour, and must continue upon it, though no bounty were ever applied; and it is equally certain that no bounty can ever raise them above this level. Were they not upon this level, competitors would withdraw from the trade till they rose to it. Should they be raised ever so little above it, competitors would crowd into it till they brought them down.

Let us first suppose that a bounty is granted upon production. The farmer sold his corn before at the reasonable profit. If we suppose that he sells it at the same profit now, and gets the bounty over and above, his profit is raised much higher than that of all his countrymen in other trades. Some of them we may be assured will immediately endeavour to obtain a share of his high profits. New competitors cannot come into the same market without reducing the rate of profit; and this competition must continue till the rate of profit is brought down to the established and unalterable level. The business of agriculture is progressive during the period of this competition; but as soon as ever things are brought back to their natural state, and that is in a very short time, that business becomes stationary as before. To produce any permanent effects then by bounties on production, one bounty would not be sufficient; a new bounty would need to be imposed every four or five years; and by this progress we might increase the price of wheat as rapidly as we do the national debt. The absurdity of such a measure as this is sufficiently exposed by the very mention of it.

But the advocates for the bounty on exportation may say, that the case is not the same with this, as with the bounty on production. The foreign market they may represent as so extensive that all the competition which would be produced by the greatest increase of British corn,

could have very little effect in reducing the price, and by consequence in reducing the profits of the British farmer.

Are we then to suppose it to be the opinion of those persons, that they can raise the profits of the farmer permanently above the profits of the other species of business in the country? They may as well undertake to procure for him sunshine and rain whenever each would be agreeable. Every removal of stock from the other kinds of business in the country to that of farming lessens the competition of capital in all those kinds of business, and thus raises the rate of profit.¹⁰ If the profit of the farmer does not fall by this increase of capital, more capital leaves the other trades of the country, and the profit in them rises till at last they are brought upon an equality with the business of the farmer. The only effectual method, therefore, the only method by which in the nature of things, the profits of the farmer can be raised above the profits in other trades, is to erect the farmers into an exclusive corporation, like the East India Company, and to limit both the number of persons, and the quantity of capital which shall be employed in the trade. I wonder, if the advocates for the bounty will recommend this as a scheme for improving agriculture! They might by this means undoubtedly raise the profits of the farmers; because they might give just as little as they pleased to the landlords as rent, and demand just as much as they please from the people for corn. Without this or any other artificial scheme, the profits of the farmer are, and ever must be on an exact level, subject to the trifling fluctuations which belong to this as to all trades, with the rate of profit in the other species of business in the country.

This is so necessarily and obviously true; that it is surely a matter of surprise to find a committee of the House of Commons talk of its being necessary to make a law, (see Report from the Committee on the Corn Trade, ordered to be printed on the 14th of May, 1804, p. 4.) 'to secure a certain and uniform, fair and reasonable price to the farmer.' Why did they not recommend a law 'to secure to him the certain and uniform birth of a fair and reasonable number' of calves and foals, from the number of cows and mares he employs as breeders? What insures the

¹⁰ [This, of course, is Smith's theory of profits, cf. *Wealth of Nations*, p. 87. In a review of Lord Sheffield in the *Literary Journal* (Jan. 1806, pp. 51-61) Mill drew this firm conclusion from Smith's theory of profits: 'It is a fixed maxim in political economy that everything which tends to lower the general price of commodities by reducing the profits of stock is an advantage to the country.' This doctrine remained 'fixed' for Mill until Ricardo advanced an alternative theory.]

maker of knives and forks, or of ploughs and spades, a reasonable profit? Why, the market. Is not this sufficient to secure to every trader the profit which belongs to his business? Is it not absolutely necessary, by the very nature of things, that this should do so?

All those persons who are capable of estimating a statesman by the knowledge he displays of the genuine principles of national prosperity, will not forget the declaration of Mr Pitt in the House of Commons, on a day when the price of wheat in Mark-lane was 70s. the quarter, 'that the price of corn was not nearly high enough.' This declaration was founded on one of the most vulgar of all vulgar prejudices; 'that a high price of corn is useful to encourage the raising of corn;' a prejudice which we should suppose that, after a moment's reflection, no man of common sense could entertain. Who does not know that it is the profit of farming stock, which forms the encouragement of the farmer? And who does not know that the profit of farming stock may be as high, or higher, when corn is sold cheap as when it is sold dear? That therefore the encouragement of agriculture may be greater when the price of corn is low than when it is high? Is it found that the profit of other trades rises in proportion to the price of the article? So far from it, that the very reverse is in general found to be the case.

Mr Burke, from whom it were to be wished that many of those, who have so well learned antijacobinism from him, would learn something else, has admirably observed in that Tract to which we have already alluded, 'That a greater and more ruinous mistake cannot be fallen into, than that the trades of agriculture and of grazing can be conducted upon any other than the common principles of commerce.' 'The balance between consumption and production,' says he, 'makes price. The market settles, and alone can settle that price. Nobody, I believe, has observed with any reflection what market is, without being astonished at the truth, the correctness, the celerity, the general equity with which the balance of things is settled.' Talking of the profit of the farmer, he says, 'Who are to judge what that profit and advantage ought to be? Certainly, no authority on earth. It is a matter of convention, dictated by the reciprocal conveniences of the parties, and indeed by their reciprocal necessities.'

CHAP. V

Effects of the Bounty on the Value of Silver

I have now shewn that there are two different circumstances; the power of the landlord to raise his rent, and the natural and unavoidable migration of capital; either of which is perfectly sufficient to prevent the profits of the farmer from ever being raised for any continuance of time, above the lowest consistent with the nature of the business; and that as the operation of both must be united against the bounty, its effects with regard to agriculture must soon be terminated. It is surely unnecessary to repeat the conclusion, that if the profits of the farmer are not raised by the bounty, it is impossible his encouragement to enlarge his business can be increased. What is the reason, according to the zealots of this sect, which renders the bounty necessary? Why, the insufficiency of the profits of the farmer. But the bounty, it is now apparent, cannot alter those profits. Therefore the bounty has no tendency to produce the effect proposed by the advocates for that measure.

But though the bounty produces no good effects, it is not altogether without effects. We must next advert to the view which Dr Smith has exhibited of this subject, a view which any one can affect to treat lightly only from not understanding it. No proposition is established more thoroughly to the conviction of those who have studied the scientific principles of political economy than this; that the money price of corn, regulates the money price of every thing else.¹¹ The wages of the common labourer may in general be reckoned his maintenance. He must earn a sufficient quantity of corn to feed himself, otherwise he cannot exist. If he is paid in money, the sum of money he daily receives must always be equivalent to the quantity of corn he must use. If the price of the corn is high he must receive the greater sum of money, as his day's wages, to buy it with. This is so obviously necessary, that we need spend no more time in proving it. The money price of labour therefore is entirely regulated by the money price of corn.

¹¹ [*Wealth of Nations*, pp. 476f. Mill was using the 1st or 2nd edition because in the 3rd edition Smith stated that 'the money price of corn regulates that of all other home-made commodities'. This qualification is left out of all Mill's quotations from Smith in the following pages.]

Let us next see how the money price of corn affects that of every thing else. It is evident that it must regulate the price of all other products of the earth, as the culture of corn will encroach upon them till they become equally profitable with itself. 'It regulates, for example,' says Smith, 'the money price of grass and hay, of butcher's meat, of horses, and the maintenance of horses, of land carriage consequently, or of the greater part of the inland commerce of the country.'

All the commodities of any country consist either of the rude produce of the land, or of manufactured goods. We have seen that the money price of the rude produce of land is altogether determined by the money price of corn. The price of manufactured goods may be resolved into three parts; 1st, The price of the raw material; 2d, The wages of labour; 3d, The profit of stock. The money price of the first two, we have already seen, is altogether regulated by that of corn.

The quantity of circulating stock in every manufacture is in proportion to the value of the raw material, and the wages of the manufacturer. But we have seen that the price both of the raw material, and the wages of the labourer in all manufactures, are raised in exact proportion to the price of corn. More circulating capital, therefore, is wanted in that proportion to carry on every manufacture, and the reasonable profit upon this additional capital must be added to the price of the manufactured commodity. Every one of the three constituent parts of the price of all manufactured commodities receives then an increase by every increase in the price of corn; and thus the price of all manufactured commodities must rise in a much greater proportion than the price of corn. The price therefore of labour, and of every thing which is the produce of land and labour, every exchangeable commodity which the country produces, is altogether determined by the price of corn.

Nothing then can be more incontrovertible than the proposition of Smith, that 'the real effect of the bounty is not so much to raise the real value of corn, as to degrade the real value of silver; or to make an equal quantity of it exchange for a smaller quantity, not only of corn, but of all other commodities.'

Two conclusions, therefore, evidently follow;

The first is, that no ability whatever is by the bounty procured to the farmer of increasing the quantity of corn to be raised. 'Though in consequence of the bounty,' says Smith, 'the farmer should be enabled to sell his corn for four shillings the bushel instead of three and sixpence,

and to pay his landlord a money rent proportionable to this rise in the money price of his produce; yet, if in consequence of this rise in the price of corn, four shillings will purchase no more goods of any other kind than three and sixpence would have done before, neither the circumstances of the farmer, nor those of the landlord, will be in the smallest degree mended by this change. The farmer will not be able to cultivate better: the landlord will not be able to live better.'

The second conclusion is, that in a country situated as ours at present is, in which so many complaints have been lately heard of the depreciation of money, produced by various causes, it surpasses the common measure of folly to enact a law more powerful to produce the evil, than any other cause which exists. This is a point which deserves the most serious consideration of every thinking man, and more particularly of every commercial man in the country. We have heard Mr Pitt declare in the house of commons, when he was urging at the end of the last session of parliament an addition to the civil list money of the king, that the depreciation of money in this country had been not less than 60 or 70 per cent within the last 30 or 40 years. This is enormous. Nothing similar to this has happened in the rest of Europe. What a prodigious disadvantage must not this lay us under in our commerce with all other countries? If we are still able to send goods to those countries, how much more should we be able to send, were this prodigious burthen removed, and we were able to sell our goods 60 per cent cheaper? What is it that in such peculiar circumstances we think proper to do? Why, to add a new cause to increase the evil, a cause more fundamental and more powerful than any which previously existed. It behoves us to think a little what we are about. The burthen may be increased till our commerce can bear it no longer. Who knows how soon a favourable turn may be produced in the unhappy affairs of the continent of Europe, when we could not long support the burthens which we at present bear? At a time when our enormous taxation, the stoppage of payment at the bank, and the vast expenditure of a war are all operating to depreciate money in this country, to urge an act to grant a bounty on the exportation of corn, which must lead so powerfully to a still greater depreciation, betrays a criminal neglect or ignorance of the best interests of the country, which deserves the utmost reprobation of this age and of posterity.

We supposed that it was a proposition completely agreed upon by those who had studied the principles of national wealth, and a proposi-

tion which no one, bearing the name of a politician, was ignorant of, that one of the most favourable, and advantageous of all circumstances to a manufacturing country, was the cheapness of provisions. This determines the price of the raw material; it determines also the wages of the labourer; it determines therefore the price of the manufacture. When this costs little at home, it can be sold with great advantage abroad; it overcomes all competition; and the greatest quantity of it may be disposed of. When the price of corn on the other hand is high, this raises the price of the raw material of all manufactures, of the labour employed in them, and by consequence of the manufactured commodity; it must be sold dearer therefore abroad; and by consequence less of it can be disposed of. How wonderfully circumscribed the range of reflection which dictates the arguments of those who defend the bounty! They boast highly of the riches brought into the country by the annual exportation of a few hundred thousand quarters of corn, worth not so much as a million of money; while manufactures to the value of many millions are by that means prevented from being exported; while too the exportation of the corn has to be assisted by money which government pays, whereas the manufactures on the other hand would pay to government a large sum as duty; and while, at the same time, all the corn exported would be consumed at home at a full price, in the preparation of those additional manufactures; and by consequence the very same encouragement afforded to the farmer to prosecute his important business, as could have been by the exportation of his produce.

It is astonishing what a different course of reasoning men often pursue on subjects exactly similar, without being able to perceive their own inconsistency. On running over in one's mind some of the acts of the British legislature, how many cases does one find where it has acted on a principle directly the reverse of that on which it established the bounty law; cases which are as vehemently applauded by the common tribe of politicians, as the bounty law itself! Why should wool, for example, have been always subject to a system of laws, absolutely and immediately contradictory to the principle of the corn bounty? Why, if a bounty on the exportation of corn be so favourable to the production of corn, should not a bounty on the exportation of wool be favourable to the production of wool? Why, if the exportation of corn have such an effect to produce plenty of corn at home, should not the exportation of wool have an effect to produce plenty of

wool at home? How has it been, that while the legislature has so often encouraged the exportation of corn, it has always prohibited the exportation of wool with so much anxiety, and punished it with so much severity? Why are such inconsistencies still allowed to disgrace the intellects of our law-givers? What difference can be pointed out between the case of wool and that of corn? If it be said that we have not wool enough to answer our occasions, neither have we corn enough. If it be said that wool is the material of one of our most important manufactures; corn is the most important material of all our manufactures. If it be of importance that the raw material of any of our manufactures should be got cheap, surely it is of importance that what is the great material of them all should be got cheap.

Why, if granting a bounty on exportation be so effectual a means of producing plenty and creating riches, do we not establish a bounty on the exportation of gold and silver? Why do we not grant a bounty on the exportation of sheep and oxen, butter and cheese, ale, porter, and spirits? Why not on tables and chairs, and all other articles of furniture? Nay, to go higher, why, in order to increase population, not grant a bounty on the exportation of men and women? Why not, especially, grant a bounty on the exportation of such classes as we have most need of, soldiers, for example, and sailors; As for politicians, we have such a supply of them, the very best in their kind, that we have no occasion for exportation, unless it be as a security against any decay in the numbers or breed.

We know of no person who has pretended to point out any defect in this argument of Dr Smith, except a Mr Mackie, who calls himself a farmer in East Lothian, in Scotland, and who has published two letters in the same volume with the performance of Mr Dirom. The gross ignorance which those letters betray of some of the most important, and best established principles of the important subject on which the author has treated, might have exempted me from the task of exposing the futility of his objections, if it did not appear that conclusions, similar to those of Mr Mackie, whether drawn from the same premises or not, are both adopted, and important regulations founded upon them for conducting the business of the nation. Let us hear to what extent Mr Mackie's objections reach. There are three different states in which Dr Smith says the affairs of all countries may be considered as placed, the declining, stationary, or advancing states. In the first two of these, Mr Mackie allows that the ideas of Dr Smith hold completely,

but denies that they do so in the third. 'I readily,' says he, p. 219, 'agree that the money price of corn may produce this effect (regulate the money price of all things) in a nation where the state of society is stationary or declining; such as China or Hindostan; but when applied to Britain, or any country advancing in wealth and population, the argument appears to me to be unfounded.' Mr Mackie is one of that class of authors from whom you cannot get any precise account of the grounds of their opinions, who throw down a number of circumstances more or less remotely connected with the point in question, then assert the conclusion which they wish to draw, and leave you to find the connection between it and the premises the best way you can.

The most distinct statement of the reasons for his dissent from the conclusions of Smith, which I have found in the letter, is in these words, p. 221: 'But in countries where industry, population, and wealth, going on in a progressive state of improvement, are constantly increasing the national capital, and continually adding to the general consumption, *these causes* alone operate to raise the money price of labour and every other commodity, without being in the smallest degree affected by the money price of corn.' What *causes* does the author mean? Does he mean an increasing state of industry, population, and wealth; or certain effects which he mentions of these increasing circumstances, namely, an augmentation of capital and an augmentation of consumption? As far as we can gather his meaning from his various details it is this last. An increase of industry, population and wealth produces an increase of capital and an increase of consumption; and an increase of capital and of consumption produces an increase in the price of labour and of commodities. In a country in this progressive state *these causes alone* he says produce this increase of wages and price, 'without being in the smallest degree affected by the money price of corn.' Here the grammatical construction of the author's language bears that the *causes* he mentions, the increase of capital and of consumption, are not in the smallest degree affected by the money price of corn; but as this is nonsense, or at least altogether foreign to the purpose, we may suppose he means to say, if he knew how to express himself, that it is the 'price of labour and of every other commodity,' which is not in the smallest degree affected by the money price of corn. Now if this be so; it is something very strange. When a country is in a declining or a stationary condition, two out of the three possible conditions, a rise in the price of corn, even according to this author himself,

necessarily produces a rise in the price of labour, and of every other commodity, but as soon as ever a country begins to go forward a rise in the price of corn loses all this power; and the increase of capital and of consumption prevents it from having any effect whatever upon the price of labour and commodities. What a wonderful thing this increase of capital and of consumption must be? Why does not some adept in the science of political economy undertake to prove, (it would be a task admirably suitable to the talents of Mr Mackie,) that a rotation of crops is a thing very serviceable to increase the productive power of land in the declining and stationary states of a country, but loses all this efficacy in the advancing state?

I wonder if Mr Mackie means to assert that a rise in the price of corn has no effect in the advancing state of a country upon the other species of the rude produce of the earth; upon the price of potatoes, for example, or hay, or flax? Or if he supposes that a farmer, who knew he would make more by sowing corn in his field than any of those articles, would not sow corn instead of them, and every other farmer the same, till the quantity of those articles would become so diminished as to raise their price to a level with that of corn. Because if Mr Mackie knows not this principle, or is incapable of perceiving its validity, I cannot descend to instruct him; I write for others than him. Here is one large class of articles then undoubtedly affected by the money price of corn; and raised in price in the same proportion exactly. There is another large class of articles of which those form the raw materials. So far therefore as the price of the raw material enters into the price of those articles, so far is their price also affected by that of corn. So far too as an increase in the price of the raw material requires an additional quantity of capital to carry on the same quantity of business, and by consequence an additional profit upon that additional capital, so far is the price of those articles still farther affected by the price of corn.

The absurdity of the assertion with regard to labour is almost equally obvious. When a country is stationary the wages of the labourer are sufficient to maintain him, and to preserve the number of labourers from decreasing, and no more. In this state of things the author allows, and it is very certain, whether he allows it or not, that every increase in the money price of the article by which the labourer is maintained must be accompanied by a correspondent rise in his wages. This rise however is merely nominal. The reward of his labour, the quantity of

maintenance which he can command is the same as ever. It is the money price, therefore, Smith says, and not the real price which is affected by the money price of corn. When from this state a country begins to advance, the demand for labour increases; those who want to employ it bid against one another; and the wages of labour rise. This is an increase in the real price of labour, in the quantity of maintenance which the labourer can command. It is in general, however, a rise in the money price at the same time. The fluctuations in the value of money are in general slow, and the changes in the course of a few years are scarcely perceptible. If we suppose then that the prosperity of Great Britain, for example, and the demand for labour should increase so fast as to raise the price of labour one third in the course of five years, the value of money remaining all this while the same, the rise in the money price, and the rise in the real price of labour would be the same. The quantity of money which the labourer would receive would be one third greater; and the quantity of maintenance which he could command would likewise be one third greater. Now observe the proposition of Mr Mackie. This increasing demand for labour, he says, has a tendency to raise the money price labour only, not the real; a proposition than which a more senseless was probably never set down upon paper. Though the price of the labourer's maintenance, says he, be so raised during this time, that one third more of money will be able to purchase no more than might have been purchased by one third less at the beginning of that period the wages of the labourer will be only raised one third in money. They will not be raised in the smallest degree in reality. The quantity of maintenance which he can command will still be the same, that is the lowest capable of preserving the number of labourers from being reduced by starvation. But if any one is capable of supposing that a growing demand for labour, capable of raising the real price of labour one third, can be prevented from raising that price at all, only by a rise in the price of provisions, I do not think it necessary to spend time to instruct him.

The whole of this miserable attempt has been produced by the incapacity of the author to attend to the distinction between the money price and the real price of labour. Whoever is capable of understanding the effects of prosperity, that is of a growing demand for labour upon the price of labour, must see that it produces effects upon the real price of labour, that is upon the quantity of maintenance which the labourer can command. If therefore the money price of that maintenance has

risen one third while the rate of his wages has risen one third, the money price of his labour must have risen not one third only but two thirds; 'nothing' says Mr Burke (*Thoughts and Details on Scarcity*) 'is such an enemy to accuracy of judgment as a coarse discrimination.'

It is unnecessary to pursue this subject any farther. It now appears that the money price of all the raw materials produced in the country, and also that the money price of labour are altogether determined by the money price of corn. I have already shewn in what manner a rise in the price of the material, and of the labour, requires an additional capital in every species of manufacture, and an additional profit upon that capital. The rise then on all the component parts, into which the price of commodities can be divided, is exactly the same in the advancing as in all the other states of society. It therefore clearly appears that universally the money price of corn regulates the money price of every thing else; and by consequence that 'the real effect of the bounty,' to repeat the language of Smith, 'is not so much to raise the real value of corn, as to degrade the real value of silver, or to make an equal quantity of it exchange for a smaller quantity, not only of corn, but of all other commodities.'

I flatter myself that I have now fully proved that a bounty on the exportation of corn, never has had any effect, and never can have any, to encourage the cultivation of corn, or to increase the quantity of it produced. Every possible plea then for the policy of granting the bounty is taken away. I have proved, too, that the high price of corn to which the bounty is intended to give occasion, while it has no tendency whatever to encourage agriculture, has a necessary tendency to discourage every other species of industry, and to produce the greatest evils. I have therefore exhibited the strongest reasons for the speedy repeal of the corn law which was passed at the end of the last session of parliament. I am happy to understand that it is in the contemplation of many of the most respectable bodies of men in the kingdom, to petition parliament for the repeal of that law as soon after it meets as possible. They cannot attend to a concern which more strongly affects their own interest, as well as the interest of the nation at large; and it is eagerly to be hoped that they will be joined by all other bodies of a similar description. In that case no doubt whatever need be entertained of the immediate repeal of this statute. The British Parliament wants only the due information to be laid before it, in such a manner as to bear down the influence of ignorance and private interest. On its integrity and

patriotism, as a body, the public relies, as it has every reason to rely, with the most perfect confidence.

In reading the different publications in which that measure is recommended, I have been struck, as I think every well informed person will be struck, with the total want of all general views, by which their authors are distinguished. They strongly betray a most limited acquaintance with the great principles of political philosophy. They take up a single particular; they are vehemently struck with one peculiar aspect which it shews; but are unable to extend their view to all the parts of the great subject with which it is connected; and are thus perpetually deceived in their reasonings and conclusions. The mistakes of such men might easily be overlooked, even their vanity and presumption might be pardoned, if we did not so often find that their partial, and contracted views adapt themselves to the understandings of men who have the power to carry their follies into execution, and thus become the principles upon which the affairs of nations are conducted, and by which the happiness of millions is determined.

CHAP. VI

Exportation

But though a bounty on exportation is thus clearly ineffectual to encourage agriculture, and thus particularly calculated to discourage every other branch of industry, and to produce the greatest mischief to the nation; a free exportation appears by no means to deserve the same condemnation. In the first place, 'to hinder the farmer,' says Smith, whose language we are always happy to use on every subject of which he has treated, 'from sending his goods at all times to the best market, is evidently to sacrifice the ordinary laws of justice, to an idea of public utility, to a sort of reasons of state; an act of legislative authority which ought to be exercised only, which can be pardoned only, in cases of the most urgent necessity.'¹² It is evident that to subject the commerce of grain to any forced conditions may naturally be expected to have effects very different from those pro-

¹² [*Wealth of Nations*, p. 507.]

duced by the free, natural, unrestrained course of the trade; that while the one may be expected to be altogether salutary, the other may be suspected to be very prejudicial.

The effects, however, of an absolute prohibition of the exportation of grain, would be far different from those which are generally supposed, and from those which are held forth by those gentlemen of long views, who preach abroad the doctrine of the bounty on exportation.

It would have no effect whatever to discourage agriculture. It is abundantly evident from the principle of population, that to whatever height the general and medium produce of the land could be brought up, new inhabitants would be produced to consume it, and to give for it an equivalent.

For this medium produce there will always be a competent market, and a competent demand in the home consumption, the surplus produce of an extraordinarily plentiful year, would however regorge. That is never more than sufficient to make up for the deficiency of unfavourable years. However, during the plentiful years, though part of the surplus produce would be reserved to supply this deficiency of the years of scarcity; part would no doubt come into the market, and reduce the price. That part again which was reserved for the years of scarcity would hinder the price from rising so high as then it would otherwise do. By this means the price of corn would be at all times somewhat lower than if exportation were permitted. But what would be the consequence to the farmer? Why the landlord would be obliged to let his land cheaper, and the profits of the farmer would remain the same. It is evident that the natural migration of capital would infallibly produce this effect. But if the profits of the farmer remain the same, the encouragement of his business would remain also the same. What too would be the consequence to the landlord? Neither would he be a loser. The low price of corn would reduce the price of labour and of every thing else; he would find himself just as rich as he was before. He would be able to hire the same number of servants, to build as magnificent a house, to buy as many articles, either of necessity or of luxury as he did before.

What, in the next place, would be the effects of a free exportation? I have already established as an undeniable proposition, that in every country, in ordinary circumstances, where the principle of population is not checked by the vices of the government, no part of the medium produce of grain will ever be exported, but in consequence of some

forced regulation. According to this proposition it is only the surplus of an extraordinary year that can go out of the country by a free exportation. Now it is abundantly evident that whatever quantity of corn is exported in those favourable years, an equal quantity must be imported in unfavourable years. There is by the supposition, a sufficient number of people in the country to consume the whole produce of a medium year; therefore you cannot, by your exportation in a plentiful year, reduce the quantity of corn in the country below that medium produce, without destroying some of your people by hunger; and you must bring the produce of a scanty year up to that medium by importation, or you must allow some of your people to perish in this case too, from hunger.

When then would be the effects of these operations upon prices and produce? It is evident that the exportation of a plentiful year could not raise the price above that of a medium year; because it is the high price of a medium year, and the great demand at home, which prevents any part of that produce from going abroad. The importation in a scanty year would bring the price upon a level with the general free market, common to all the nations of the world, which would always be the same, or nearly the same, with the medium price at home. By this process the price of corn is preserved at all times very near that rate, which an exact proportion between the produce of the country, and the inhabitants of the country requires; a rate, and a process, which, by consequence, have, beyond all contrivances, the most powerful effect to produce that exact proportion. The progress of agriculture too, its gradual improvement, is, in this case, left to the impulse of the general circumstances of the country, to that powerful tendency in population to multiply, as fast as the circumstances of the country will permit.

It is easy to see in what manner this beautiful process is disturbed by the application of bounties. In the first place a bounty upon exportation carries more corn out of the country in the good years, than would go of its own accord. And in the next place, a bounty upon importation in bad years, brings more corn into the country than would come of its own accord. In the one case, we send abroad more corn than we can spare; and in the other, we bring home more than we have any occasion for. There is a direct loss of double freight, insurance, and profit, upon all that corn which is exported, only to be brought back again, and imported only to be sent out again. But this is the least part of the evil. By the one operation we produce for a time a much higher price,

than would otherwise be produced, and a proportionate part of the miseries of scarcity. By the other, we produce a much lower price than would otherwise be produced. We thus maintain a perpetual fluctuation, and all the inconveniencies and miseries which violent fluctuation produces both to the farmer and to the people.

To the persons who plead even for a forced exportation, we need adduce no more in favour of a free exportation. But there are persons, and those too, of considerable profundity in the science of political economy, who think that the exportation of corn ought to be altogether prohibited. If we prohibit the exportation without permitting importation, the effects will be as follows. It is impossible so to preserve the surplus produce of the good years, as to make it compensate the deficiency of the bad. Part of it will find its way into the market in the good years, and be wasted and consumed. This part will be wanting for the supply of the bad years, and produce all the hardships of great scarcity. By this process too, the most violent fluctuation in prices, must be produced; as the surplus in the market must sink them very low in the good years, and the incurable deficiency raise them enormously high in the bad.

If we prohibit exportation, but allow importation, the deficiency left by the extravagant consumption and waste of the good years, remains always to be supplied by importation during the bad. This is a policy, therefore, directly calculated to render the average production of the country always inadequate to the consumption of the country. It is a policy, too, calculated to produce very great fluctuation; though not altogether so great as the non-importation scheme. The part of the surplus produce, which, during the good years finds its way into the market, must be much greater than under that scheme; since nobody will have nearly so great a motive to reserve it. The depreciation of prices, therefore, will be much greater. Importation, will, indeed, prevent the prices in the bad years from rising so high. But the expence of freight and insurance must render the imported corn considerably above the rate of medium years, and therefore very greatly above the enormously reduced prices of the years of great plenty.

CHAP. VII

Importation

The sect who admire the duty on exportation, are terribly afraid of a free importation. They desire to confine importation within the narrowest limits, and indeed to permit it at all, only in cases of the greatest necessity. Their prejudices are miserable. It would, they say, ruin the farmer, and hurt agriculture.

There is only one direct effect, which a free importation can produce; that is, a reduction of the average price of corn. I have already stated reasons to prove that this reduction would have no tendency to reduce the profits of the farmers, nor to injure agriculture. Even the single argument of Smith, Mr Mackie, the most dauntless champion of the monopoly system, allows, would be perfectly adequate to support this conclusion, if it held as truly in the advancing state, as it does in the declining or stationary states of society. I have proved that it does hold in that state as well as in both the others. It is therefore extorted from this eager adversary, that the importation can have no bad effects.

But it may be necessary, though not for the refutation of my opponents, for the satisfaction of the public, to consider a little more minutely the effects of a free importation.

It is evident that the market from which all corn imported must be brought, is the general free market, common to all countries in the world. Now, as the domestic market in every country is regulated by the wants and superfluities of the individuals who inhabit the country; so this general market of all countries is regulated by the wants and superfluities of the different countries which repair to it. It is the nature of this market to be very stationary, and scarcely subject at all to fluctuation. For though one country may very much fail in a particular year, or very much abound, that is never the case with all countries; and the deficiency of one or more is always very exactly supplied by the superabundance of others; so that a steady medium price is always maintained in this market of nations.

The adversaries of a free importation tell us that countries, such as North America, Poland, and the countries around the Baltic, which are thinly peopled, and in which manufactures are but little established,

can always raise corn cheaper than fully peopled, rich, and commercial countries; and that if importation is permitted from those countries free, they must undersell our farmers greatly, and so ruin agriculture. Those persons understand not, in the least degree, the nature of that great general market, in which the wants of all nations are supplied. We are not competitors in that market with poor nations only, but with rich also, with all the nations in the world. It is the circumstances therefore of all the richest nations, of those who are most completely our rivals, which settle the price in that market; and we are forced to buy in it not according to the circumstances of the poor nation, but according to those of the rich.

Corn never can be bought for importation into Great Britain below that standard price, in the market of nations, which is established by the wants and superfluities of them all; and which therefore must be the medium price of the nations which come into that market, taken altogether. The medium in some of them may be above it; and the medium in others below. These are the two extremes. But in all the rest it must be nearly the same. Whatever corn, therefore, is at any time imported into Great Britain must come into it purchased at this medium price, and loaded with all the expence of freight and insurance from the country where it is bought. And corn is an article of so much bulk in proportion to the value, that this expence must always bear a pretty high proportion to the original price. Foreign corn, therefore, can never come into England very cheap; and unless in England the medium price of corn be very much above the medium price in the other countries of Europe, none can ever be imported, except in years of particular scarcity. If the medium price in England therefore be the same with the standard of the universal market, which there is good reason to think it is, agriculture cannot receive any discouragement from a free importation, even on the principles of the bounty people themselves.

But let us suppose that the medium price in England is very much above this standard. This must be owing either to some peculiar degradation of the value of money in England, an evil of the greatest magnitude, and which the free importation of corn would greatly tend to redress, and without affecting permanently, or to any considerable degree, either the profits of the farmer, or the interests of agriculture. Or if the value of money be the same in England as it generally is in the rest of Europe, and the medium price of corn be still higher, it must be

owing to this, that a smaller proportion of the people are engaged in agriculture, and a greater in other occupations. Now this must arise from one or other of two causes, either from agriculture's being more encouraged in those countries, or from other occupations having more encouragement in this country. In almost all the countries of Europe, the same or greater discouragements are laid upon agriculture than are laid in England. But in no country in the world are there such encouragements to other occupations. England then has the same advantage with regard to agriculture as other nations, but advantages peculiar to herself with regard to other occupations. But it is always the wisdom of nations as well as of individuals to pursue the employments in which they have peculiar advantages, rather than others in which they have no advantages. With regard to the inconvenience of depending upon the great general market of nations for any part of our supply, it is to a nation with half the commerce, and naval resources of this country absolutely nothing at all. Nothing in human affairs can be more certainly depended upon than that market.

But if it be accounted an indispensable policy to bring the number of persons employed in agriculture, and those in other occupations to the proportion that the former shall at all times feed the latter, it must be done either by affording greater encouragements to agriculture, or imposing discouragements upon other occupations. The former will be the plan adopted undoubtedly. But to grant a bounty upon exportation, and to impose a duty upon importation, is to adopt the latter plan, not the former; is to discourage all foreign commerce, but to afford no encouragement whatever to agriculture, as we have already abundantly proved. To obtain this object then some other means must be devised of encouraging agriculture. And some most important ones are not far to seek. Render the commerce of land as free and easy as that of all things else; relieve agriculture from those vexatious imposts from which other occupations are exempted; and render the employment of large capital as independent in agriculture, and a source of as great authority, as it is in trade, and you will have no occasion to complain of a slowly progressive agriculture.

If importation is rendered free, so long as the price of corn in England is high enough to surpass the price in that general market of nations, together with all the expence of carriage into England, corn will flow into that country, till it reduce the price there to that in the general market, augmented by all this expence of carriage. If exporta-

tion is rendered free, as soon as corn in England sinks below the price in the general market, it will flow out of England till the price become as high as in that market, bating the expence of carriage. The medium price in England is thus rendered the same with the standard price in the general market; and the range of fluctuation is rendered very small indeed. Price can only depart from the medium by the expence of carriage added in the one case and subtracted in the other. That this steadiness and uniformity would be one of the most advantageous things both to the farmer and to every other class of the people, is too obvious to require any proof.

What now would be the effects of this reduction of price upon the general wealth of the country, and upon the progress of agriculture? It is evident that every country, in which the price of grain is above the standard of this general market, lies under peculiar disadvantages in respect of its whole foreign commerce. The value of its money is degraded below that of other countries exactly in the same proportion; and to this extent it must be undersold by other nations in all foreign markets. To bring the price of grain therefore down to the standard of the general market, is of the utmost possible importance to foreign commerce, and to all those interests of the state which are dependent upon foreign commerce. What again would be the effect of the same reduction upon the progress of agriculture is abundantly evident from what has already been said. The owners of land would be obliged to reduce their rents till the farmers could make the same profits as are usual in the country, that is to say, the very same which they made before, and by which, of course, they would have the very same encouragement to improve their business. At the same time neither the farmers nor the landlords would be losers. The prices of every thing would fall. And though they would not pay for the things which they want with so much money, they would be able to buy just as many as they were before.

It may be shewn at the same time that the reduction of price in England by a free importation would be very immaterial. This is of no consequence with regard to the real policy of the measure which we recommend. But it may serve to render some persons who cannot regard it with the eye of a true statesman, less obstinate in their prejudices against it. Notwithstanding all that has been said about the deficiency of England in corn, it is abundantly certain that the medium price in England is very nearly the same with the standard price in the

general market. This has undoubtedly been the opinion of the legislature as often as it granted a bounty on importation on the appearance of scarcity; because if the medium price were much above the general market, and that increased too by the appearance of scarcity, assuredly corn enough would come into the country without any bounty. As the bounty itself has never brought it with any peculiar rapidity, it is a certain proof that the price in England has never been very much above the general price in Europe.

The same thing appears from the state of the exportation of corn. Since the year 1790, the affairs of Europe have been so much deranged, and so many peculiar causes have affected the corn trade in England, that it would be unfair to draw any general conclusions from that period. From the year 1770 to the year 1790, we find that exportation and importation have alternated. During one year we have exported, during another we have imported. During the one year it is plain the price in England must have been below that in the general market, and during the other above it. The number of years however in which it was above it is greater than that in which it was below it. The price in England therefore was during that period more frequently above the price in the general market than below it. But it was frequently below it; and therefore though the medium price in England must have been somewhat above the standard price in the general market, it cannot have been much above it. The same thing appears from another fact. Even in the years of greatest importation, and when the price by consequence must have been highest, we always exported too. But this it is impossible we could have done, had the price been much higher in England than it was abroad. The same thing appears too from the very small quantity of grain imported during that period, notwithstanding the rout which has been made about it. My readers will perhaps be surprised when I tell them that of the two most important species of grain, wheat and barley, we have upon the whole of that period exported more than we have imported to the amount of 157,542 quarters; and it is altogether in the coarser species of grain, oats, pease, and beans, that the extra importation has been made.

From these considerations it evidently appears, that by a free exportation and importation of corn, the medium price in England would be somewhat reduced, but not much; that this reduction would be of the greatest importance to the country in respect to its foreign trade, and no discouragement whatever to agriculture; and that this free trade

would produce a steady, regular price, very little subject to fluctuation, which would preserve the farmer from all the hardships of very low prices, and the people from all the hardships of very high prices; that the system of bounties on the other hand must raise the price of corn, which lays the country under great disadvantage in respect to foreign trade, without affording the smallest encouragement to agriculture; and that it has a tendency to produce the greatest fluctuation in prices, and to produce all the miseries and inconveniences both of too high and of too low prices.

CHAP. VIII

Landlords, Farmers, and Corn-dealers

It would not have been necessary for the present purpose, to say any thing on this subject, were it not on account of a prejudice which turns the attention of many people from the real object of importance. As soon as ever prices are considerably raised, we immediately hear an outcry against landlords, farmers, and corn-dealers. Nothing can be more unjust, and at the same time of worse consequence. High prices are never owing to those orders of men, and never can be, unless we make absurd laws, which force them into an unnatural situation. It is natural for the farmer and for the corn-dealer to sell their commodity when they can get the best price for it, and to keep it when they expect that the price will rise. Every other person, who has any thing to sell, does the same thing; and it would be the utmost injustice to refuse that liberty to the man who has corn to sell. It would be the utmost folly too, as it would soon reduce the quantity to be sold.

I need not repeat the proof which has been produced by Smith, and is so generally understood that the interest of the farmer, and of the corn-merchant is injured by any attempt to raise the price higher than the supply requires; and that at all times when the trade in corn is free, the interests of the traders in corn, and those of the people at large, are exactly the same.¹³

¹³ [*Wealth of Nations*, pp. 490-1.]

When it is so contrary therefore to all justice and sense, to accuse the corn-dealers for any excess in the price of that article, it is truly provoking to hear it continually charged upon them; to observe the attention of the country turned from a true to a false cause of the evil, and the remedy by consequence perpetually missed.

On occasion of the present high prices, accordingly, the newspapers have all been loud, as usual, against the corn-dealers; and have endeavoured by this vulgar cry, to turn the indignation of the ignorant people, against an innocent, and most useful set of men, and to withdraw our attention from the operation of that bill which has lately passed.

After stating an argument of the same kind on this very subject, Mr Burke expresses himself thus severely against those publications, which are contributing powerfully to corrupt both our public taste and public spirit. 'The consideration,' says he, 'of this ought to bind us all, rich and poor together, against those wicked writers of the newspapers, who would inflame the poor against their friends, guardians, patrons, and protectors.'

Neither are the landlords to be blamed for making of their property as much as they can. Every other class of persons in the kingdom does the same; and it is unjust to require greater sacrifices of them than of others. Neither can they be accused of generally besieging the legislature for laws, to favour their peculiar interests. Many other classes of men have been far more industrious in this respect than they. I am even persuaded were they once convinced that the late corn law is prejudicial to the interest of the country, that they would be the first to petition for its repeal. I am not without hopes that the preceding considerations will have weight with many of them. But I am too well aware of the hold which a favourite system takes of the mind to expect that I shall convince them all, or indeed so much as the greater part. But I confidently expect that such a proportion of all the people in the country will become sensible of the impolicy of the late act, as will procure us a repeal of it speedily in the ensuing Session of Parliament.

THE END

POSTSCRIPT TO *ESSAY ON IMPOLICY*

As a postscript to this essay the following extract from a review by Mill of Sir James Steuart's collected works may be of interest; it concerns Steuart's plan for dealing with fluctuations in grain prices.

According to Sir James's system, by which nothing is to be left to itself, but every thing done by regulation, the corn trade must be put under management. In good years when the country produces more corn than the inhabitants can use, prices would fall so low that the farmers would be ruined, unless they could dispose of the surplus to other nations. But according to him it is not enough that they should be allowed to sell it wherever they can find a purchaser; they ought, moreover, to get a bounty for selling it to that purchaser; and this bounty should operate till prices rise to a certain rate. This is one part of the plan. This saves the farmers, and always keeps prices at a certain height. But very plentiful years are not the only inconvenience in a nation; there are also very scanty years; and in those years, not the farmers but the people suffer. According to our present regulations as we save the farmer by a bounty on exportation, so we propose to save the people by a bounty on importation. But this last part of the plan Sir James Steuart does not adopt. He wants to have granaries erected in every part of the country, which the government is to fill by purchase in cheap years, and to open for the supply of the market at the current prices in dear years. This subject is too much obscured by prejudice for us to undertake the exposure of these notions on the present occasion. The author, it is evident, had never reflected with any accuracy upon the operation of free trade, and therefore sees not the equalizing results which it is calculated to produce. He proposes, accordingly, to do that very imperfectly, by a great number of very troublesome regulations, which perfect freedom of trade would do completely of its own accord. Nothing more is wanting than to leave the farmer at perfect liberty to sell his corn wherever he can get the best price for it, and the consumer to buy it wherever he can get it cheapest, without any restriction, without either burthen or encouragement. The necessary effects of this are to secure to the farmer and to the people at all times those exact prices which are best adapted to

their mutual interests. To depart from this course is only to disturb the laws of nature, to gratify the freaks or the interests of particular men.¹⁴

¹⁴ [*Literary Journal*, Mar. 1806, pp. 234-5. Mill wrote a further article criticising the Corn bounty in the *Eclectic Review*, Jan. 1809, vol. V, pp. 50-61.]

COMMERCE DEFENDED.

an

Answer to the Arguments
by which
MR. SPENCE, MR. COBBETT,
and others,
have attempted to prove that
Commerce
is not a
Source of National Wealth.

Second Edition.

By JAMES MILL, Esq.

Author of an Essay on the Impolicy of a Bounty on
the Exportation of Corn.

London:

Printed for C. and R. Baldwin, New Bridge-Street.

1808

Price Four Shillings.

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INTRODUCTION

Rousseau confessed to Mr Hume, and Mr Hume repeated the conversation to Mr Burke, that the secret of which he availed himself in his writings to excite the attention of mankind, was the employment of paradoxes. When a proposition is so expressed as to bear the appearance of absurdity, but by certain reasonings and explanations is made to assume the semblance of truth, the inexperienced hearers are, in general, wonderfully delighted, give credit to the author for the highest ingenuity, and congratulate themselves on a surprising discovery.

When these paradoxes are so contrived as to harmonize with any prevailing sentiment or passion of the times, their reception is so much the more eager and general. Thus, had the paradox, that commerce is absolutely unproductive of wealth, been recommended to the people of this country some years ago, when they were taught to triumph in the increase of their commerce, and to look to it as the means of humbling the revolutionary pride of France, it would have been the object either of neglect or of ridicule. At present, when difficulties and dangers have increased around this commerce, and fears are abroad that it may even be cut off, the new doctrine that we shall not suffer by its loss, falls in so conveniently with our apprehensions, that it appears extremely agreeable and consolatory. Being a doctrine at once paradoxical and flattering, no more is wanting to render it popular.

It is to be suspected, however, that this would not afford a very safe principle on which to regulate the great interests of the nation. Our navy, for example, mighty as its ascendancy must be deemed, may now, when the whole continent of civilized Europe is at the disposal of its determined enemy, be regarded as exposed to dangers, greater, perhaps, than ever threatened it before. Could we, in a moment of despondency, permit ourselves to think, that, like our commerce, it might be ruined by this enemy, should our wisdom consist in trying to persuade ourselves that it was of no value, and that we ought to part from it without regret? Ireland, too, considering the power of the

enemy who desires to attack it, and the commotions by which it is agitated within, is unquestionably in greater danger of being wrested from us at this moment, than at any late period of our history. What then? Should we consider any man as acting a patriotic or prudent part, who should labour to persuade us that Ireland is of little or no value, and should it fall into the hands of Bonaparte, that the loss we should sustain would be of little avail? We should, on the other hand, join in condemning his misguided and preposterous zeal; for however we might rest assured that neither Ireland nor our navy would be voluntarily, any more than our commerce, resigned to Bonaparte, yet we might fear that such a doctrine, becoming popular, would induce our Cabinets and Parliaments, which are not always led by the wisest men in the nation, to neglect those essential interests more than they otherwise would have done.

This is precisely the danger which threatens commerce at the present moment, and which is the more alarming, the greater the difficulties by which it is surrounded, and the more delicate, and easily affected, the interests which it involves. Agriculture is hardy and independent. The powers of the earth, and the first necessities of man, insure to this a certain prosperity, proportionate to the state of industry in the nation, in spite of the neglect, and even the discouragement of the public rulers. But should the legislature become influenced by a theory hostile to commerce, at a time when other circumstances conspire against it, the affairs of the nation might easily receive a turn, which would soon terminate her grandeur as the mistress of trade.

The propagators of this doctrine, which has met with a more favourable reception in this commercial country than beforehand one could have easily imagined, are, as yet, but two, Mr Spence and Mr Cobbett.

Mr Spence has written a pamphlet, in which, after exhibiting in as high colours as he possibly can the value which is vulgarly set upon commerce in this country, he endeavours to shew that it will certainly, or at least very probably, be torn from us by Bonaparte; that it is however altogether destitute of value; and that our wealth and prosperity are intrinsic. To establish these conclusions Mr Spence attempts to revive the system of the *Economistes*, a sect of political philosophers who arose in France about the middle of the last century, and who, in opposition to the mercantile doctrine, that all wealth is derived from commerce, or rather a favourable balance of commerce, taught that

all wealth is derived from land. He proposes indeed a limitation upon the ideas of that sect, in one particular instance, from which however he seems to waver in other parts of his discourse; but the main object of the pamphlet, as he expressly states, is to apply the doctrine of the *Economistes* to the present circumstances of this country. Mr Spence appears from his pamphlet to have a considerable turn for abstract thinking, and to be a man of pretty extensive reading in political economy. But his mind has not been trained in the logic of enlarged and comprehensive views. He does not judge of an extensive and complicated subject from an exact knowledge of all its parts, of their various connections, and relative importance. It is enough for him to seize some leading object, or some striking relation, and from these to draw conclusions with ingenuity to the whole.

Mr Cobbett is an author who deals more in assertion than proof; and therefore a writer who gives reasons for what Mr Cobbett affirms, is a very convenient coadjutor. He seems, accordingly, to have been charmed with the appearance of Mr Spence's pamphlet; and has republished the principal part of that gentleman's reasonings, in his *Political Register*. Even the assertions of Mr Cobbett, I am by no means disposed to treat with neglect. He seems to form his opinions more frequently from a sort of intuition, than from argument. His mind is but little accustomed to spread out, as it were, before itself, the intermediate ideas on which its conclusions are founded; and the nature of the education which it has received, from its own unaided progress and exertions, sufficiently accounts for this peculiarity. It does not follow that his opinions are not founded on evidence, and that they do not frequently exhibit much sagacity. It is often the form, rather than the matter, in which he is deficient. Even on some pretty difficult questions of political economy, (those, for example, respecting the corn-trade,) he has discovered a clearness and justness of thought, which but few of our scientific reasoners have reached.¹ On a subject, more perverted at least by passion, the structure of society, his mind, untainted by theory, or rather emancipated by its own vigour and honesty from a pernicious theory which it had imbibed, has seized the doctrines

¹ [That is, he agreed with Mill's criticisms of the bounty on the export of corn. In his *Political Register*, 8 Dec. 1804, p. 871 Cobbett quoted at length from Mill's review of James Anderson for the *Literary Journal*, Oct. 1804, praising it as 'a complete refutation of all the arguments advanced by all the writers in favour of the bounty law'.]

of wisdom and prosperity, without the aid of many examples. He has assumed the patronage of the poor, at a time when they are depressed below the place which they have fortunately held in this country for a century, and when the current of our policy runs to depress them still farther. At a time, too, when every tongue and every pen seem formed to adulation, when nothing is popular but praises of men in power, and whatever tendency to corruption may exist, receives in this manner double encouragement, he has the courage boldly to arraign the abuses of government and the vices of the great. This is a distinction which, with all his defects, ranks him among the most eminent of his countrymen.

Such are the two authors whose doctrines, respecting the value of commerce, have at present attained no little celebrity; and whose reasonings it will be a principal part of our business, in the following pages, to examine.

CHAPTER I

ON THE SECURITY OR INSECURITY OF THE
BRITISH COMMERCE

Both these Authors preface their inquiries into the value of commerce, by an attempt to persuade us that the commerce of this country has become extremely insecure. This is not exactly the most philosophical course; as it is taking aid from our fears in support of their argument. Mr Spence informs us,² that 'the idea which a few years ago would have been laughed at, that any man could acquire the power of shutting the whole continent against our trade, seems now not unlikely to be realized.' And Mr Cobbett assures us, that the soldier is abroad, and will not return home till he hath acquired his share of the good things of this world.³ On this point, those two champions appear to be at variance. The soldier will certainly not get possession of any of our good things, by shutting them out from the Continent; and if he come and take them, we shall be in danger of losing our land as well as our commerce.

A calm and rational view of our circumstances, will probably soon convince us that neither the one bugbear of these authors, nor the other, ought in the highest degree to alarm us; and that we shall owe it to our own egregious misconduct, if we suffer any considerable disaster, from the efforts of our enemy either to invade us or to destroy our commerce. In regard to invasion, the experiment may be said to have been fairly tried, and to have failed; in the vast preparations made by Bonaparte, and the abandonment of the attempt to employ them. This danger then, especially as it seems to have little influence at present on the public feelings, we may pass without further notice. The experiment of excluding our commerce is now to be tried, and it may be

² 'Britain Independent of Commerce,' p. 7 [p. 5]. It is necessary here to remark, that as nearly the whole of the present Tract was written before the 3d edition of Mr Spence's pamphlet appeared, it is the 2d edition always that is quoted, unless when the 3d edition is actually named.⁴

³ *Polit. Reg.*, Dec. 6, 1806, p. 867.

⁴ [Mill's page references are followed by references in square brackets to the 7th edition of Spence's pamphlet as reprinted in *Tracts on Political Economy*, London, 1822, this edition being more readily available.]

regarded as a fortunate circumstance, that it can be tried so completely. When our enemy is thoroughly convinced, that neither his invading nor his excluding scheme, can be made the instrument of any serious injury to us; and when we ourselves are convinced that we have nothing either in peace or war to fear from him, the minds of both parties may decidedly incline to peace.

Let us only contemplate for one moment the vast extent of the habitable globe, and consider how small in comparison is that portion of coast over which the sway of Bonaparte extends; and we shall probably conclude with considerable confidence, that in the wide world channels will be found for all the commerce, to which this little island can administer. Let us look first at the United States of America. To these, we have for years sent more goods of British manufacture than to the whole continent of Europe. The vast commerce of the West India Islands, next, comes naturally in view. The immense extent of Portuguese and Spanish America, whose communication with manufacturing countries may in a great measure be confined to ourselves, will, notwithstanding the disadvantages under which they labour, furnish a growing demand for the produce of our industry.⁵ Even the coasts of Africa, miserable as their condition is, might present to the careful explorer something better for the commodities which he may offer, than their wretched population. The Cape of Good Hope itself, improved by British wisdom and British capital, opens a field of boundless extent. The vast shores of the Indian ocean, both continental and insular, with their unrivalled productions, are all our own. Whatever the ingenuity of the Indian, the Malay, and the Chinese can produce, or their various and productive soils can yield, is ready to be exchanged for the commodities which we can supply to the wants of that immense population.

This superficial review can hardly fail to satisfy the man who knows but the outline of geography, that, while Britain is mistress of the sea, she might have scope for a boundless commerce, though the whole continent of Europe were swallowed up by an earthquake. But in regard to Europe itself, it is only to the superficial eye, that the power

⁵ [Mill's enthusiasm concerning the potential trading opportunities open to Britain in Latin America can be seen in his 'Emancipation of Spanish America', *Edinburgh Review*, vol. XIII (Jan. 1809), No. 26, pp. 273-311. It was probably the result of his friendship with General Miranda, who assisted Mill in the writing of this article.]

of Bonaparte over our commerce can appear formidable. Not to mention the probability that the Baltic, the channel by which a great part of our commerce has for a number of years found its way into Europe, will not long be shut against us; the very notion of guarding the whole extent of European coast, from the mouth of the Elbe to the gulph of Venice, must appear ridiculous to all men of information and reflection. Let any man but consider the well known fact, that under the very eye of the most vigilant Custom House in the world, and where an actual army of Custom House officers is concentrated, contraband East India goods are regularly contracted for by the smugglers, to be delivered in any house in London, for 25 per cent. Even Hollands and brandy, which are not the most handy commodities, are currently landed in the Downs, in the presence of a British fleet. With a knowledge of these facts, can it be supposed, that any British goods which the Continent wants, will not find their way into it in spite of any regulations which Bonaparte can adopt? A line of soldiers regularly planted from one extremity of the coast to another, from the point of Jutland to the bottom of the Adriatic gulph, would not suffice to exclude our commerce.

An important fact is to be considered. The population of Great Britain take no interest in the success of the smugglers. The greater or at least the more respectable part condemn the traffic, and rather wish to obstruct it. The case is very different on the Continent. Even in France, the great mass of the people wish for British commodities, and condemn the policy which excludes them. But in what may be called the conquered countries, in Holland for example, and Portugal, the interests and the ancient habits of the people of all ranks, give them the strongest propensity to elude, by every possible contrivance, the restrictive policy of Bonaparte. Where a whole people have the strongest interest in deceiving the government, in a case in which it can be so easily deceived as in the exclusion of British commerce from the Continent, we may confidently conclude that the public decrees will be very indifferently executed. If 25 per cent. can cover the expence of smuggling in the Downs, we may be certain that one half of that sum will be sufficient to cover the expence of smuggling British goods on the coasts of Europe. Even from this expence are to be deducted the Custom House duties which must have been paid in the course of regular entry; so that in many cases British goods will reach the continental consumer, loaded with an expence of probably not more than

5 per cent above what they would have cost in the way of regular trade. But allowing their price to be enhanced at a rate of 10 or 12 per cent., the deduction which this can occasion from the quantity which would otherwise be sold, cannot bear a very great proportion to the general amount of the extensive, various, and unrivalled traffic of Great Britain.

The fact is, the British commerce has much more to fear from the injudicious regulations of the British government, than from the decrees of Bonaparte. The great instrument of that species of traffic, which must now be carried on with the Continent, are neutral bottoms. It will not be very difficult, however, for our ministers to put it out of the power of the neutrals to serve us in this important capacity. The late orders of council are of a nature to give effect to the decrees of Bonaparte, beyond any thing which the plenitude of his power could achieve. Instead of thwarting and restricting the intercourse of neutrals, Britain ought studiously to afford it every facility and accommodation. Wherever a neutral vessel obtains admittance into a continental port, means are afforded for introducing British goods. If the orders of the British council however serve to unveil the disguises, under which the neutrals might be enabled to cover our goods, this important resource may be in a great measure cut off, and the ingenuity of the merchants, so fertile in expedients for eluding restrictions on trade, may be defeated. We may perceive then, in the wide extent of the world, and its innumerable productions and wants, in our dominion of the seas, and in the impotence of all exclusive efforts, sufficient security for our commerce, if we exercise but common prudence, in spite of all external hostilities that can be waged against it.

CHAPTER II

ON LAND, AS A SOURCE OF WEALTH

In the praises which the *Economistes*, together with Mr Spence and Mr Cobbett, bestow upon land as a source of wealth, absolutely considered, the intelligent reader will not hesitate to join. Of all species of labour, that which is bestowed upon the soil, is in general rewarded by the most abundant product. In the present circumstances

of the greater part of Europe, the cultivation of the soil not only pays the wages of labour, and the profit of stock employed in it, the sole return of other species of industry, but over and above this affords a share of the produce payable, as rent to the landlord. On this point, therefore, no controversy strictly exists; and when the patrons of the agricultural theory lament that the cabinets and legislatures of Europe, influenced by the ideas of the mercantile system, have so often thrown obstructions in the way of rural industry in favour of manufactures and trade, we acknowledge the justness of their accusations. One of the main objects which the immortal Smith proposed to himself, was to unfold the delusions of the mercantile system, by which the policy of almost all the governments of Europe was turned to the encouragement of trade rather than of agriculture, and a greater share of the industry and capital of every nation than consisted with its interests, was thus forcibly diverted into the commercial channel. Even to this hour the sound inquirer has most frequently occasion for his efforts in exposing the errors into which both governments and individuals fall by the remaining influence of the same theory. The firm hold indeed which this doctrine yet maintains on the minds of men, forms the principal obstacle to the diffusion, among mankind, of juster principles of political economy and of government. When a system, therefore, is propagated, diametrically opposite to the Mercantile, we might quietly allow the two theories to combat one another; and trust that the exposure of errors, if not the establishment of truths, would be the consequence. Unfortunately, however, it is much more the propensity of mankind to run from one extreme to another, than to rest in the wise and salutary middle; and a bias to the errors of the agricultural system would be not a whit less pernicious than a bias to the system which it would supplant. Of this indeed we have experimental proof; as some of the worst regulations which the new legislators of France adopted, were entirely founded upon the system of the *Economistes*.

There is one consequence of the doctrine which Messrs Spence and Cobbett have embraced, which they seem rather unfairly to have kept out of sight. They address themselves with great industry to the self-interest of the landholders, and study to win their support by representing the landed interest as deeply suffering by the opinions which prevail. They abstain, however, from informing this class of their readers, that land, according to their doctrine, is the one and only proper subject of taxation. This the *Economistes* taught. It is a logical conclusion

from their principles. If land be the one and only source of wealth, the absurdity is evident of seeking in any other quarter that portion of the national produce which is required for the necessities of the state; nor can one single argument be used against the exclusive taxation of land, which is not an argument, equally pointed, against the doctrine which the agricultural theorists espouse. It is shrewdly to be suspected that the landholders would deem themselves but little indebted to those gentlemen for the establishment of their system, were it to be followed by this practical consequence. The fact is, that land in this country bears infinitely less than its due proportion of taxes, while commerce is loaded with them. At the beginning of the last century, and previous to that period, the land-tax equalled, or rather exceeded, the whole amount of all the other taxes taken together. How insignificant a proportion does the land-tax now bear to the taxes on consumable commodities? The land-tax has remained without augmentation, while the permanent taxes have risen from little more than two millions to upwards of two and forty millions a year, and while the value of land has risen from fourteen or fifteen years purchase to thirty years purchase and upwards. The landholders, therefore, have little foundation for complaining, though the policy of the country has frequently appeared to favour mercantile rather than agricultural industry. By their superior influence in the legislature, they have taken care to repay themselves, as far as their personal interests were concerned, by throwing the burthen of the taxes upon the growing produce of commerce, while the increasing value of land stood exempt. The interests, however, of the country at large, the interests of the middling and industrious classes, have thus suffered in two ways. They have suffered by sustaining an undue proportion of the taxes; and they have suffered by the diminution of the annual produce of the land and labour of the country.⁶

⁶ Mr Spence, in a new passage inserted in his 3d edition, p. 40 [p. 36], does at last state as a consequence of his doctrine, 'that all taxes, however levied, in the end fall upon the soil'. But this is very different from saying that they ought to be immediately levied upon the soil. The landholders may very quietly allow you to say that the taxes *fall* upon them, as long as you make them *light* upon others. Mr Spence is even accommodating enough to say that the corollary of the *Economistes* is wrong; and that taxes ought not to light, as they teach, upon the landlords. It is a matter of regret he did not give us his reasons; for I can discover none which are not as strong against the theory as against the corollary. Unfortunately, however, all that Mr Spence affords us on this score is the following; 'Reasons,' says he, (*Ibid.*, p. 41, 42.) [p. 37,

CHAPTER III

OF THE DEFINITION OF THE TERMS WEALTH AND PROSPERITY

Mr Spence, with a view to introduce accuracy into his inquiry, presents us near the commencement of his pamphlet with a definition of the terms Wealth and Prosperity. This was indeed highly necessary, for while our ideas waver on this point, all our reasonings, respecting the wealth and prosperity of nations, must by consequence be uncertain and deceitful. It is of the utmost importance, therefore, in the examination of Mr Spence's doctrines, to ascertain the precision or inaccuracy of his definition of wealth. The following passage contains not only the definition but its illustration:

'In investigating the present subject,⁷ it will be necessary previously to inquire into the opinions which have been held relative to the real sources of wealth and prosperity to a nation, and we shall then be able to apply the results deduced from such an examination to our own case. And in the first place, the meaning of the terms, wealth and prosperity, must be settled; for, if the reader were to take these words in their usual acceptation, if he were to conclude, that by the first is meant gold and silver merely, and by the latter extensive dominion, powerful armies, &c. he would be affixing to these terms meanings very different from those which are here meant to be annexed to them, and ideas, which, however, common, are founded in error. Spain has plenty of gold and silver, yet she has no wealth; whilst Britain is wealthy with scarcely a guinea: and France, with her numerous conquests, her extended influence, and her vast armies is probably not enjoying much prosperity; certainly not nearly so much as we enjoy, though we have far less influence, and much smaller armies than she has. Wealth, then, is defined to consist in abundance of capital, of cultivated and productive land, and of those things which man usually esteems valuable.

38] 'which it is impracticable in this plan to adduce, render it doubtful, whether a direct land-tax would be advisable even in an infant state; and it is much more obvious that the intricate and artificial regulations of adult societies wholly preclude the propriety of such a tax.'

⁷ See pp. 9, 10 [pp. 7, 8].

Thus, a country where a large proportion of inhabitants have accumulated fortunes; where much of the soil is productively cultivated, and yields a considerable revenue to the land-owner, may be said to be wealthy; and on the contrary, a nation where few of the inhabitants are possessed of property, and where the land is badly cultivated, and yields but little revenue to the proprietor, may be truly said to be poor. Britain is an example of the first state, Spain and Italy of the last. A nation may be said to be in prosperity, which is progressively advancing in wealth, where the checks to population are few, and where employment and subsistence are readily found for all classes of its inhabitants. It does not follow, that a prosperous nation must be wealthy; thus America, though enjoying prosperity, has not accumulated wealth. Nor does it follow, that because a nation possesses wealth, it is therein a state of prosperity. All those symptoms of wealth which have been enumerated, may exist, and yet a nation may in prosperity be going retrograde, its wealth may be stationary, its population kept at a stand, and the difficulty of getting employment for those who seek it, may be becoming greater every day.'

First, here, Mr Spence warns us against supposing that wealth consists in gold and silver merely; that prosperity consists in extensive dominion, powerful armies, and the like: And assuredly if any one entertains this idea of wealth and prosperity, he is in a woeful delusion. Having learned from Mr Spence what wealth and prosperity are not, let us next learn what they are. 'Wealth', he says, 'is defined to consist in abundance of capital, of cultivated and productive land, and of those things which man usually esteems valuable.' Here three things are enumerated as the constituents of wealth. The first is capital. Now it is an established and indispensable rule in definition, that the words themselves in which the definition is conceived should be of the most precise and determinate signification; because, otherwise, the definition is of no use. But here the term 'capital' stands as much in need of definition as the term wealth, which it is brought to define. What is capital, or wherein does it consist? There are as many difficulties in these questions, as in the questions, What is wealth, and wherein does it consist? To define one vague and ambiguous word by another which is equally vague and ambiguous, is to pay us with mere words instead of ideas. The second constituent of wealth, according to Mr Spence's definition, is cultivated and productive land. But would not Mr Spence allow that uncultivated land, if it might be very easily cultivated and rendered

productive, ought also to be accounted wealth? In a definition where every thing ought to be in the highest degree accurate, an exception even of this sort is important. Let us, however, attend particularly to what Mr Spence states as the third constituent of wealth; 'Those things which man usually esteems valuable.' This is a sweeping clause. In the first place this third constituent includes both the other two, for undoubtedly capital and productive land are among the things which man esteems valuable. The third constituent, therefore, is not only the third, but the first, second, and third all in one.⁸ It would have been much better without enumerating the first two, which are undoubtedly but parts of the last, to have said at once that wealth consisted in those things which man usually esteems valuable. Still, however, the expression would have been so vague as to be entirely useless as a definition. Man usually esteems air and light as very valuable, but in what sense can they be regarded as national wealth? It is very evident from this explanation that Mr Spence neither understands what is requisite to a definition, nor has formed to himself any distinct idea of the meaning of the term wealth.

Another particularity in this definition is worthy of a little attention. Mr Spence says, that wealth is defined to consist in *abundance* of capital, &c. When Mr Spence, or any other political philosopher, inquires whether land, or manufactures, or commerce be the source of wealth, the question is not respecting quantity. We say that land is productive of wealth, without considering whether the quantity be one bushel or a million. But when Mr Spence defines wealth as consisting in *abundance* of capital, land, and valuable things, he evidently confounds the philosophical meaning of the word with the vulgar, in which wealth signifies a great quantity of riches. So much for Mr Spence's definition of wealth.

Let us next consider what he says in regard to prosperity. He does not indeed attempt to define prosperity; But he gives us a description of a nation which may be said to be in prosperity. 'It is a nation which is progressively advancing in wealth, where the checks to population are few, and where employment and subsistence are readily found for all classes of its inhabitants.' It would be tedious here to enter into the same minute analysis which we applied to the definition of wealth. We may barely remark, that of the three clauses of which the descrip-

⁸ This is just such a definition, as if, describing the corporal part of man, we should say that it consisted of a trunk, limbs, and body.

tion consists, the last two are included in the first; as it is in the nation which is progressively advancing in wealth that the checks to population are fewest, and employment and subsistence are most readily found for all classes of the inhabitants. This indeed is that remarkable distinction of the progressive state of society which is so admirably illustrated by Dr Smith.⁹

Having seen how little useful are the definitions with which Mr Spence has favoured us, it may be requisite for our subsequent inquiries to explain accurately in what sense the term wealth will here be used. Wealth is relative to the term value; it is necessary therefore first to affix a meaning to the latter. The term value has in common acceptation two meanings. It signifies either value in use, or value in exchange. Thus water has great value in use but commonly has no value in exchange, that is to say, nothing can be obtained for it in purchase. On the other hand, a diamond or a ruby has little or no value in use, but great value in exchange. Now the term wealth will always be employed in the following pages as denoting objects which have a value in exchange, or at least notice will be given if we have ever occasion to use it in another sense.

CHAPTER IV

OF MANUFACTURES

It is at this point that our controversy with Messrs Spence and Cobbett properly begins. They assert that manufactures are no source of wealth.¹⁰ We say that they are. It is the reader's part to

⁹ Wealth of Nations, B. I. c. 8.

¹⁰ 'Whether,' says Mr Spence, (p. 19 [p. 17] Brit. Indep. of Commerce) 'the manufacturer receives the price of his manufacture in food or in money, if the whole be fairly analyzed, and every thing traced to its source, it will in every case be found, in the most refined, as in the most barbarous, state of society, that agriculture is the great source, *manufactures no source at all, of national wealth.*' This indeed is one of the hinges on which his doctrine turns. It is the foundation, for example, of his opinions concerning consumption; and he introduces his inquiry into that subject in the following terms; 'As it has been shewn' (see pp. 29, 30, [p. 28] of his pamphlet) 'that the *whole revenue* of a country, (deducting an insignificant portion sometimes derived

compare our reasons. Mr Spence, who seems to supply the arguments of the party, says that manufactures are productive of no wealth, because the manufacturer in the preparation of any commodity consumes a quantity of corn equal to the value which he has added to the raw materials of which the article is composed. It is to be observed, before we proceed farther, that this is the only reason which they adduce in favour of this fundamental part of their hypothesis. In this one assertion is contained the sum and substance of the evidence which they exhibit against manufactures. If this assertion is unequal to the conclusion which it is brought to support, the wonderful discoveries of the *Economistes* are on a tottering basis. I have called this fundamental proposition an assertion, because it is assumed entirely without proof, and what is more, I am afraid, in opposition to proof. When the manufacturer prepares a commodity, the prepared commodity is worth more than the food which the workmen consumed in preparing it. Do you ask my reasons? Carry it, I say, to market; you will find that it will fetch more; because it must not only repay the wages of the labour, but the profit of the stock which has been employed in its preparation. Set the goods on one side, and an equal quantity of raw materials and food with what has been consumed in the preparation of the goods on the other, and every body will give you more for the goods. The country is therefore the richer by having the goods.

Let us hear what Mr Spence has to say in objection to this reasoning. An examination of his plea will still more clearly exhibit to us the fallacy of his position. The superiority of price, which the manufactured commodity obtains in the market, adds nothing he says to the wealth of the country; because whatever the manufacturer obtains above the value of the raw produce is taken from the landholder; the original owner of that produce. 'An example' he adds,¹¹ 'will demonstrate this: If a coach-maker were to employ so many men for half a year in the building of a coach, as that for their subsistence during that time, he had advanced fifty quarters of corn, and if we suppose he sold

from foreign commerce) is derived from *its land*.' This reservation, in favour of commerce of export, he expressly denies to manufactures for home consumption. 'When a lace manufacturer', (Ibid. p. 43 [p. 44]) 'has been so long employed in the manufacturing a pound of flax into lace, that his subsistence during that period has cost £30, this sum is the real worth of the lace, and if it be sold at home, whether for £30 or £60, the nation is no richer for this manufacture.'

¹¹ See Mr S's pamphlet, p. 16 [pp. 14, 15].

this coach to a land proprietor for sixty quarters of corn, it is evident, that the coach-maker would be ten quarters of corn richer than if he had sold it for fifty quarters, its original cost. But it is equally clear, that the land proprietor would be ten quarters of corn poorer, than if he had bought his coach at its prime cost. A transfer, then, not a creation of wealth, has taken place, whatever one gains the other loses, and the national wealth is just the same.'

There is a great appearance of ingenuity and force in this reasoning; and on the greater part of mankind it is well calculated to impose. I am rather surprized, however, that a person of Mr Spence's acuteness did not perceive that it is in reality a vulgar sophism. But when hypothesis has taken firm hold of a man, his acuteness is unluckily confined to one function.

Mr Spence has here confounded two things which are remarkably different. He mistakes the sale of a coach for the manufacture of a coach. It is surely bad reasoning however to conclude that because the sale of a coach is not productive of wealth, therefore the manufacture of a coach is not productive. The sale of the coach produces nothing; the manufacture of it however, produces the coach. It is very true that when a landholder has sixty quarters of corn and the coach-manufacturer a coach, if the coach is transferred to the landowner and the corn to the coach-maker, the country is not the richer. But it is certainly not less true that if the coach-maker has in the month of October fifty quarters of corn, which in the month of March he has transformed into a coach worth sixty quarters, the country is the richer in consequence of the manufacture of the coach, to the amount of ten quarters of corn.

Important, however, as is the addition which it thus clearly appears is made to national wealth by means of manufacturing industry, we should still have a very imperfect idea of its wonderful powers, should we confine ourselves to this observation. In a state of agriculture but moderately improved, the labourers employed in it may be regarded as raising a produce not less than five times what they themselves can consume. Were there no manufacturers, the whole of this surplus produce would be absolutely useless. Where could it find a purchaser? It is the manufacturers who convert this surplus produce into the various articles useful or agreeable to man, and who thus add the whole value it obtains to four parts at least in five of the produce of the soil.¹²

¹² It is to be borne in mind that the whole of the question discussed in this chapter

There is but one supposition, as far as I am able to perceive, by which this argument can be eluded. If our antagonists suppose a state of society in which the population has become so great that it requires the utmost efforts of the whole employed upon the land to produce food for the society; in that case they may insist that the whole produce of the soil is used and obtains a value without the aid of manufacturers. In this state of things, however, it is unfortunate that the argument of Mr Spence will prove not manufactures only, but land to be unproductive. The cultivators of the soil, during the time in which they raise a certain produce, have here consumed a quantity of produce of an equal value. But this is the very reason which he adduces to prove that manufactures are not a source of wealth. Manufactures then never cease to produce wealth, except in one case, in which land itself ceases to produce it; so that when manufactures cease to produce wealth, every thing ceases to produce it; wealth cannot be produced at all. So much for Mr Spence's reasoning against manufactures.

The truth is, that to give even tolerable plausibility to the theory of the *Economistes* we must allow that nothing is useful or valuable to man but the bare necessaries of life, or rather the raw produce of the soil. If any thing else is valuable to him, whatever creates that value must add to his riches. The reasonings of the *Economistes* indeed proceed upon a most contracted and imperfect view of the operations and nature of man. How limited would be his enjoyments were he confined to the raw produce of the soil! How much are those enjoyments, how much is his wellbeing, promoted by the various productions of art which he has found the means of providing! The simple, but at the same time the great and wonderful contrivance to which we owe the profusion of accommodations with which the civilized life of man abounds, is the division of labour. Wherever a society can be supposed to consist of one class of labourers only, the cultivators of the soil, it must be poor and wretched. Even if each individual, or each family, may be supposed so far to vary their labour as to provide themselves with some species of coarse garment, or some rude hut to shelter them

respecting the utility of manufactures, regards manufactures for home consumption; and, for the sake of distinctness, the idea of foreign commerce is altogether excluded. Mr Spence has judiciously adopted this plan; and his example was here highly worthy of imitation. To know the value of manufactures it was right in the first place to consider their operation in a country supposed to have no connection with any other.

from the weather, the affairs of the society must still be miserable. Let us next consider the simplest division of labour which we can well imagine. Let us suppose that the society becomes divided into husbandmen, and into the manufacturers merely of their agricultural tools, of their garments and houses. How much more completely would the community almost immediately, or at least as soon as the manufacturers acquired any dexterity in their trades, be provided with the accommodations which we have just enumerated? Their riches would be augmented. The labour of the same number of men would now yield a much larger produce. It is to the manufacturers however, it is to that division of labour which sets them apart as a distinct class, that this superiority of produce, that this augmentation of riches, is entirely owing.

‘The greatest improvement,’ says Dr Smith, ‘in the productive powers of labour, and the greater part of the skill, dexterity, and judgment, with which it is any where directed or applied, seem to have been the effects of the division of labour . . . It is the great multiplication of the productions of all the different arts, in consequence of the division of labour, which occasions in a well governed society that universal opulence which extends itself to the lowest ranks of the people.’¹³ The effects indeed of the division of labour, are surprising and almost miraculous. But as the division of labour commenced with the first formation of a class of manufacturers, and as it is in manufactures that the division of labour has been carried to the greatest height, the business of agriculture being much less susceptible of this improvement, the whole or the greater part of the opulence, which is diffused in society by the division of labour, is to be ascribed to manufactures. The same is the case with machinery. How much the production of commodities is accelerated and increased by the invention and improvement of machines, requires no illustration. It is chiefly in manufactures that this great advantage too has been reaped. In agriculture, the use of machinery is much more limited.

Every view of the subject affords an argument against the intricate but flimsy reasonings of the *Economistes*. In the infancy of manufactures, when the distaff alone, and other simple and tedious instruments are known, let us suppose that a piece of cloth is prepared. Mr Spence informs us, that nothing is added to the wealth of the society by the preparation of this piece of cloth, because a quantity of corn, equal to it

¹³ [*Wealth of Nations* (ed. Cannan), Modern Library edn., p. 3 and p. 11].

in value, has during the preparation been consumed by the manufacturers. Let us suppose, however, that, suddenly, spinning and other machines are invented, by which the same labourers are enabled to prepare six similar pieces, in the same time, and while they are consuming the same quantity of corn. If their manufacture in the former case replaced the corn which they consumed; in this case it replaces it six times. Will Mr Spence deny that in such instances manufactures are productive of wealth? But how many more than six times have the productive powers of labour in the arts and manufactures been multiplied since the first division and distribution of occupations?

Without any further accumulation of arguments, I may take it I believe for granted, that the insufficiency of Mr Spence's reasonings, to prove that manufactures are not a source of wealth, sufficiently appears. Let us now therefore proceed to another of his topics.

CHAPTER V

COMMERCE

By commerce, in the language of Mr Spence's pamphlet, is meant trade with foreign nations; and I have no objection, on the present occasion at least, to follow his example. Mr Spence begins his investigation of this subject with the following paragraph¹⁴:

'As all commerce naturally divides itself into commerce of import and export, I shall in the first place, endeavour to prove, that no riches, no increase of national wealth, can in any case be derived from commerce of import; and, in the next place, that, although national wealth may, in some cases, be derived from commerce of export, yet, that Britain in consequence of particular circumstances, has not derived, nor does derive, from this branch of commerce, any portion of her national wealth; and, consequently, that her riches, her prosperity, and her power are intrinsic, derived from her own resources, independent of commerce, and might and will exist, even though her trade should be annihilated. These positions, untenable as at first glance they may seem, I do not fear being able to establish to the satisfaction of those,

who will dismiss from their mind the deep rooted prejudices, with which, on this subject, they are warped; and who, no longer contented with examining the mere surface of things, shall determine to penetrate through every stratum of the mine which conceals the grand truths of political economy.'

Let us begin then with the most earnest endeavour, according to the recommendation of Mr Spence, to purge our minds from 'prejudices,' attending solely to the reasons in favor of those positions, 'which seem untenable at first glance.' Let us summon up courage to follow his deep and adventurous example; and not contented with remaining ingloriously 'at the surface,' let us clap on the miner's jacket and trowsers, and descend in the bucket with Mr Spence; that, as truth, according to the ancient philosopher, lay at the bottom of a well, we may find 'the grand truths of political economy,' at the bottom of a coal pit.

As trade with foreign nations consists of two distinct branches, commerce of import, and commerce of export, it will be convenient for us to consider each of these divisions separately. This circumstance will divide the present chapter into two articles.

ARTICLE FIRST, COMMERCE OF IMPORT

The reason which Mr Spence adduces to prove to those, who dismiss their deep rooted prejudices, and penetrate into the mine of political economy, that commerce of import can never produce wealth, he states in the following terms; 'Every one must allow, that for whatever a nation purchases in a foreign market, it gives an adequate value, either in money or in other goods; so far then, certainly, it gains no profit nor addition to its wealth. It has changed one sort of wealth for another, but it has not increased the amount, it was before possessed of.'¹⁵

We have had already occasion to wonder at the oversights or mistakes, which so acute a man as Mr Spence has committed, and we are here again brought into the same predicament. Might he not, without any great depth, without descending far below the 'surface,' have reflected that a commodity may be of one value in one place, and of another value in another place. A ton of hemp for example, which in Russia is worth £50, is in Great Britain worth £65. When we have exported therefore a quantity of British goods, which in Britain are worth £50, and have imported in lieu of them a ton of hemp, which

¹⁵ Brit. Indepen. of Comm. p. 39 [p. 41].

is worth £65, the riches of the country are by this exchange increased fifteen pounds.¹⁶ We might illustrate this observation by a variety of examples. The meaning and force of it however are already sufficiently apparent. Whenever a cargo of goods of any sort is exported, and a cargo of other goods, bought with the proceeds of the former, is imported, whatever, the goods imported exceed in value the goods exported, beyond the expence of importation, is so much clear gain to the country increased by the transaction.

Mr Spence, however, has an argument to shew, that this reasoning is inconclusive. He allows, that the merchant, by whom the goods have been imported, makes a profit to the above amount. But this he says is no gain to the country. The additional sum, which the merchant obtains for the goods imported, is derived from the British consumer. Whatever the one gains therefore the other loses, and the country is nothing the richer. It is curious that this argument would prove the country to be not a farthing the richer, if all the goods imported were got by the merchants for nothing, or were even created by a miracle in their warehouses. In this case too, whatever the merchants obtained for their miraculous goods, would be drawn from the British consumer, and whatever the one gained the other would lose; consequently the country would be not a farthing the richer for this extraordinary augmentation of goods. The reader will probably conclude, that an argument of this sort proves too much. We may recollect too, that this is neither more nor less than the argument which Mr Spence produced, to prove that manufactures were productive of no wealth. Whatever the manufactured commodity brought, beyond the value of the raw produce consumed in the manufacture, was drawn, he said, from the purchaser, who lost whatever the seller gained. On this account he concluded, that the country was not the richer for manufactures. This argument we found to be so weak, that it implied the mistake of the sale of a commodity for its manufacture. In the present case too, the confusion and misapprehension are nearly the same. The transfer of the imported goods from one British subject to another, is mistaken for the exchange of a quantity of goods between Great Britain and a

¹⁶ For the sake of preserving the argument as simple as possible, the consideration of freight and charges is not here introduced, as this affects in no degree the reasoning, and only requires that an abatement be made from the amount of profit. It is not the quantity of profit, but profit in any quantity, which the argument respects. The customary profit of trade will always be made, as long as the business continues.

foreign country. The sale of the goods at home renders not the country richer, it is the purchase of them abroad, with a quantity of British goods of less value.

What we have already said appears to be perfectly sufficient to expose the fallacy of Mr Spence's arguments to prove the inutility of commerce of import.¹⁷ We may add, however, a few observations, to explain to the reader somewhat more distinctly in what manner commerce of import does contribute to national wealth. On the subject of political economy, it seems best to recur as often as possible to particular instances; it being so very common for authors, who indulge, like Mr Spence, in very general terms, to bewilder both themselves and their readers. We import iron for example from the Baltic, though in certain favourable situations, where coal and the ore are found in the same vicinity, we make it at home. How does it appear, that this importation is advantageous? For this reason, that in all other cases but those specified, we can buy it cheaper abroad, than we can make it at home. We send forth a hundred pounds worth of goods, and we purchase with those goods a quantity of iron, which is worth more than one hundred pounds. Whatever this superiority of value exceeds the charges of importation is gain to the country.

To render this observation still more applicable to Mr Spence's principles, we may show how the instance resolves itself even into the rude produce of the soil. On making a ton of iron in Great Britain, let us suppose, that the labourers, &c. employed in providing the ore and the coals, and in smelting and preparing the metal, have consumed ten quarters of corn. Every ton of iron therefore prepared in Great Britain costs ten quarters of corn. Let us suppose, that in the preparation of a certain quantity of British manufactures, nine quarters of corn have been consumed; and let us suppose, that this quantity of goods will purchase in the Baltic a ton of iron, and afford, besides, the expence requisite for importing the iron into Britain. Is there not an evident saving of a quarter of corn, in the acquisition of this ton of iron? Is not the country one quarter of corn the richer, by means of its importa-

¹⁷ Mr Spence's notions appear not to be very steady even on this subject. Thus, he says, (p. 8 [p. 6]) speaking of the attempts to exclude our commerce, that, 'he has rather been inclined to pity the poor inhabitants of the countries, who are prevented from buying our manufactures, than us that are hindered from selling them.' Now, what he pities those poor countries for, is, that they are not enabled to carry on an import trade. Why? if import trade can never add any thing to wealth.

tion? In the importation of a thousand such tons, is it not a thousand quarters richer?

It is curious, that Mr Spence, whether by chance or design, I know not, has chosen all his examples of importation among invidious instances. He always illustrates his arguments by the importation of luxuries, of articles of immediate consumption, as tea for example, which being speedily used, seem not to add to the stock of the country, or to form part of its riches. This, however, if it is intended to have any effect, is only an argument to the ignorance of his readers; for the nature of the case is in no respect different. Why should Mr Spence object to the commerce in articles of immediate consumption when the produce of the land itself consists chiefly of articles of immediate consumption? Is the land not a source of wealth, because its chief produce is corn, which is generally all consumed within less than eighteen months from the time of its production?

To make indeed any distinction in this argument between articles of necessity, and articles of luxury, is absolutely nugatory. Whenever a country advances a considerable way beyond the infancy of society, it is a small portion of the members of the community who are employed in providing the mere necessaries of life. By far the greater proportion of them are employed in providing supply to other wants of man. Now in this case, as well as in the former, the sole question is, whether a particular description of wants can be most cheaply supplied at home or abroad. If a certain number of manufacturers employed at home can, while they are consuming 100 quarters of corn, fabricate a quantity of goods, which goods will purchase abroad such a portion of supply to some of the luxurious wants of the community as it would have required the consumption of 150 quarters at home to produce; in this case too the country is 50 quarters the richer for the importation. It has the same supply of luxuries for 50 quarters of corn less, than if that supply had been prepared at home.

The commerce of one country with another is in fact merely an extension of that division of labour by which so many benefits are conferred upon the human race. As the same country is rendered the richer by the trade of one province with another; as its labour becomes thus infinitely more divided, and more productive than it could otherwise have been; and as the mutual supply of all the accommodations which one province has and another wants, multiplies the accommodations of the whole, and renders the country in a wonderful degree more

opulent and happy; the same beautiful train of consequences is observable in the world at large; that great empire, of which the different kingdoms and tribes of men may be regarded as the provinces. In this magnificent empire too one province is favourable to the production of one species of accommodation and another province of another. By their mutual intercourse they are enabled to sort and distribute their labour as most peculiarly suits the genius of each particular spot. The labour of the human race thus becomes much more productive, and every species of accommodation is afforded in much greater abundance. The same number of labourers whose efforts might have been expended in producing a very insignificant quantity of home-made luxuries, may thus in Great-Britain produce a quantity of articles for exportation, accommodated to the wants of other places, and peculiarly suited to the genius of Britain to furnish, which will purchase for her an accumulation of the luxuries of every quarter of the globe. There is not a greater proportion of her population employed in administering to her luxuries, in consequence of her commerce, there is probably a good deal less; but their labour is much more productive; the portion of commodities which the people of Great-Britain acquire, by means of the same labour, is vastly greater.

ARTICLE SECOND; COMMERCE OF EXPORT

Mr Spence's reasoning concerning commerce of export is rather more complicated than that concerning commerce of import. 'It is plain,' he says,¹⁸ 'that in some cases an increase of national wealth may be drawn from commerce of export. The value obtained in foreign markets for the manufactures which a nation exports, resolves itself into the value of the food which has been expended in manufacturing them, and the profit of the master manufacturer and the exporting merchant. These profits are undoubtedly national profit. Thus, when a lace-manufacturer has been so long employed in the manufacturing a pound of flax into lace, that his subsistence during that period has cost £30; this sum is the real worth of the lace; and if it be sold at home, whether for £30 or £60, the nation is, as has been shewn, no richer for this manufacture. But if this lace be exported to another country, and there sold for £60, it is undeniable that the exporting nation has added £30 to its wealth by its sale, since the cost to it was only £30.' Allowing, however, that this advantage, without any abatement, was drawn

¹⁸ See his pamphlet, p. 43 [p. 44].

by Great-Britain from her export commerce, its utmost amount, he says, would still be trifling, and our exaggerated notions of the value of our trade, ridiculous. 'Great-Britain,' he informs us,¹⁹ 'in the most prosperous years of her commerce, has exported to the amount of about fifty millions sterling. If we estimate the profit of the master manufacturer, and the exporting merchant, at 20 per cent on this, it will probably be not far from the truth; certainly it will be fully as much as in these times of competition is likely to be gained. Great-Britain then gains annually by her commerce of export ten millions.' This sum, he tells us, is a mere trifle in the amount of our annual produce. 'More than *twice* this sum,' he says,²⁰ 'is paid for the interest of the national debt! More than *four times* this sum is paid to the government in taxes!'²¹ This sum, however, insufficient as it is to justify our lofty conceptions of the value of our commerce, is in reality, he at last assures us, not gained by Great-Britain. The reason which he brings in proof of this assertion, is the point to the examination of which we now proceed.

Great-Britain, he says, and in proof of this he enters into a long dissertation, imports regularly to as great an amount as she exports, and for that reason she gains nothing by her export trade. But how then? What else would Mr Spence have us do? Would he have us export our goods for nothing? And is that the plan which he would propose to make the country gain by her commerce? Ought we to carry our

¹⁹ See his pamphlet, p. 43 [p. 45].

²⁰ See his pamphlet, p. 44 [p. 45; in the later version Spence says 'thrice' and 'six times'].

²¹ Mr Spence is but an indifferent political arithmetician. He computes the grains upon the fifty millions of British exports, (by allowing twenty per cent for the profits of the master manufacturer and the exporting merchant) at ten millions a year. But from this sum, says he, (p. 44 [p. 45n]) 'we ought certainly to deduct the annual amount of our commercial losses at sea. The greater part of our exports, as well as of our imports, being insured by British underwriters, the whole amount which they annually pay is so much dead loss to the nation deducting the premiums which they receive from foreign countries.' He here makes the poor nation sustain its losses at sea twice over. The premiums of insurance paid by the merchants to the underwriters cover the whole of the losses with a profit. These premiums are as little charged by the merchant to his account of profit as the expence of freight. His profits are reckoned with a complete deduction of those premiums; and when we say that his profit is ten per cent or twenty per cent full account is made of loss. To make us first deduct our losses from the profits of the merchants, and then make a deduction of them again, for the sums paid by the underwriters, is hard dealing.

commodities to foreigners, and beg them only to accept of the articles; but above all things not to insist upon making us take any thing in payment; as this would be the certain way to prevent us from gaining by the trade?

For what on the other hand is it that Mr Spence would recommend to us to get for our goods? If we receive not other goods, the only return we can receive seems to be money. Would Mr Spence then tell us that we should get rich by receiving every year gold and silver for our fifty millions of exports? Not to insist upon the inherent absurdity of such a notion, let us only observe how inconsistent it would be with his own declared opinions? He warned us, in a passage already quoted,²² against conceiving that wealth consists in gold and silver merely. He assured us that²³ 'Spain has plenty of gold and silver, yet she has no wealth, whilst Britain is wealthy with scarcely a guinea.' He informs us farther,²⁴ 'that a nation which has abundance of gold and silver, is in fact not richer than if it had none. It has paid an equal value of some other wealth for them, and there is no good reason why it should be desirous of having this rather than any other species of wealth; for the only superiority in value which the precious metals possess over other products of the labour of man, is their fitness for being the instruments of circulation and exchange. But in this point of view the necessity of having gold and silver no longer exists; experience has in modern times evinced that paper, or the promissory notes of men of undoubted property, form a circulating medium fully as useful and much less expensive.'

He here informs us expressly that gold and silver are in no respect more to be desired than any other imported commodity. But the importing of other commodities he assured us was the cause which prevented our commerce of export from being a source of wealth. We now see that by his own confession gold and silver are in the same predicament with other imported commodities. But, if in order to gain by our commerce of export, we must receive in return neither goods nor money, we see no alternative that is left, except, as we said before, giving our goods away for nothing.

It may serve to render the subject still more clear, if I add a few words in the farther explanation of money. The true idea of money is neither more nor less than that of a commodity which is bought and

²² See p. 97 of this pamphlet.

²³ Ibid.

²⁴ See p. 18 [p. 16] of Mr Spence's pamphlet, 'Britain Independent of Commerce.'

sold like other commodities. In dealings with foreign nations, that class of transactions which we are now considering, this will very easily appear. When British goods, sold abroad, are paid for in money, it is not the denomination of the foreign coin which the merchant regards, it is the quantity of gold and silver which it contains. It is its value as bullion merely that he estimates in the exchange; and it is in the form of bullion, not of foreign coin, that the gold and silver, when it is in gold and silver that he receives his payment, is imported. The importation of gold and silver, therefore, differs in no respect from the importation of platinum, zinc, copper or any other metal. A certain part of it being taken occasionally to be stamped as money, makes not an atom of difference between the cases. It appears, therefore, with additional evidence, that if the importation of other commodities in exchange for the British goods which we export, annihilates the advantage of the exportation; so likewise does the importation of gold and silver. Again, therefore, we ask in what possible way are we to derive wealth from our commerce of export, but by the generous disposal of our goods for nothing to the kind and friendly nations who will please to receive them.

If we trace this subject a little farther, we shall perceive how the importation of money would disorder the policy of Mr Spence. It is very evident that the gold and silver which can be of any use in a nation, does not exceed a certain quantity.²⁵ In Great-Britain, where it is almost banished from the medium of exchange, the annual supply which is wanted, cannot be very large. To render what we receive, above this trifling supply, of any utility, it must again travel abroad to purchase something for which we may have occasion. But in this case again it administers to the traffic of importation; and thus, by the very act of its becoming useful, produces the effect which Mr Spence says cuts off the advantage to be derived from commerce of export.

We have yet, however, to examine an important resource of Mr Spence's theory. He makes a distinction between commodities, which are of a durable, and commodities which are of a perishable nature. The commodities he says, which are of a durable nature, are much more valuable as articles of wealth, than articles which are of a perishable nature; and the country which produces or purchases the one, contributes much more to the augmentation of its wealth, than the

²⁵ [For a fuller statement of Mill's position on monetary questions at this time see the extract which follows this pamphlet.]

country which acquires the latter. It sometimes happens to more accurate reasoners than Mr Spence, that one part of their theory clashes with another. But we think that it does not very often happen, that a man of Mr Spence's powers of mind, (for it is rather in the want of practice in speculation, than in want of capacity for it, that his defect seems to lie) so obviously becomes the antagonist of his own doctrine. In the whole train of commodities, are any of a more perishable nature than all the most important productions of the land? Of many of the manufactures, on the other hand, the productions are of a very durable sort, as the manufactures for example of tooth-picks, and of glass beads for the ladies. According to this ingenious distinction, therefore, could we increase the manufacture of tooth-picks, and glass beads, by diminishing the production of corn, we should contribute to the riches of the country.

The use which Mr Spence makes of this distinction, is notable. The greater part of the articles of British importation, he says, are of a perishable nature; whereas her articles of exportation are of a durable nature; for this reason she ought to be considered as losing by her foreign trade. 'We do,' says he,²⁶ 'gain annually a few millions by our export trade, and if we received these profits in the precious metals, or even in durable articles of wealth, we might be said to increase our riches by commerce; but we spend at least twice the amount of what we gain, in luxuries, which deserve the name of wealth but for an instant, which are here today, and to morrow are annihilated. How then can our wealth be augmented by such a trade?'

We may here remark another instance, in which the ideas of Mr Spence wage hostilities with one another. We shall hereafter find, that he recommends consumption and luxury, as favorable to the prosperity of the state. Yet here we perceive, that all his reasons against the utility of commerce, terminate in a quarrel with the importation of articles of luxury.²⁷

²⁶ See his pamphlet, p. 53 [p. 56; in the later version Spence left out 'in the precious metals'].

²⁷ Mr Spence is very apt to shift the ground of his arguments. He began his dissertation on the inutility of our export commerce, p. 47 [p. 49], thus; 'I grant, that when a nation exports considerably more than she imports, the profits charged on her exported goods, will be national profits; but, inasmuch as *Britain imports as much as she exports*, and inasmuch as *a great proportion of her imports consists of luxuries, which are speedily consumed*; from these circumstances I contend, that her wealth derives no augmentation from her commerce of export.' We see, that his reasons against the

Nothing was ever more unfortunate than this distinction of Mr Spence. We have seen before, in the article on commerce of import, that no distinction in the question of wealth exists between the commerce in articles of luxury, and any other. Whatever arguments therefore are drawn from this distinction, are addressed to the ignorance of those, who, as Mr Spence says, 'skim the surface.' The only distinction of importance, which can be made between one sort of commodities and another, is that between the commodities which are destined to serve for immediate and unproductive consumption, and the commodities which are destined to operate as the instruments or means of production. Of the first sort, are all articles of luxury; and even the necessaries of life of all those, who are not employed in productive labour. Of the latter sort, are the materials of our manufactures, as wool, iron, cotton, &c., whatever forms the machinery and tools of productive labour, and even the food and clothes of the labourer. Of the commodities which administer to productive labour, it is evidently absurd to make any distinction between those which are durable, and those, which to use a phrase of Mr Spence, are, 'evanescent'; as the most evanescent of them all has performed its part, before it vanishes, and replaced itself with a profit. Thus, the drugs of the dyer, even the coals which are consumed in his furnace, the corn which feeds his workmen, or the milk, one of the most perishable of all commodities, which they may use in their diet, have performed their part as completely, and to the amount of their value as usefully as the iron lever, with which he drives his press. On the other hand, when articles are destined for immediate and unproductive consumption, it seems a consideration of very trifling importance, whether they are articles which are likely to be all used in the course of one year, or in the course of several years. When a rouge for the ladies cheeks, which may be kept for any time, and hoarded up to any quantity, is imported, we surely cannot regard the interests of the country as much more consulted, than when the most evanescent luxury which Mr Spence can conceive is introduced into it. When it is on a distinction without a difference,

utility of commerce in this passage, are two; 1st, The equality of our imports with our exports, of whatever sort these imports may be; 2d, The perishable nature of a great part of these imports. In the passage just quoted in the text, we perceive that Mr Spence gives up the first of these reasons, allowing, that if we imported durable articles, we might gain by commerce, and insists only upon the last. We lose by our commerce, he says here, only because we import articles of a perishable nature.

that Mr Spence's argument against commerce ultimately depends, his doctrine must rest on a sandy foundation.²⁸

Mr Spence's opinions, however, on this subject are very wonderful. 'Of two nations,' he says,²⁹ 'if one employed a part of its population in manufacturing articles of hardware, another in manufacturing wine, both destined for home consumption; though the nominal value of both products should be the same, and the hardware should be sold in one country for £10,000, and the wine in the other for the same sum, yet it is evident, that the wealth of the two countries would, in the course of a few years, be very different. If this system were continued for five years, in the one country, the manufacturers of hardware would have drawn from the consumers of this article, £50,000; and, at the same time, this manufacture being of so unperishable a nature, the purchasers of it would still have in existence the greater part of the wealth they had bought; whereas, in the other nation, though the wine manufacturers would have also drawn to themselves £50,000 from the consumers of wine, yet these last would have no vestige remaining of the luxury they had consumed. It is evident, therefore, that at the end of five years, the wealth of the former nation would be much greater than that of the latter, though both had annually brought into existence wealth to an equal nominal amount.'

Now what is the idea which seems to be involved in this explanation? It is, that the nation which imports articles of a durable nature grows rich by hoarding them up. It is curious, that the very idea, and in fact the very example, which Dr Smith brings forward as so absurd that it might serve to cover with ridicule the mercantile system, is actually adduced by Mr Spence, in the simplicity of his heart, as a solid reason to prove the inutility of commerce. Dr Smith thus remarks: 'Consumable commodities, it is said, are soon destroyed; whereas gold and silver are of a more durable nature, and, were it not for their con-

²⁸ How often, and how justly has it been observed, that the costly palaces, and other luxuries of the greatest durability, on which Louis the XIVth expended vast sums of money, contributed as certainly to the exhaustion and impoverishment of France, as the expensive wars which he carried on, or the daily extravagance of his prodigal court? Mr Spence will surely allow that the pyramids of Egypt are sufficiently durable. Yet the political philosopher would amuse us, who should advise us to enrich our country, by building a few of these durable structures. Durability then is not the philosopher's stone; one thing may be more useful in half an hour, than another thing in twenty years.

²⁹ See his pamphlet, p. 51 [pp. 53-54].

tinual exportation, might be accumulated for ages together, to the incredible augmentation of the real wealth of the country. Nothing, therefore, it is pretended, can be more disadvantageous to any country, than the trade which consists in the exchange of such lasting for such perishable commodities. We do not, however, reckon [on] that trade disadvantageous which consists in the exchange of the hardware of England for the wines of France; and yet hardware is a very durable commodity, and were it not for this continual exportation, might too be accumulated for ages together, to the incredible augmentation of the pots and pans of the country. But it readily occurs that the number of such utensils is in every country necessarily limited by the use which there is for them; that it would be absurd to have more pots and pans than were necessary for cooking the victuals usually consumed there; and that, if the quantity of victuals was to increase, the number of pots and pans would readily increase along with it, a part of the increased quantity of the victuals being employed in purchasing them, or in maintaining an additional number of workmen, whose business it was to make them.³⁰

In fact nothing can well be more weak than to consider the augmentation of national riches, by the accumulation of durable articles of luxury, as a consideration of moment. The value of the whole amount of them in any country is never considerable, and it is evident that whatever they cost is as completely withdrawn from maintaining productive industry, as that which is paid for the most perishable articles.³¹ Mr Spence has an extremely indistinct and wavering notion of national wealth. He seems on the present occasion to regard it as consisting in the actual accumulation of the money and goods which at any time exist in the nation. But this is a most imperfect and erroneous conception. The wealth of a country consists in her powers of annual production, not in the mere collection of articles which may at any instant of time be found in existence.³² How inadequate an idea would he have of the wealth of Great Britain who should fix his ideas

³⁰ [*Wealth of Nations*, pp. 407-8.]

³¹ When Mr Spence sets so great a value upon articles of durability, he ought to recollect his own doctrine (see p. 16 [p. 14] of Mr Spence's pamphlet) 'that the manufacturer transmutes wealth of so perishable a nature as food into the more durable wealth manufactures.' Must he not then, according to the doctrine of durability, augment the national wealth?

³² [Cf. *Wealth of Nations*, Introduction and bk. II, ch. III.]

merely upon the goods in the warehouses of her merchants, and upon the accommodations in the houses of individuals; and should not rather direct his attention to the prodigious amount of goods and accommodations which are called into existence annually by the miraculous powers of our industry? The only part, it is evident, of the existing collection of commodities which in any degree contributes to augment the annual produce, the permanent riches of the country, is that part which administers to productive labour; the machines, tools, and raw materials which are employed in the different species of manufacturing and agricultural industry. All other articles whether durable or perishable are lost to the annual produce, and the smaller the quantity of either so much the better.

To trace however these ideas as far as Mr Spence pleases; let us suppose that our merchants instead of importing perfumes, for example, for the nose, should import ornaments for the hair and other similar trinkets of the greatest durability. When or how can these be supposed to be of utility or value? The use of them, it is evident, is as frivolous and as little conducive to any valuable end as that of the perfumes. It is only in the idea of their sale therefore that they can be considered as more valuable than the perfumes. They might still be sold for something after the perfumes are consumed. In the first place, the sale of half worn trinkets or hardware would not, it is likely, be very productive. But observe the nature of the sale itself. What a nation sells, it sells to some other nation. Should it then sell its accumulation of trinkets and hardware, it must import something in lieu of them. This must be either perishable articles, or such durable articles as the hardware which was exported; for money, even according to Mr Spence, forms no distinction. But this fresh cargo of durable articles is in the same predicament with the former; useless while it remains, and only capable of augmenting the riches of the country when it is resold. But this course it is evident may be repeated to infinity, and still the augmentation of wealth be as little attained as before. It is seldom that a false argument in political economy admits of so complete a reduction to absurdity as this.

We have thus with some minuteness examined the validity of what Mr Spence brings, in the shape of argument, to prove that the export commerce of Great Britain is productive of no wealth.³³ A very short

³³ Great Britain is understood by the world to gain more by commerce than all other nations put together. According to Mr Spence, she is in the singular situation of

and conclusive argument however was sufficient for the refutation of this boasted doctrine. The imports of Great Britain are equal, he says, in amount to her exports, and they are chiefly of a perishable nature. What Great Britain therefore might gain by her exports she loses by her imports. But we have already proved, in the preceding article, that commerce of import is itself a source of gain, and that, whether the articles imported are of a perishable or a durable nature. Whatever therefore is gained by our commerce of export is so far from being diminished by our commerce of import, that this last affords a gain equal in amount to that of the former. The profits of commerce are doubled by the operation of import.^{34 35}

There is another view of this subject exhibited by Mr Spence, which it may yet be of some importance to consider. Though the grand axiom of the *Economistes*, that the only source of wealth is land, is undoubtedly, he says, founded in truth, yet an application which they make of this axiom to the present affairs of Europe is erroneous. Though it is³⁶ 'the natural order of prosperity in a state that agriculture produces manufactures, not manufactures agriculture; yet the case seems very different with Europe, and an attention to facts will prove, *that in Britain agriculture has thriven only in consequence of the influence of manufactures; and that the increase of this influence is requisite to its farther extension.*' It is needless to state the proof which he adduces of these positions; for it is neither more nor less than a repetition, in Mr Spence's

losing by it, while other nations gain. He told us already (see p. 108 [above]), that he pitied those nations from which Bonaparte excluded our goods. He tells us again (Brit. Independent of Com. p. 56 [p. 59]) 'We shall find, that it is Europe, Asia, America, – all the countries with which she trades, – not Britain, that is enriched by her commerce.' Commerce then may enrich; it is only Great Britain that is silly enough to mismanage it.

³⁴ When it suits Mr Spence's purpose he can represent commerce as a very powerful agent in national prosperity. Thus he says (Brit. Indep. of Com. p. 84 [p. 87]) 'Should the blacks of St. Domingo be able to resist the attempts of the French for their subjection, and succeed in establishing a regular independent government, they will not fail, *by means of their commercial intercourse*, speedily to become civilized and powerful.' Mr Spence generally admits the effect of commerce in promoting civilization; but how can it render a nation *powerful*, by rendering it opulent?

³⁵ [Mill oversteps the mark here. A nation gains from trade via its imports, as he has shown; exports represent simply the means by which the gains are acquired. He never seems quite to have grasped this notion; see e.g. below, pp. 272ff.]

³⁶ See p. 20 [p. 18; the wording is slightly altered in Spence's later version] of his pamphlet, Brit. Indep. of Commerce.

own manner, of the view which Dr Smith exhibits³⁷ of the progress of industry in the feudal governments of modern Europe; where the slow and imperceptible insinuation of commerce burst asunder the bands of feudal tyranny, and instead of the sloth and poverty of servitude introduced the industry and opulence of liberty. It is enough for us at present to advert attentively to the position which Mr Spence here so emphatically announces, that such have been, and such are, the actual circumstances of Europe, that agriculture neither could have thriven, nor can yet thrive, but by means of manufactures. On this single admission, methinks, one might conclude that it was rather a rash doctrine to promulgate that commerce is of no utility to Great Britain, and that she might contemplate the loss of it with little emotion.

But having seen that manufactures, by Mr Spence's own admission, are absolutely necessary to the prosperity of Europe in her present circumstances, particularly in the present arrangement of her landed property; let us next see what is that state of things to which alone he admits that his doctrine respecting land and commerce is applicable. Having shewn that the conclusion which the *Economistes* drew, and drew very logically, from their principles, that till the whole land of every country be cultivated in the most complete manner, manufactures should receive little encouragement, will not apply to the circumstances of modern Europe, he next proceeds to describe that state of affairs to which the principles and conclusions of that sect do apply. Observe then what is that arrangement of the circumstances of Europe, what the changes from their present situation, which are requisite to adapt them for the practical operation of the doctrines of the *Economistes*. 'If the question were,' says Mr Spence,³⁸ 'on what system may the greatest prosperity be enjoyed by the bulk of society, there can be no doubt that the system recommended by the *Economistes*, which directs the attention of every member of society to be turned to agriculture, would be most effectual to this end. But such a system could be efficaciously established in Europe in no other way than by the overthrow of all the present laws of property, and by a revolution which would be as disastrous in its ultimate consequences as it would be unjust and impracticable in its institution. *This system could be acted upon only by the passing an Agrarian law; by the division of the whole soil of a country in equal portions amongst its inhabitants.*' Let us here intreat

³⁷ See *Wealth of Nations*, B. III. particularly the last three chapters.

³⁸ See his pamphlet, p. 27 [p. 25].

Mr Spence to pause for a moment, and to reflect upon the practical lessons which he is so eager to teach us. The present course of industry by manufactures and commerce he admits is adapted to the present circumstances of Europe, and that all the prosperity which she exhibits is owing to it; the application of the doctrine that all prosperity is owing to agriculture would require, he says, 'the division of the whole soil of the country in equal portions amongst its inhabitants, a revolution which would be as disastrous in its ultimate consequences, as it would be unjust and impracticable in its institution;' yet on the strength of this system he would have us believe that commerce is of no utility; he would have us conduct our affairs on a plan which is not applicable to the present situation of the world, and abandon the course by which we have attained our actual prosperity.³⁹

Another admission here of Mr Spence is truly pleasant. An equal division of the land, he says, would be an institution *impracticable*; and well indeed is the observation founded. How could mankind ever agree about what is equal? Equal surfaces are very unequal in value; and the value is a circumstance so ambiguous and disputable, that it can never be accurately ascertained. Besides, the value of land is perpetually changing. In the hands of the industrious man it improves; in the hands of the slothful man it becomes barren. What then? In order to preserve our equality, must we take part of his improved land from the industrious man to give to the slothful? This would be giving a premium to sloth, and laying a tax, sufficient to operate as a prohibition, upon industry. We should thus have all our people slothful, and all our land barren. But independent of this, the number of people does not always remain the same. It is perpetually changing. That no one then might be without a share, it would be requisite to be making perpetual changes in the apportionment of the land; and thus no one would ever know what was or was not his land. He could never therefore expend any pains in the culture of it. With great justice then has Mr Spence asserted that the institution of an Agrarian law is impractic-

³⁹ It is truly amusing to compare some of the parts of Mr Spence's pamphlet with other parts. He here tells us that the most prosperous condition of society would be that established on the principles of the *Economistes*, requiring the greatest subdivision of landed property. Yet hear him on the subject of a great subdivision of landed property, in another passage; (note p. 45 [pp. 46-47n]) 'In France, where there is an infinity of small estates of ten and twenty, and even so low as two and three acres each, *which are the bane of all national increase of wealth*, probably more than half the population is employed in agriculture.'

able. Observe, however, another assertion of his: 'that the system of the Economistes can be efficaciously established, that it can be acted upon, in no other way than by an equal division of the soil.' The system of the Economistes, then, cannot be established, but in an impossible state of things. It is a system not applicable to human affairs. It is therefore an absurdity.⁴⁰

It is perhaps not less remarkable that Mr Spence himself proceeds, apparently unconscious that it is a refutation of his own doctrine which he is penning, to exhibit a proof that his system, even if it were capable

⁴⁰ There is one pretty important subject on which Mr Spence has wonderfully changed his language at least, during the period between the publication of the second and third editions of his pamphlet. In his second edition, (p. 57,) he expressed himself on the famous question respecting the *balance of trade*, in the following manner: 'Ever since the publication of Dr Adam Smith's *Wealth of Nations*, it has been usual for those who have embraced the Doctor's opinions, to ridicule the axiom of the older politicians, viz. that for a nation to gain wealth by commerce, it is necessary it should export more than it imports, and receive the balance of trade in the precious metals. From what has been observed, it will be obvious, that the absurdity charged by him and his followers on the doctrine of the Pettys, the Davenants, and the Deckers, of former times, is by no means so convincingly made out as they would have us to believe. It appears these ancient politicians had an accurate idea of the true nature of commerce, though they erred in attaching too much importance to it. They rightly considered commerce to be, as its derivation implies, an exchange of one commodity for another; and hence they justly conceived, that if a nation imported, in return for its exports, a quantity of commodities only equal in value to them, it would never get wealth by such an interchange of one value for another. The absurdity, then, charged upon this doctrine of the balance of trade, does not belong to the principle itself, which is founded in truth, but to its application.' This passage, so decidedly asserting the truth of the doctrine respecting the balance of trade, is entirely omitted in the third edition; and instead of it we find inserted, in a different place, the following passage; 'Before I proceed,' (see 3d edit. p. 53 [p. 49]) 'to advance the reasoning, and to point out the facts upon which this opinion is founded, it is necessary to shew, by a slight examination, the fallacy of the doctrine of the *balance of trade*; or the opinion that Britain accumulates riches from her commerce, by receiving every year a balance in the precious metals, in consequence of a constant excess of her exports over her imports. Glaringly absurd as is this doctrine in the eyes of every tyro in political economy, and clearly as it has been demonstrated that no such balance can be received; we still, as a century ago, hear not only our newspaper politicians, but our statesmen even, estimating the value of a branch of commerce by a reference to this exploded theory.' Does Mr Spence abide by his own sentence, that he was more ignorant than a tyro in political economy, when his second edition was published? Or will he exert his ingenuity to prove that his former passage was consistent with the present? If he can undertake this, I would not have advised him to expunge the former passage.

of being introduced could lead to no happiness; far from it; but to a state of the greatest misery. 'Let us attend,' he says,⁴¹ 'a moment to the results which would ensue from the establishment of such a system. If the twelve millions of inhabitants of Great Britain were to have the seventy-three millions of acres of land, which this island is said to contain, divided amongst them, each individual receiving six acres as his share, there can be no doubt, that the condition of the great bulk of the people would be materially improved. Such a quantity of land would suffice for the production of meat, clothes and fire, of every thing necessary for comfortable existence; and the peasant, no longer anxious about the means of providing bread for his family, might devote his abundant leisure to the cultivation of his mind, and thus realize, for a while, the golden dreams of a Condorcet or a Godwin. Yet however great the prosperity of such a state of society, it would be impossible for it to accumulate wealth. For, as all its members would provide their own food, there could be no sale for any surplus produce, consequently no greater quantity would be raised than could be consumed, and at the end of the year, however great might have been the amount of the wealth brought into existence during that period by agriculture, not a trace of its existence would remain. Nor would the prosperity of such a state of society be of long duration. In a nation where such plenty reigned, the great command of the Creator, to increase and multiply, would act in full force, and the population would double in twenty-five years. Supposing then this state of things to continue, in seventy-five years from its establishment, Britain would contain ninety-six millions of souls, a number full as great as could possibly exist on seventy-three millions of acres of land. Here, then, misery would commence; the difficulty of procuring subsistence would be greater to the whole of society than it now is to a small proportion; population would be at a stand; and on any occasional failure of food, all the dreadful consequences would ensue which so frequently befall the over-peopled country of China.'⁴² Scarcely could we desire an

⁴¹ Britain Indepen. of Commerce, p. 27 [pp. 25-27].

⁴² It is remarkable in what obvious instances the unsteadiness of Mr Spence's ideas sometimes exhibits itself. Thus he tells us, (p. 18 [p. 16] of his pamphlet) that 'gold and silver are undoubtedly wealth.' Yet in the very same page he says, 'If gold and silver be but the *representative* of wealth and paper-money, the shadow of a shade,' &c. and then proceeds to found an important inference upon this assumption. In the next page, too, he says, 'Thus, then, whatever is the circulating medium, whether it be gold and silver, or paper, or both, *being but the representative of wealth*, there can be

author to administer with more naïveté than this to his own confutation.

The doctrine of Mr Spence then comes to this. If he admits absolutely the axiom of the *Economistes*, that land is the only source of wealth; then he must admit the whole of their system, which is built upon this axiom with logical and unquestionable exactness; but which we have found to be utterly impracticable in human affairs, and tending, even if it could be introduced, not to a state of happiness, but to a state of misery. Mr Spence indeed asserts, over and over, that the axiom of the *Economistes* is an undoubted truth. Nay he enters into a chain of reasoning, or illustration, to prove that it is incontrovertible. We might therefore, by all the laws of reasoning, hold him to the conclusions which necessarily flow from it. But as he seems to wish to relax a little from the severity of the economical system, when he admits that it is inapplicable to the present circumstances of Europe, let us examine this amended doctrine. We shall find that no argument can be founded upon it, which does not in reality give up the question. If Mr Spence say that land is indeed the only source of wealth, but commerce, in the circumstances of modern Europe, is necessary to render the land productive, we may answer that all possible circumstances, even according to his own admission, will in the same manner require commerce, with the sole exception of that equal division of the land which is requisite to the establishment of the economical system. Commerce, therefore, is conducive to the prosperity of national affairs in every concurrence of circumstances consistent with the laws of human nature. If Mr Spence still insist that commerce is only *mediately*, that land alone is *immediately*, the source of wealth, we shall certainly not dispute with him about a word, however incorrect we may deem the word which he employs; for in a question about the utility of food to the human body, we should not think it necessary very anxiously to contend with any new-fangled physiologist who should argue that food does not contribute to the renovation and expansion of the bodily parts *immediately*, by direct conjunction, but only *mediately*, by stimulating the organs to accomplish this renovation and expansion. We should think it fully sufficient for the proof of our position, that food is useful, if it were admitted that without food, such effects could not be produced.

no difference as to the sources of wealth, between a nation which has, and one which has not, a circulating medium.' Mr Spence, though evidently a man of education, has certainly been little accustomed to the business of accurate composition. We find, here, even a grammatical blunder.

We should not, however, pay much attention to our physiological instructor, should he proceed to his practical deductions, and tell us, 'Bonaparte will speedily be able to cut off your whole supplies of food; but be not in the least degree alarmed; only listen to me, and I will prove to you that food is not *immediately*, but *mediately* useful to your bodies; therefore you can do as well, or perhaps better, without it.'⁴³

CHAPTER VI

CONSUMPTION

The doctrine of Mr Spence respecting consumption is not less worthy of examination than his doctrine concerning production. This author divides the members of a civilized society into

⁴³ In one or two passages, particularly one inserted for the first time in his 3d edition, Mr Spence appears desirous to insinuate that there is a distinction between manufactures for home consumption, and manufactures for export, in respect to the encouragement of agriculture; as if manufactures for home consumption contributed to the progress of agriculture, but manufactures for exportation did not. It would have been highly satisfactory, if this indeed be his opinion, for even that does not certainly appear, had he but taken the trouble to give us his reasons. As for me, I frankly own, I cannot so much as conceive what those reasons could have been. I can recollect, however, very distinctly where Mr Spence informs us that manufactures for home consumption can never add to the wealth of any country, but that manufactures for exportation sometimes may. He tells us, p. 17 [p. 16], that his arguments 'have convincingly shewn that all wealth is created by agriculture *none* by manufactures,' meaning manufactures for home consumption. He tells us too, p. 43 [pp. 44-45], 'when a lace manufacturer has been so long employed in the manufacturing a pound of flax into lace, that his subsistence during that period has cost £30, this sum is the real worth of the lace; and if it be sold *at home*, whether for £30 or £60, the nation *is no richer for this manufacture*. But if this lace be exported to another country, and there sold for £60, it is undeniable that the exporting nation has added £30 to its wealth by its sale.' He says too, p. 57, 2d edition, 'However enlarged are the views, and however correct the reasoning of Dr Smith, on most branches of the subject on which he wrote, he has in many instances fallen into errors, to the full as egregious as those which he condemns.' Let us next hear the instances which he specifies; 'witness his doctrine, that wealth is really created by manufactures made and consumed at home; and his confused and unintelligible attempt to confute the opposite tenets of the French Economists.' *Ibid.*

four classes; the class of landowners – The class of cultivators – The class of manufacturers – And the unproductive class. ‘As the whole revenue of a country,’ he says,⁴⁴ ‘is derived from its land; and as the class of land-proprietors are the recipients of this revenue, it is evident that from this class must be drawn the revenues of the two other classes of society; the manufacturing and unproductive class. It is a condition, then, essential,’ he adds, ‘to the creation of national wealth, that the class of land-proprietors expend the greater part of the revenue which they derive from the soil. So long as they perform this duty, every thing goes on in its proper train. With the funds which the manufacturing and the unproductive classes appropriate to themselves from the expenditure of the class of landowners, they are enabled to purchase the food which the farmer offers to them. The farmer being enabled to dispose of his produce, acquires the funds necessary for the payment of his rent, &c. Let us make the supposition that fifty of our great landowners, each deriving twenty thousand pounds a year from his estates, which they have been accustomed to spend, were to be convinced by the arguments of Dr Smith, that the practice of parsimony is the most effectual way of accumulating national riches, and should save the £1000000 which their revenue amounted to. Is it not self-evident that the members of the manufacturing and unproductive classes, who had been accustomed to receive this sum, would have their power of consuming diminished? The farmer consequently could not sell so much of his produce, nor at so good a price as before. It is clear then that expenditure, not parsimony, is the province of the class of land proprietors; and that it is upon the due performance of this duty by the class in question, that the production of national wealth depends. And not only does the production of national wealth depend upon the expenditure of the class of land-proprietors, but for the due increase of this wealth, and for the constantly progressive maintenance of the prosperity of the community, it is absolutely requisite that this class should go on progressively increasing its expenditure. It will follow, as a consequence, that in countries constituted as this and those composing the rest of Europe are, the increase of *luxury* is absolutely essential to their well-being. It is impossible exactly to define what are luxuries and what necessaries; yet a slight consideration will shew that a very great proportion of our manufactures cannot be included under the latter title. Every one knows that a few hundreds a year are

⁴⁴ See Mr S’s pamphlet, from p. 29 to 37 [pp. 27-35].

sufficient to procure all the necessaries and comforts of life: in what then can the sums above this amount, which are spent by the numbers in this country who have their £10,000 and £20,000 a year, be expended, but in luxuries? And as from this consideration it is plain that the population of the manufacturing class, at present occupied in providing necessaries, is fully equal to fabricate all that are wanted of this description, it follows that the additional population of this class can only be employed in the manufacture of new luxuries.'

This is the first part of our author's doctrine concerning consumption, and I have been anxious to exhibit a full view of it. Its nature and value we now proceed to investigate.

The reader of this pamphlet, we trust, will immediately discover one short argument subversive of this whimsical speculation. It is founded, we see, upon the assumption that land is the only source of wealth; a position which we have found to be altogether untenable. Both manufactures and commerce are sources, and important sources of wealth; therefore the landed proprietors are not the original owners of the whole, nor of nearly the whole, annual revenue of the country. The foundation of Mr Spence's doctrine being thus removed, the superstructure of necessity falls to the ground.⁴⁵

It may be useful, however, to exhibit a fuller and more accurate view of the fallacy of this doctrine respecting consumption. It proceeds entirely upon a misapprehension; upon the confounding together of two things, which are remarkably different, by failing to distinguish the double meaning of an ambiguous term. The two senses of the word *consumption* are not a little remarkable. We say, that a manufacturer consumes the wine which is laid up in his cellar, when he drinks it; we say too, that he has consumed the cotton, or the wool in his warehouse, when his workmen have wrought it up: he consumes part of his money in paying the wages of his footmen; he consumes another part of it in paying the wages of the workmen in his manufactory. It is very evident, however, that consumption, in the case of

⁴⁵ Mr Spence here furnishes us with an unanswerable argument against his doctrine of durable commodities. He insists upon it, as we have already seen, that all commerce is unprofitable, which does not import durable commodities. But commodities the more they are durable, are the more opposed to consumption. In conformity with his doctrine of consumption, he ought to recommend commerce in the most perishable commodities. His doctrine of durable commodities affords an argument against his doctrine of consumption; and his doctrine of consumption affords an argument against his doctrine of durable commodities.

the wine and the livery servants, means something very different from what it means in the case of the wool or cotton, and the manufacturing servants. In the first case, it is plain, that consumption means extinction, actual annihilation of property; in the second case, it means more properly renovation, and increase of property. The cotton or wool is consumed only that it may appear in a more valuable form; the wages of the workmen only that they may be repaid, with a profit, in the produce of their labour. In this manner too, a land proprietor may consume a thousand quarters of corn a year, in the maintenance of dogs, of horses for pleasure, and of livery servants; or he may consume the same quantity of corn in the maintenance of agricultural horses, and of agricultural servants. In this instance too, the consumption of the corn, in the first case, is an absolute destruction of it. In the second case, the consumption is a renovation and increase. The agricultural horses and servants will produce double or triple the quantity of corn which they have consumed. The dogs, the horses of pleasure, and the livery servants, produce nothing.

We perceive, therefore, that there are two species of consumption; which are so far from being the same, that the one is more properly the very reverse of the other. The one is an absolute destruction of property, and is consumption properly so called; the other is a consumption for the sake of reproduction, and might perhaps with more propriety be called *employment* than consumption. Thus the land proprietor might with more propriety be said to *employ*, than consume the corn, with which he maintains his agricultural horses and servants; but to *consume* the corn which he expends upon his dogs, livery servants, &c. The manufacturer too, would most properly be said to *employ*, not to *consume*, that part of his capital, with which he pays the wages of his manufacturing servants; but to consume in the strictest sense of the word what he expends upon wine, or in maintaining livery servants. Such being the remarkable difference between the meanings of the word consumption, the man in whose reasonings and doctrines those meanings are confounded, must arrive at woeful conclusions.

It appears from this very explanation of the meanings of the term, that it is of importance to the interests of the country, that as much as possible of its annual produce should be *employed*, but as little as possible of it consumed. The whole annual produce of every country is distributed into two great parts; that which is destined to be employed for the purpose of reproduction, and that which is destined to be con-

sumed. That part which is destined to serve for reproduction, naturally appears again next year, with its profit. This reproduction, with the profit, is naturally the whole produce of the country for that year. It is evident, therefore, that the greater the quantity of the produce of the preceding year, which is destined to administer to reproduction in the next, the greater will naturally be the produce of the country for that year. But as the whole annual produce of the country is necessarily distributed into two parts, the greater the quantity which is taken for the one, the smaller is the quantity which is left for the other. We have seen, that the greatness of the produce of the country in any year, is altogether dependent upon the greatness of the quantity of the produce of the former year which is set apart for the business of reproduction. The annual produce is therefore the greater, the less the portion is which is allotted for consumption. If by consumption therefore Mr Spence means, what we have termed consumption properly so called, or dead unproductive consumption, and it does appear that this is his meaning, his doctrine is so far from being true, that it is the very reverse of the truth. The interests of the country are the most promoted, not by the greatest, but by the least possible consumption of this description.

Let not Mr Spence, however, be alarmed. Let him rest in perfect assurance, that the whole annual produce of the country will be always very completely consumed, whether his landholders choose to spend or to accumulate. No portion of it will be left unappropriated to the one species of consumption, or to the other. No man, if he can help it, will let any part of his property lie useless and run to waste. Nothing is more clear, than that the self-interest of men, ever has impelled and ever will impel them, with some very trifling exceptions, to use every particle of property which accrues to them, either for the purpose of immediate gratification, or of future profit. That part, however, which is destined for future profit, is just as completely consumed, as that which is destined for immediate gratification. A thousand ploughmen consume fully as much corn and cloth in the course of a year as a regiment of soldiers. But the difference between the kinds of consumption is immense. The labour of the ploughman has, during the year, served to call into existence a quantity of property, which not only repays the corn and cloth which he has consumed, but repays it with a profit. The soldier on the other hand produces nothing. What he has consumed is gone, and its place is left absolutely vacant.

The country is the poorer for his consumption, to the full amount of what he has consumed. It is not the poorer, but the richer for what the ploughman has consumed, because, during the time he was consuming it, he has reproduced what does more than replace it.

We may hence perceive how it is, that a country advances in property, and how it is that it declines. When the produce of each year is the same with that of the preceding year, it is plain that the riches of the country are stationary; when the produce of each year is greater than that of the preceding, the wealth of the country is advancing; and when the produce of each year is less than that of the preceding, the wealth of the country is on the decline. What then is the cause by which the annual produce of a country is increased? About this there can luckily be no controversy. The cause by which the annual produce of a country is increased, is the increase of that division of the annual produce, which is destined to administer to reproduction. That we may have more work, we must employ more workmen, and use more materials. The maintenance of these workmen, and the materials on which they operate, are the new fund which is indispensably requisite to the increase of the annual produce. But the only source whence this provision can be drawn, is the source whence the whole fund destined to administer to reproduction is drawn, the annual produce of the country. Now, we have already clearly seen, that the annual produce of every country is always divided into two parts, that which is destined for mere consumption, and that which is destined for the business of reproduction; and that those two parts always wholly exhaust that produce. In whatever proportion, therefore, the part destined for reproduction is augmented, in the same proportion must the part intended for consumption be diminished, and *vice versa*. When the affairs of a country are stationary, when the produce of this year, for example, is the same with that of the last, that is to say, is equal both to that part which was appropriated to the business of reproduction and to that which was appropriated to consumption, the part destined for reproduction must have been so large as to suffice for replacing itself, and for affording an increase equal to that part of the annual produce which was taken for consumption. Again, if the produce for the succeeding year is to be the same with the present, such a part of this year's produce must be devoted to the business of reproduction as will suffice to replace itself, and to afford a surplus equal to that part which is reserved for immediate consumption.

While this proportion is maintained, the situation of the country is stationary. When, however, it fortunately happens, that a smaller proportion than this of the annual produce is withdrawn for consumption, and a greater proportion than this is left for reproduction, the prosperity of the country advances. The produce of each year is greater than that of the preceding. On the other hand, whenever in the stationary situation of a country, a greater than the usual proportion of the annual produce is withdrawn from the business of reproduction, and devoted to consumption, the produce of the succeeding year becomes necessarily diminished, and as long as this consumption continues, the affairs of the country are retrograde. It is evident, that the arrangement of society, which has a tendency to draw the greatest proportion of the annual produce to consumption, is that in which there is the greatest inequality of fortunes, in which there is the greatest number of persons, who have no occasion to devote themselves to any useful pursuit. But it is the maintenance of great fleets and armies, which is always the most formidable weight in the scale of consumption, and which has the most fatal tendency to turn the balance against reproduction and prosperity. It is by the lamentable continuance of wars, almost always nourished by puerile prejudices and blind passions, that the affairs of prosperous nations are first brought to the stationary condition, and from this plunged into the retrograde.

Mr Spence offers one curious observation. After the statement which we have already quoted, of the miseries which he supposes would flow from a disposition in the landholders not to spend, he anticipates an objection.⁴⁶ 'Let it not be urged,' says he, 'that what they might save would not be hoarded, (for misers now-a-days are wiser than to keep their money in strong boxes at home) but would be lent on interest; it would still be employed in circulation, and would still give employment to manufacturers.' This objection he encounters with the following answer: 'It should be considered, that money borrowed on interest is destined not for expenditure, but to be employed as capital; that the very circumstance of lessening expenditure decreases the means of the profitable employment of capital, and consequently that the employment of the sum alluded to as capital, would in no degree diminish the hardships of those, who had been deprived of the revenue derived from its expenditure.' Wonderful, as after what we have been considering, it may appear, it is yet certain, that Mr Spence here

⁴⁶ See Mr S's pamphlet, p. 32 [pp. 30-31].

objects to the augmentation of the portion of the annual produce, which is destined for reproduction. The savings of the landholders, says he, would be employed as capital. But why should they not be employed as capital? Because, says Mr Spence, expenditure would be lessened. Well may we here congratulate our author on the clearness and comprehensiveness of his views. What then? The corn which we supposed the landowner to consume upon his agricultural servants and horses, would not be as completely expended as that which we supposed him to consume upon his livery servants, his stud, and his dog kennel? The ploughmen of the country do not expend as well as the soldiers? There is here a want of discernment, which in a man, who stands up as an emphatical teacher in political economy, does hardly deserve quarter.⁴⁷ Of the two parts of the annual produce, that which is destined for reproduction and that which is destined for consumption, the one is as completely expended as the other, and the part which is destined for reproduction, is that which is probably all expended in the shortest time.⁴⁸ For the man who intends to make a profit is in haste to obtain it. But a considerable time may elapse before a man consume the whole of what he lays up for mere gratification. He may have in his cellar a stock of wine to serve him for several years, but the flax or the wool in his warehouse will probably be all worked up in the course of one year.

To render the futility of Mr Spence's objection still more clear, we may shew him by an analysis of a particular case in what manner the savings of his land-holders would contribute not to the worst but to the best effects in civil society. As this error respecting the importance of

⁴⁷ Here too, Mr Spence follows a remarkable part of the system of the original *Economistes*. 'La consommation est la mesure de la reproduction. — Plus il se consomme, plus il se produit,' said Mercier de la Rivière, *Ordre Essentiel des Sociétés Polit.* Tom. ii. p. 138. At the time when this system was first invented, when men had just begun to analyse the operations of society, such a mistake deserved, perhaps, indulgence. But after the real causes of wealth have been so clearly evolved by Dr Smith, after the mysterious process of production has been so exactly resolved into its first elements, it shows either a very slight acquaintance with his work, or a woeful inability to trace the consequences of the truths demonstrated in it, if a man can now adopt the doctrine of the *Economistes* respecting consumption. — A late French writer, M. Say, *Economie Polit.* Liv. v. ch. 3. tells a pleasant anecdote of a practical pupil of this doctrine. 'J'ai connu,' says he, 'un jeune homme qui faisait voler par la fenêtre les flacons de cristal à mesure qu'il les vidoit; il faut disait-il, encourager les manufactures.'

⁴⁸ [Cf. *Wealth of Nations*, p. 321.]

dead consumption is common both to the mercantile system and to that of the *Economistes*, and very generally diffused among the ordinary part of mankind, it is of no little importance, even at the risk of being thought tedious, to endeavour to set it in the strongest light I am able. Let us suppose that one of Mr Spence's landholders with a revenue of £10,000, the whole of which he has been accustomed to spend in the maintainance of a brilliant and luxurious establishment, becomes resolved all at once to cut short his expenditure one half. He has thus the very first year £5,000 to dispose of. Even Mr Spence allows that he will lend, not hoard it. Let us suppose that he lends it to the linen manufacturer in his neighbourhood. To what use in his hands is it immediately applied? to the augmentation unquestionably of his business. He goes directly and buys an additional quantity of flax from the farmer, he sets to work an additional number of flax-dressers and spinners, he employs the carpenters, blacksmiths, and other necessary artisans in erecting for him an additional number of looms, and he hires an additional number of weavers. In this manner the £10,000 of the landholder is as completely consumed as ever it was. But £5,000 of it is consumed in a very different manner. It is consumed, 1st upon a very different set of people, and 2d to a very different end. 1. It is consumed upon the growers, the dressers, the spinners, and weavers of flax, with the carpenters, blacksmiths, and other artisans whose labours are subservient to that manufacture, instead of being expended, as formerly, upon lacqueys and cooks, and the other artificers of luxury. 2. It is expended for the sake of reproduction. By means of its expenditure a property of an equal and more than equal amount is now called into existence; by its former expenditure nothing was called into existence. The produce of the country for this year therefore is greater than it would otherwise have been by the amount of £5,000, with its natural profits. If we suppose these profits to be only ten per cent, which is surely reasonable, the produce of the country is thus £5,500 the greater, on account of the very first year's saving of the landholder.⁴⁹

⁴⁹ Mr Spence says in a note (p. 24 [p. 30n] of his pamphlet, 3d edition) 'There is a singular vagueness and confusion in the whole of Dr Smith's reasoning, relative to the different effects of prodigality and parsimony upon national wealth. His arguments seem to be intended to maintain, that fresh capital may be profitably employed, in manufacturing goods which nobody will buy; for, certainly no purchasers would be found for the goods brought into existence by the employment of new capital, if all the members of the society were to convert the greater part of their revenue into capital.' - This is pretty much as if a follower of the Ptolemaic astronomy should

Another strange perversity of Mr Spence's doctrine here presents itself. It is directly opposed to the very end which it purposes to promote, consumption. By renouncing Mr Spence's plan in the instance we have adduced, the country would have more to expend to the amount of £5,500 in the very first year of the new operation of the £5,000; because it would have more produce to the amount of £5,500. Mr Spence will not surely say that a nation can consume more than it produces; and it is very odd that he and the other pupils of the same doctrine do not reflect that consumption is posterior to production, as it is impossible to consume what is not produced. Consumption in the necessary order of things is the effect of production, not production the effect of consumption. But as every country will infallibly consume to the full amount of its production, whatever is applied to augment the annual produce of the country by consequence augments its annual consumption. The greater therefore the departure from Mr Spence's rules, the more rapid in every country the increase of consumption will be.⁵⁰

There is another idea the explication of which I could have willingly avoided, because it is more abstruse than may appear adapted to the greater part of the readers of a pamphlet, and after all the pains I can take to render it plain in the narrow space to which I am confined, considerable obscurity may still appear to rest upon it. This explication however is not only necessary because it serves to clear away a remaining objection of the Economistes, but because it exposes the fallacy of certain notions current in this country, which threaten to have very extensive practical consequences. The Economistes and their disciples express great apprehensions lest capital should increase too accuse the reasonings of Sir Isaac Newton of vagueness and confusion, because they do not tally with the doctrines of the cycles and epicycles.

⁵⁰ My reader may convince himself by personal inspection that the following passage is actually to be found in Mr Spence's pamphlet (p. 55) [pp. 58-59] 'Sir Richard Arkwright, by his invention and employment of improved machinery, in the spinning of cotton, annually gained great riches. But would he ever have been wealthy, if he had every year spent in tea, wine, sugar, &c. destined for his immediate consumption, a sum equal to, or greater than, the whole of his gain? Surely not. The dullest intellect must see, that he never could have acquired wealth, by this constant expenditure of his gains, in articles to be consumed by himself, which, when consumed, left no relic behind them; however great might have been his gains, and however long he might have acted on this system. If, then, a private manufacturer cannot acquire wealth in this way, neither can a manufacturing nation. The cases are precisely parallel.'

fast, lest the production of commodities should be too rapid. There is only, say they, a market for a given quantity of commodities, and if you increase the supply beyond that quantity you will be unable to dispose of the surplus.

No proposition however in political economy seems to be more certain than this which I am going to announce, how paradoxical soever it may at first sight appear; and if it be true, none undoubtedly can be deemed of more importance. The production of commodities creates, and is the one and universal cause which creates a market for the commodities produced.⁵¹ Let us but consider what is meant by a market. Is any thing else understood by it than that something is ready to be exchanged for the commodity which we would dispose of? When goods are carried to market what is wanted is somebody to buy. But to buy, one must have wherewithal to pay. It is obviously therefore the collective means of payment which exist in the whole nation that constitute the entire market of the nation. But wherein consist the collective means of payment of the whole nation? Do they not consist in its annual produce, in the annual revenue of the general mass of its inhabitants? But if a nation's power of purchasing is exactly measured by its annual produce, as it undoubtedly is; the more you increase the annual produce, the more by that very act you extend the national market, the power of purchasing and the actual purchases of the nation. Whatever be the additional quantity of goods therefore which is at any time created in any country, an additional power of purchasing, exactly equivalent, is at the same instant created; so that a nation can never be naturally overstocked either with capital or with commodities; as the very operation of capital makes a vent for its produce. Thus to recur to the example which we have already analyzed; fresh goods to the amount of £5,500 were prepared for the market in consequence of the application of the £5000 saved by the landholder. But what then? have we not seen that the annual produce of the country was increased; that is, the market of the country widened, to the extent of £5,500, by the very same operations? Mr Spence in one place advises his reader to consider the circumstances of a country in which

⁵¹ [In his reply to Mill, *Agriculture the Source of the Wealth of Britain*, Spence said that he found this principle incomprehensible. 'Mr Mill grants that his theory will probably appear to his readers to be involved in considerable obscurity. He will therefore pardon me, if, after all the attention I have bestowed to develop its meaning, I should have been unsuccessful.' See *Tracts on Political Economy*, p. 160.]

all exchange should be in the way of barter, as the idea of money frequently tends to perplex. If he will follow his own advice on this occasion, he will easily perceive how necessarily production creates a market for produce. When money is laid out of the question, is it not in reality the different commodities of the country, that is to say, the different articles of the annual produce, which are annually exchanged against one another? Whether these commodities are in great quantities or in small, that is to say, whether the country is rich or poor, will not one half of them always balance the other? and is it not the barter of one half of them with the other which actually constitutes the annual purchases and sales of the country? Is it not the one half of the goods of a country which universally forms the market for the other half, and vice versa? And is this a market that can ever be overstocked? Or can it produce the least disorder in the market whether the goods are in great or in small quantity? All that here can ever be requisite is that the goods should be adapted to one another; that is to say, that every man who has goods to dispose of should always find all those different sorts of goods with which he wishes to supply himself in return. What is the difference when the goods are in great quantity and when they are in small? Only this, that in the one case the people are liberally supplied with goods, in the other that they are scantily; in the one case that the country is rich, in the other that it is poor: but in the one case, as well as in the other, the whole of the goods will be exchanged, the one half against the other; and the market will always be equal to the supply. Thus it appears that the demand of a nation is always equal to the produce of a nation. This indeed must be so; for what is the demand of a nation? The demand of a nation is exactly its power of purchasing. But what is its power of purchasing? The extent undoubtedly of its annual produce. The extent of its demand therefore and the extent of its supply are always exactly commensurate. Every particle of the annual produce of a country falls as revenue to somebody. But every individual in the nation uniformly makes purchases, or does what is equivalent to making purchases, with every farthing's worth which accrues to him. All that part which is destined for mere consumption is evidently employed in purchases. That too which is employed as capital is not less so. It is either paid as wages to labourers, who immediately buy with it food and other necessaries, or it is employed in the purchase of raw materials. The whole annual produce of the country, therefore, is employed in making purchases.

But as it is the whole annual produce too which is offered to sale, it is visible that the one part of it is employed in purchasing the other; that how great soever that annual produce may be it always creates a market to itself; and that how great soever that portion of the annual produce which is destined to administer to reproduction, that is, how great soever the portion employed as capital, its effects always are to render the country richer, and its inhabitants more opulent, but never to confuse or to overload the national market. I own that nothing appears to me more completely demonstrative than this reasoning.⁵²

It may be necessary, however, to remark, that a nation may easily have more than enough of any one commodity, though she can never have more than enough of commodities in general. The quantity of any one commodity may easily be carried beyond its due proportion; but by that very circumstance is implied that some other commodity is not provided in sufficient proportion. What indeed is meant by a commodity's exceeding the market? Is it not that there is a portion of it for which there is nothing that can be had in exchange. But of those other things then the proportion is too small. A part of the means of production which had been applied to the preparation of this superabundant commodity, should have been applied to the preparation of those other commodities till the balance between them had been established. Whenever this balance is properly preserved, there can be no superfluity of commodities, none for which a market will not be ready.⁵³ This balance too the natural order of things has so powerful a tendency to produce, that it will always be very exactly preserved where the injudicious tampering of government does not prevent, or those

⁵² The attentive reader will perceive that no deduction is made in the preceding argument for that part of the annual produce which is consumed immediately by the producer. The motive for this was a desire not to perplex the argument by qualifying clauses. To notice this particular, at the same time, was entirely unnecessary, since that part of the annual produce which may be consumed by the producer, as it increases not the demand in the national market, so neither does it increase the stock or supply in that market, because it is not carried to market at all. It is also to be considered that in every country where labour is well divided, and skilfully applied, the proportion of the produce which the producers immediately consume is always very small.

⁵³ What then are we to think of such speculators as Lord Henry Petty, who told the House of Commons in one of the debates on the appropriation of part of the sinking fund in his new finance plan, that it was necessary to prevent the national debt from being paid too fast, lest the country should become overstocked with capital? There was not an individual in the House who contradicted him.

disorders in the intercourse of the world, produced by the wars into which the inoffending part of mankind are plunged, by the folly much more frequently than by the wisdom of their rulers.

This important, and as it appears demonstrative doctrine, affords a view of commerce which ought to be very consolatory to Mr Spence. It shews that a nation always has within itself a market equal to all the commodities of which it can possibly have to dispose; that its power of purchasing is always equivalent to its power of producing, or at least to its actual produce; and that as it never can be greater, so it never can be less. Foreign commerce, therefore, is in all cases a matter of expediency rather than of necessity. The intention of it is not to furnish a vent for the produce of the industry of the country, because that industry always furnishes a vent for itself. The intention of it is to exchange a part of our own commodities for a part of the commodities which we prefer to our own of some other nation; to exchange a set of commodities which it peculiarly suits our country to produce for a set of commodities which it peculiarly suits that other country to produce. Its use and advantage is to promote a better distribution, division and application of the labour of the country than would otherwise take place, and by consequence to render it more productive. It affords us a better, a more convenient and more opulent supply of commodities than could have been obtained by the application of our labour within ourselves, exactly in the same manner as by the free interchange of commodities from province to province within the same country, its labour is better divided and rendered more productive.

It thus appears of what extraordinary importance to every community is the augmentation of capital; that is to say, the augmentation of that part of the annual produce which is consumed in the way of reproduction. If we but recall the thought of that important doctrine first illustrated by Smith, that a progression is necessary in national affairs to render the circumstances of the great body of the people in any degree comfortable, our humanity, as well as our patriotism, will become deeply interested in the doctrine of parsimony. Dr Smith shews that even when a country is stationary, the subsistence of the labouring classes is reduced to the lowest rate which is consistent with common humanity; that is to say, it is barely sufficient to enable them to maintain their present numbers, but not sufficient to enable them in the least degree to augment them. But if we recollect how much greater than this are the powers of multiplication in the species, how

natural it is for the average of families to be more numerous than merely to replace the father and the mother; we shall see with feelings of commiseration how wretched must be the circumstances of those families that are more numerous, and of how many human creatures brought into existence, it must be the miserable fate to perish through want of subsistence. But if such is the dismal situation of the great body of the people, when the national affairs are but stationary, how much more shocking to our feelings are their circumstances, when the situation of the country is retrograde. In this situation the labourer is unable to earn even at a rate which is sufficient to maintain the number of the labouring class. Calamity now comes down with a heavier hand. That class must even be thinned by the dreadful operation of deficient subsistence. On the other hand, when the affairs of the country are progressive, the wages of the labouring class are sufficient not only to maintain their existing numbers, but to augment them. The reward of labour is liberal. The labourer can support a moderate family with ease; and plenty and comfort diffuse themselves throughout the community. Have we not seen that this progressive state of society, that all these happy consequences result from continual additions made to the capital of the country, or to that part of the annual produce which is devoted to reproduction? and have we not seen that the retrograde condition, with all its deplorable consequences, results from making continual additions to that part of the annual produce which is taken for mere consumption? Little obligation then has society to those doctrines by which this consumption is recommended. Obstacles enow exist to the augmentation of capital without the operation of ridiculous speculations. Were the doctrine that it can increase too fast, as great a truth as it is an absurdity, the experience of all the nations on earth proves to us, that of all possible calamities this would be the least to be feared. Slow has been its progress every where; and low the degree of prosperity which has in any place been given to the mass of the people to enjoy.

CHAPTER VII

OF THE NATIONAL DEBT

Were the exhortations to consumption, of Mr Spence and others, addressed only to individuals, we might listen to them with a great deal of indifference; as we might trust with abundant confidence that the disposition in mankind to save and to better their condition would easily prevail over any speculative opinion, and be even little affected by its practical influence. When the same advice, however, is offered to government, the case is widely and awfully changed. Here the disposition is not to save but to expend. The tendency in national affairs to improve, by the disposition in individuals to save and to better their condition, here finds its chief counteraction.⁵⁴ Here all the most obvious motives, the motives calculated to operate upon the greater part of mankind, urge to expence; and human wisdom has not yet devised adequate checks to confine within the just bounds this universal propensity. Let us consider then what are likely to be the consequences should this strong disposition become impelled, and precipitated by a prevailing sentiment among mankind. One of the most powerful restraints upon the prodigal inclinations of governments, is the condemnation with which expence, at least beyond the received ideas of propriety, is sure to be viewed by the people. But should this restraint be taken off, should the disposition of government to spend become heated by an opinion that it is right to spend, and should this be still farther inflamed by the assurance that it will by the people also be deemed right in their government to expend, no bounds would then be set to the consumption of the annual produce. Such a delusion could not certainly last long: but even its partial operation, and that but for a short time, might be productive of the most baneful consequences. The doctrines of Mr Spence which we have already considered, naturally lead to this dangerous application; but it is only when he comes to speak of the national debt that his advice is directly addressed to government.⁵⁵

⁵⁴ [Cf. Smith's statement that: 'Great nations are never impoverished by private, though they are sometimes by public prodigality and misconduct.' *Wealth of Nations*, p. 325.]

⁵⁵ We have already seen, p. 137, an application of the doctrine of the utility of

‘For my own part,’ says Mr Spence,⁵⁶ ‘I am inclined to believe that the national debt, instead of being injurious, has been of the greatest service to our wealth and prosperity. It appears that man is in fact much more inclined to save than to spend. The land-proprietors accordingly have never fully performed their duty; they have never expended the whole of their revenue. What the land-proprietors have neglected to do, has been accomplished by the national debt. It has every now and then converted twenty or thirty millions of what was destined for capital into consumable revenue, and it has thus given a most beneficial stimulus to agriculture.’

The reader does not, I suppose, expect that I should compliment this doctrine with any very long discussion. As it is founded upon the very same mistakes which we have traced in our author’s doctrines respecting the consumption of individuals; it would be necessary for me to tread over again the very same steps, to the fatigue of my reader as well as of myself. As the practical consequences, however, of these mistakes are deeply dangerous, and as there is reason to think that they have a more real operation in the administration of British affairs than the mere speculative reader, it is probable, would easily believe; it is necessary to consider with a little attention the principal points of this application of Mr Spence’s theory.

According to Mr Spence the national debt has been advantageous because the government has thus spent what the land-proprietors would otherwise have saved. When his language is put into accurate terms it means this; the land-proprietors have every year endeavoured to increase to a certain amount that part of the annual produce which is destined for the business of reproduction, whereby they would have increased the annual produce, and the permanent riches of the country;

expence, in the plea of Lord Henry Petty for alienating part of the sinking fund. The sinking fund has been operating for twenty years. It ought in that time to have given a tolerable specimen of its effects. Well, how has it paid the national debt? Why, the national debt is now nearly triple its amount at that time when the sinking fund was instituted. If the rapid payment of the national debt were the greatest of our dangers, we might bless God upon being the securest nation in the universe. We may here see, however, with some alarm, the extent of practice which might rapidly be given to the consuming doctrine. Lord Henry Petty professes to regard the sinking fund as the sheet anchor of the nation. Yet upon the strength of this speculation he could recommend to Parliament to devote part of that sinking fund to immediate consumption!

⁵⁶ Britain Indep. of Commerce, p. 74 [p. 78n].

but government has every year, or at least at every short interval of years, taken the property which the people would thus have employed in augmenting the riches of the country, and has devoted it to mere dead consumption, whence the increase of production has been prevented. It is in this manner, according to Mr Spence, that the national debt has been advantageous.

Let us hear Mr Spence's reasonings in defence of this doctrine. 'Capital,' says he,⁵⁷ 'is essential to a nation, but a nation may have too much of it; for what is the use of capital, but to prepare articles on which a revenue may be spent, and where is the revenue to be spent, to be derived from, if it be all converted into capital?' It is evident that Mr Spence here falls into his old mistake, supposing that capital is not spent as well as revenue, that is, the part of the national produce which is appropriated to reproduction, as well as that which is appropriated to consumption.

'When, during a war,' says Mr Spence,⁵⁸ 'a loan of twenty or thirty millions is made, in what is the sum expended? Is it not consumed in providing food and clothing for the army and navy, &c.' But, had no loan been wanted; and had the individuals of the army and navy been cultivators, manufacturers, and contributors, in all the necessary ways, to national production, might not the same sums have been employed in maintaining and clothing them? The difference would have been highly important. As industrious individuals, they would have reproduced within each year a property equivalent to that which they consumed, together with its natural profits. As soldiers and sailors, they consumed without producing any thing; and at the end of each year a property equal to what they consumed was destroyed, and not the value of a pin created to replace it.

After hearing what Mr Spence has to say in favour of loans, let us hear him on the subject of the taxes paid for the interest of those loans. 'These taxes,' says he,⁵⁹ 'are perhaps a greater cause of prosperity than the original debt was.' His reason is immediately added; because, says he,⁶⁰ 'they are, for the most part, constantly devoted to the purchase of consumable commodities,' that is to say, they are constantly devoted to dead consumption. The same fatal mistake still clings to Mr Spence. The double meaning of the word consumption still confounds him. Were the sums, paid in taxes, not sacrificed to dead consumption,

⁵⁷ Britain Indep. of Commerce, p. 75 [p. 78n].

⁵⁸ Ibid.

⁵⁹ Britain Indep. of Commerce, p. 75 [p. 79n].

⁶⁰ Ibid.

would they not still be employed in making purchases? would they not be employed in purchasing the raw materials of manufactures, or in paying the wages of manufacturing and agricultural servants, who with these wages again would purchase their food and clothing? Mr Spence applauds the taxes, because they take so much from that part of the annual produce of the country which is destined for productive consumption, and add it to the part which is destined for dead consumption. This is the very cause for which the intelligent contemplator deploras them.

'Heavy taxes,' says Mr Spence,⁶¹ 'are doubtless oppressive to many of the members of a society individually considered, yet where the whole, or by far the greater part of the taxes of a nation are expended in that nation, taxation may be carried to a very great extent, without injuring national prosperity.' It is curious to observe how extremes meet. This is a favourite doctrine too of the mercantile system, of which those of the school of Mr Spence have so great an abhorrence. The reason of both is the same, that the taxes are laid out in the purchase of commodities; and they have not the discernment to reflect, that the money would have been as certainly laid out in the purchase of commodities, had it remained as capital. As capital, however, it would within the year have replaced itself with a profit; as taxes it is all consumed, and nothing is created to replace it. By its consumption as taxes the country is rendered poorer, by its consumption as capital, the country would have become richer.

Mr Spence has next a most excellent idea. The sums paid as taxes, he allows, might have employed productive labourers. 'But,' says he,⁶² 'if we have already productive labourers, sufficient for the supply of all our wants, why increase their number?' This is an argument the most commodious in the world. It is equally accommodated to all times and places. The population of England and Wales was found, in 1801, to be very nearly nine millions and a half. In the time of Edward the 1st, the population of England and Wales was found to be about two millions and a half. Had Mr Spence lived in the days of Edward the 1st, his argument would have been just as handy as at the present moment. It would apply as logically to the wilds of Tartary, as to England and France. Let us observe another of Mr Spence's consistencies. He here tells us, we see, that society ought to become station-

⁶¹ Britain Indep. of Commerce, p. 76 [p. 79n].

⁶² Britain Indep. of Commerce, p. 76 [p. 79n].

ary. We have already productive labourers enow; why increase their number? Yet Mr Spence informed us, in a passage which we have already quoted, that on this increase depended the prosperity of every country. 'A nation,' he told us, 'may be said to be in prosperity, which is progressively advancing in wealth, where the checks to population are few, and where employment and subsistence are readily found for all classes of its inhabitants.'

This is all which I can perceive, that Mr Spence advances in the form of direct argument, to prove that the national debt, and heavy taxes, are a public blessing⁶³; and, if the maxim be well founded, that the proofs of any proposition ought to be strong, in proportion as the doctrine is wonderful, great is the danger that Mr Spence's speculations will not have a very splendid fortune.⁶⁴

There is an idea, which he has appended to this doctrine, which would furnish occasion to a most important inquiry; were it not of a more extensive nature, than to admit of being brought within the

⁶³ He refers to Lord Lauderdale's 'Inquiry into the nature and origin of public wealth.' His lordship's arguments, however, are merely those of Mr Spence extended. They are drawn from the same source, and applied to the same end. Wherever the above arguments are conclusive against Mr Spence, if they are conclusive against him at all, they are equally so against Lord Lauderdale. It seems therefore unnecessary to extend the pamphlet by any examination of arguments, which are already refuted.

⁶⁴ Among other accusations which Mr Spence has brought against Dr Smith, he wishes to prove, that, though he dissents from the doctrine of the Economistes, he yet 'virtually admits its truth.' (See p. 41 [p. 37] of Mr Spence's pamph. 3d edit.) 'He asserts,' says Mr Spence, 'that all revenue must be derived from rent of land, profit of stock, or wages of labour. But in the course of his investigation, he admits, that no taxes are finally paid by the profit of stock; the employer of capital always shifting the burden from himself upon the consumer. He allows, too, that taxes cannot finally fall upon wages, since the wages of the labourer increase in proportion, as the price of the articles he consumes is augmented by taxation. On what, then, can taxes fall, but upon the rent of land? If all revenue be necessarily derived from rent, wages and profit, and the two latter cannot be affected by taxation, Dr Smith, on his own premises, admits the truth of the doctrine of the Economists.' One can with some difficulty determine what to say of this. It is directly untrue. Dr Smith is so far from saying, that no taxes fall ultimately either upon the profit of stock or the wages of labour, that he explains particularly in what manner taxes *do* fall upon both. Mr Spence, however, certainly did not intend this misrepresentation. He tells us, that he borrowed the idea from the Edinburgh Review, [Jan. 1803, No. II, p. 445]. It is probable, that he trusted to this authority, without undergoing the drudgery of consulting Dr Smith; (taking the business of instructing the public very easily!) and the writer in the Review, with the precipitance natural to a reviewer must have made the assertion at random.

limits of the present Tract. 'In the time of war,' says Mr Spence,⁶⁵ when the most taxes are paid, the bulk of the population of this country enjoy greater prosperity than at any other time.' He adds, 'just now, for example, never were the bulk of the people so prosperous.' As he states this merely as an inference from his theory, entirely unsupported by any reference to facts, and as we have seen that his theory is extremely erroneous, we might reject the inference without any farther inquiry. But I am desirous of entering my protest in a manner somewhat more circumstantial against an opinion demonstratively unfounded, cruel to the sufferers, and calculated, as far as its influence extends, to prolong the national calamity of war; an opinion the more likely, if false, to produce disastrous consequences, because it is entertained by many persons in the more affluent circumstances of life, for whom it is too natural to believe, when they themselves are at their ease, that all the world are in a similar situation. It must have been from such a consideration as this of the circumstances of the poor, from an attentive inquiry founded upon his own enjoyments, that Mr Spence must have learned to assure us, that they are in great prosperity. Surely, Mr Cobbett will here take up arms against his new confederate. There is no point which Mr Cobbett has laboured with greater industry, and better effect, for many months, than to prove that the situation of the lower orders has become much more unfavourable since the commencement of Mr Pitt's career as a minister. I remember some time ago, though the date I cannot assign, he presented to us a calculation to prove how much the price of the quartern loaf had risen upon the wages of the labourer, and how inadequate his weekly wages had now become, to afford even bread, (not to speak of fire, clothing, and lodging, or a day of sickness) even to a moderate family. To afford evidence upon this subject, sufficient to compel the assent of such persons as are resolved to withhold it as long as they possibly can, a very copious induction of well attested facts would be requisite. These on such a question could not be very easily procured; and the inquiry, even if the facts were ascertained, would extend itself beyond the limits to which we are at present confined. We can, however, appeal within a narrow compass to a few general facts, which afford a strong ground for inference to the whole subject. One of these, of a most extraordinary and important nature, is the state of the poor's rate. The medium average of the annual expenditure on account of the poor, in the years

⁶⁵ Britain Indepen. of Commerce, P. 76 [p. 80n].

1783, 1784, and 1785, was £2,004,238. During the period of peace, which intervened from this date till the breaking out of the war in 1793, no general account was taken of the poor's rate; and we have, therefore, no complete collection of facts, by which we can ascertain in what degree it increased during that period. If we may form however, a conclusion from the general state of the country, in which wages were continually advancing, while the price of provisions was stationary, or rather on the decline, we seem warranted to infer, that it did not increase at all, if it did not rather decline; at any rate that it did not increase, but in a very small degree. We have something indeed much more precise than this, on which to found our conclusions. In the Returns from the Parishes inserted in the Work of Sir F. M. Eden, on the Poor,⁶⁶ we have statements of the annual expenditure during that period; and though they are not digested into tables, or the general results exhibited, a comparison in a few cases will satisfy the inquirer, that the poor's rate was the same, or very nearly the same, in 1785 and 1792. The case, however, widely altered during the progress of the war. The attention of the nation had been gradually more and more attracted to this growing calamity during some years previous to 1803, when an act of the legislature was passed, for taking an account of the nature and amount of the expenditure on the poor. At this time it was found to amount to the enormous sum of £4,267,965, 9s. 2d. In the course of ten years of war, therefore, the poor's rate had more than doubled. In nine years, from 1776 to 1785, it had increased only £473,434; in ten years, from 1793 to 1803, it increased £2,263,727. Does this fact seem to support the strange conclusion of Mr Spence, that the people of England are most prosperous during war? and above all, that they were never in so prosperous a condition, as they are at this moment? Does Mr Spence really know, that the number of persons in England, who receive parochial charity, is 1,234,768? The whole population, exclusive of military and convicts, but including the paupers, are 8,872,980. Deduct from this the number of paupers, we have 7,638,212. The paupers, therefore, are to the rest of the population, as one to six nearly. If we suppose, that the higher and middling classes form but one fourth of the population, we shall find that nearly every fifth individual in the labouring classes is a parish pauper. Does this lamentable and extraordinary fact

⁶⁶ [*The State of the Poor: or an History of the labouring classes in England from the Conquest to the present period*, London, 1797.]

indicate a state of prosperity? If we consider that it is the male part of the population chiefly, that is the earning part and pays the poor's rate, it will appear, that the paupers are equal to nearly one third of the whole male population, including old men, young men, and children. Mr Spence will here, it is probable, launch out into a declamation on the growing vices of the poor, (this at least is the general resource) and will to these ascribe the extraordinary increase of the poor's rate during the war. But why should the vices of the poor have increased so fast during the war? If this is the effect of war, deeply is its prolongation to be deplored. I know, however, no *facts* by which it can be made appear, that the poor are more vicious than they were in 1785; and as to complaints, these were as strong fifty years ago, as they are now. If it be said, that the poor's rate itself is a proof of the increase in the vices of the poor; this is merely begging the question. It is first making the vices of the poor account for the poor's rate, and next the poor's rate account for the vices. Besides, how much soever the growing tendency of vice is to be deplored, its progress in a whole people is always much slower than what is here ascribed to it. The comparison too of the wages of the labourer with the price of provisions, as made by Mr Cobbett, in the manner stated above, affords direct evidence on this subject, and leads to the same lamentable conclusion. There are, unluckily, but few recent statements publicly attested, to which on this subject a writer can appeal, and I am unwilling to advance any thing merely on my own experience and observation. There are, however, some general facts which afford a fair inference to all other cases. In some papers for example printed in 1807, by order of the society of shipowners in Great Britain, I find it stated, that since the year 1780, the price of provisions has increased £84. 8s. 2d. per cent. That wages, however, have increased only £39. 7s. 1d. per cent. a rate of increase which is not nearly one half of that of provisions. This account too of the low rate of wages is the more to be depended upon, that it was adverse to the conclusion which the ship owners wanted to establish. Now, though the shipping trade for a few years has been far from flourishing, it is only for a few years; and even during them there has been no diminution in the employment of shipwrights, because the enormous demand in the king's yards, and in the navy, has much more than compensated for any slackness in the yards of the merchants. We have never heard complaints, that shipwrights were not as well paid as any other artificers of a similar description; that their wages

have not risen in a similar, or rather in a superior proportion. We may, therefore, infer, with abundant assurance, that the rate of wages, in proportion to that of provisions, has in all cases where some peculiar circumstances have not created an extraordinary competition for hands, suffered a similar depression. From all this we are surely authorised to conclude, that the assertion of Mr Spence respecting the prosperous condition of the people at large, is rash and unwarranted.

I am unwilling to dwell upon this topic, as I am sensible, that I expose myself to a very formidable argument, which we have acquired, in this country, a wonderful dexterity in wielding against one another, that is, the *argumentum ad invidiam*, (if Mr Cobbett will for once pardon the use of a learned phrase) the argument, not of refutation, but of odium. The opinion which I have just now ventured to express, and which, if true, it is of so much importance not only to express but to proclaim, there are many gentlemen, who will ingeniously refute, not by attacking the argument, but the author; not by showing that the opinion is unfounded, but by asserting, that the author wishes to stir up the poor against the rich. The two antagonists whom I have more particularly challenged in this tract, I must, however, deny the honour of belonging to that illustrious body. If my argument has not convinced them, they may, if they deem it of sufficient importance, endeavour to refute it; but both of them seem to be too much fettered by old fashioned prejudices, to satisfy themselves, that it is the best mode of refuting an argument to calumniate the arguer.

It might be not useless to those who are the most averse to hear of the fact, barely to allow themselves for one moment to suppose it real, and then to ask themselves, whether it ought to be disguised or to be made known; whether the fatal cause is more likely to be removed by concealment or by exposure. That the fact, if real, is a lamentable one, I suppose will not be doubted; first on principles of mere humanity, next on those of patriotism. For what would it indicate? Have we not seen that when a country is prosperous, the labouring classes of the people are by necessary consequence in comfortable circumstances? that when the comforts of the labouring classes have decayed, the prosperity of the country is at least at a stand, a point from which declension is the consequence, natural and very difficult to be avoided? Since the subject is then of so much importance, let us hope that all those whom the opinion here stated may offend, will exert themselves to refute it. If they can produce facts but nearly as strong against it as

are stated to prove it, our wishes will forcibly incline us all to range ourselves of their party.

CHAPTER VIII

GENERAL REFLECTIONS

After this controversy to determine whether any wealth is derived from commerce, the question respecting its relative importance, as a source of production, is of some moment. If it is not altogether destitute of utility, in what degree ought it to be considered as valuable? Though Mr Spence, who condemns it as entirely unproductive, is excluded from this inquiry, it is a subject on which our countrymen have need of much more instruction than it will be possible to give them in a few pages of this pamphlet.

A general idea of the value of commerce, as a source of wealth, may be easily derived from the doctrines which have been laid down in the preceding discussion. We have seen that the true conception of a nation's wealth is that of her powers of annual production. A nation is poor or is rich according as the quantity of property which she annually creates, in proportion to the number of her people, is great or is small. Now commerce tends to increase this annual produce by occasioning a more productive application and distribution both of the land and of the labour of the country. Instead of raising flax, for example, or hemp, on our land, we raise corn; with that corn we feed a number of hardware manufacturers, and with this hardware we buy a greater quantity of flax than the land which raised our corn, and fabricated our hardware, would have produced. This is exactly equivalent to an increase in the powers of our land; it is the same thing as if we had been enabled to make that portion of land which could only raise a certain quantity of flax, raise all that additional quantity which our hardware could purchase. In this instance, the increase in the productive powers of the country by the mercantile operations we have supposed, seems to be measured by the gains of the merchant. The gains of the merchant, however, may be considered in different lights. First, he may be enabled to sell the whole of the imported flax

at as high a rate as that at which the flax raised at home could afford to be sold. If he can sell it at this rate, his gains seem to measure the increase in the annual produce very exactly; they are the price of the additional quantity of flax which his hardware has purchased. But, secondly, if these gains are very high, competitors will be attracted, who will endeavour to share in them by reducing the price of what they import. In this case, if the quantity imported remained the same, the gains of the merchants being reduced, the increase of the annual produce would surpass the gains of the merchants. There is, however, a third light in which the subject is to be viewed; this reduction in the price of flax would render it impossible any longer to raise it with a profit on a considerable part of the land which had been formerly devoted to it; only such land as had a peculiar adaptation to the crop could now be cultivated for it; the quantity imported would therefore be increased; but though the profits of the merchants would thus be multiplied, a fresh addition would be made by every increase of the importation to the annual produce of the country, whence it would appear that in this case too the gains of the merchants would fall below the increase afforded to the nation. There is a fourth case, which requires no illustration, in which, by means of monopoly and bounties, the gains of the merchant may be very high, when those of the country are very low, in which the merchant may gain when the country loses. But in all cases in which trade is free, the gain to the country cannot be less than the profit to the merchant; in almost all such cases it must be greater.

From this view of the subject it will be seen that no exact estimate can be made of what any nation gains by commerce. It may, however, be safely concluded that its importance is in general greatly overrated. Every arm could be employed, and every article of the annual produce could be sold, if the country were surrounded by Friar Bacon's wall of brass, a thousand feet high. The labour of the nation would not be so productive; the annual produce would not be so large; the people would not be so cheaply, that is, liberally supplied with commodities; neither individuals, nor the government, could spend so much without turning back the progress of the country. But every labourer would find work, and every shilling of capital would find employment.

When we hear people, therefore, talk, as we do too often hear them, and in places too high, of commerce as the cause of our national grandeur; when we find it appealed to as the measure of our prosperity;

and our exports and our imports quoted as undeniable proofs that the country has flourished under the draining of the most expensive war that ever nation waged on the face of the earth, we have reason to smile at the ignorance or the deceitfulness of the speaker. Further, when we find important measures of state embraced upon the allurements of these ideas, when regulations are formed to bend forcibly the national industry to a conformity with them; but above all, when wars are commenced, or peace is repelled, for the loss or gain, or rather much more frequently an absurd apprehension respecting the loss or gain of a branch of commerce, we ought to deplore the fate of the nation, and the unskilfulness of her rulers. We may assert, without an hyperbole, that the fee simple of our whole export commerce is not worth the expence of the last fifteen years war; that had it all been sacrificed, to the last sixpence, to save us from that expence, we should have been gainers by the bargain.⁶⁷ Had Mr Spence then directed his efforts to moderate our ideas of the value of commerce, without teaching other doctrines which, first, were false, and next led to practical conclusions of the most dangerous tendency, he might have been of service to his country. It is but too true that the greater number of the persons with whom we converse seem to imagine that commerce creates wealth by a sort of witchcraft, as our financiers would sometimes persuade us that they can maintain fleets and armies by a juggle of figures. The truth is, that nothing creates wealth but the hands of our industrious countrymen, set to work by the means, and regulated by the skill and judgment of others. Commerce is only one of the causes,

⁶⁷ This may be rigidly proved by arithmetical demonstration. Let us take our commerce at its present standard. We export rather more than forty millions a year of British produce and manufactures. Let us suppose that one-fourth of this is gain to the country, which is probably a good deal more than the fact. The annual gain of the nation by this trade is then £10,000,000. Now the most steady and flourishing kinds of business are seldom worth more than ten years purchase. But we shall make a much larger allowance. Land itself is only worth thirty years purchase even at its present elevated price; and commerce is surely worth one-third less than land. Let us suppose then that our commerce is worth 20 years purchase; while our land is worth 30. The whole of our commerce, even at this high estimate, would be worth only £200,000,000. But we have added by the war above £300,000,000 to the national debt. When we consider that the war taxes were taken at £21,000,000 in Lord Henry Petty's budget for one year only, we may be pretty certain we are below the mark, when we say at a venture that £110,000,000 more have been raised for the war by that means. It thus appears that the war with the French revolution has already cost us more than twice the worth of our whole commerce.

and one not very high in the scale, by which their industry is rendered more productive.

Mr Cobbett's antipathy to commerce appears to me to be founded on juster views than the disapprobation of Mr Spence. Little troubling himself about the subtle question of the origin of wealth, and unacquainted with the plausible and ingenious, but fallacious arguments of the *Economistes*, he yet saw clearly, and felt keenly, the injury which the country sustained from a policy guided by ideas of the boundless value of commerce. It is from topics of this sort that almost all his invectives against commerce are drawn. 'Wars', he cries,⁶⁸ 'have been made over and over again for the sake of commerce; and when the rights and honour of the nation are to be sacrificed by a peace, the regaining or preserving of commerce is invariably the plea. To support commerce, the wars in Egypt were undertaken; the wars in India are carried on without ceasing; the war in South-America and in Africa are now undertaken. Oh! What English blood, and English labour, and English happiness, and English honour, has not this commerce cost!' Thus again, he says,⁶⁹ 'The fact is, that the means of supporting fleets and armies, the means of meeting all the squanderings that we witness, the means of paying the dividends at the bank, *come out of the land of the country and the labour of its people*. Nothing is more convenient for the purpose of a squandering, jobbing, corrupting, bribing minister, than a persuasion amongst the people, that it is from *the commerce*, and not from *their labour*, that the taxes come; and it has long been a fashionable way of thinking, that it is no matter how great the expences are, so that the commerce does but keep pace with them in every case. Nothing can better suit such a minister and his minions, than the propagation of opinions like these. But, gentlemen, you have seen the commerce tripled since the fatal day when Pitt became minister; and have you found that *your taxes have not been increased?* The commerce has been tripled, and so have the *parish paupers*. Away, then, I beseech you with this destructive delusion! See the thing in its true light. Look upon *all* the taxes as arising out of *the land and the labour*, and distrust either the head or the heart of the man who would cajole you with a notion of their arising from any other source.' Once more, 'If events', says he,⁷⁰ 'proceed as, thank God, they are now pro-

⁶⁸ Cobbett's Political Register, v. 12, [21 Nov. 1807] p. 821.

⁶⁹ Ibid, pp. 822, 823.

⁷⁰ Cobbett's Political Register, p. 824.

ceeding, this so long deluded people will think rightly upon the subject of commerce, and when they do, away go, in a very short space of time, all the locusts that now eat up our substance; that now degrade the country; that now barter its happiness and its honour for their own villainous advantage. England has long groaned under a *commercial system*, which is the most oppressive of all possible systems; and it is, too, a quiet, silent, smothering oppression, that it produces, which is more hateful than all others.'

But Mr Cobbett should consider that commerce is entirely innocent of that political misconduct which excites his complaint and indignation. If an ignorant minister is deceived into absurd measures by overrating the value of commerce, or a deceitful minister screens his administration by disseminating exaggerated ideas of its value, the fault is with such ministers. How is commerce to blame? The argument which Mr Cobbett uses against commerce is exactly the same with that which is used by infidels against religion. Because courts and ministers have so often founded on religious pretexts measures the most pernicious to human kind, they conclude that religion ought to be abolished. Their complaints run entirely in Mr Cobbett's strain. What wars, say they, and bloodshed has it occasioned? What chains has it forged for mankind? True, we answer. The mischief which has been wrought, in the name of religion, has been infinite and detestable. The effects of religion, meanwhile, like the effects of commerce, are all beneficent. But were both religion and commerce extinguished, can Mr Cobbett, or the infidels, imagine that ignorant ministers would not still mistake their duty, and mercenary ministers not find pretexts to delude the people? Let us only consult the most vulgar experience. France has no commerce, nor Austria, the boasted value of which can impose upon the public. But are Austria and France governed with any more attention to the happiness of the people than England? and are ministers there without their pretexts to persuade the people that they are well governed, as well as the ministers of England? Have not the rulers of France, the glory of the nation and its renown in arms, of which they make abundant use? This too used to be the boast of Austria. At present it is laid aside for a space. But the preservation of the independence of the country, the dignity of its royal family, and of its nobles, still form in Austria a source of triumph. The fact is, that nothing is a security against deception, but the knowledge of the people, by which deception is detected. As long as a people are ignorant

enough to be easily deceived, it is not in the nature of human affairs that deception should not take place; it would be absurd to expect it. Let Mr Cobbett rest assured that wherever a nation has been so far deficient in knowledge as to be deluded into the approbation of impolitic measures by boasts respecting commerce, it would have been no difficult matter to have found the means of deceiving it, had commerce not existed. I am far therefore from concluding with Mr Cobbett that, were commerce gone, we should be delivered from all the locusts that now eat up our substance.' Could the loss of commerce enlighten us that we should be proof against delusion? Or are the means of deception so few that they are all summed up in commerce?

Mr Cobbett appears to imagine that commerce has corrupted our government. It has subjected us, he says, to oppression. But as he does not explain how, it is not easy to reply to this objection. As Mr Cobbett is far from supposing, that the popular part of our government has lately increased in power, commerce must have disordered the constitutions, by increasing the power, either of the kingly or of the aristocratical part. This is directly contrary to the opinion of Mr Spence, who explains at considerable length⁷¹ the tendency of commerce to break the force of regal and aristocratical servitude. The regal and aristocratical power in this country has increased by the amazing increase of the share of the annual produce which is placed at the disposal of the executive government, and which is chiefly distributed among the great men. But it is the parliament by which this amazing increase has been voted. Now commercial men, though their number in parliament is considerable, form but a small proportion of the whole; neither have we ever heard that they were more forward in voting the taxes than the landed lords and gentlemen. The fact is, that though rich merchants and manufacturers are by far too apt to ape their betters in a foolish predilection for arbitrary principles of government in regard to the great body of the people, yet their situation does lead them to an intercourse with the lower orders upon rather more liberal terms than the situation of the mere land proprietor. The persons employed by the merchant and the manufacturer are in general very independent of their employers, and if they meet with ill usage, will immediately change their masters. Those on the other hand, who are under the land proprietor, are commonly far more dependent upon him, and his situation in this manner generally creates in him a much

⁷¹ See Brit. Indep. Com. p. 20 to 26 [pp. 18-25].

more arbitrary temper and conduct. He is therefore almost always disposed to coercive and arbitrary measures of government; and were his prejudices to influence the tone of administration, absolute power would seldom fail to be the final result. Even some of the prejudices connected with commerce have been extremely favourable to liberty in this country. The supposition that the country depended in a great degree upon commerce, and the vast instrumentality of the lower orders in this department, have contributed greatly to the consideration of their interests in our course of legislation. Had the body of our population consisted entirely of the tenants and peasants of the landholders, and our legislature consisted of none but the latter, the more completely subservient the tenants and peasants could have been rendered to their masters, the more happy a situation of things it would have appeared. Mr Cobbett's opinion is contradicted by the whole of our experience. All over Europe where the population has chiefly consisted of landholders and peasants, arbitrary power and poverty have invariably reigned. In Great Britain, where commerce has been established, much more freedom and opulence have been enjoyed.

Were our attention much more concentrated upon domestic industry and a far less proportion devoted to foreign trade, Mr Cobbett thinks the national interests would be promoted. There is reason, to some extent, for his opinion. Agricultural industry is not at the same height in England as commercial and manufacturing industry. But what is the reason of this? It is chiefly owing to the distribution of our landed property. The greater part of it is possessed in portions too large. A man of ample capital will never lay it out in cultivating another man's estate; because this employment is less independent; because it is a station of inferiority. He therefore, in preference devotes his fortune to trade. The cultivation of the ground is discouraged too, by the imposts of tithes, and of poor rates; which are taxes upon improvement. By these, and various other causes, capital is driven from agriculture. But is this the fault of commerce? It only takes what impolitic and unnatural laws will not permit the other to employ.

Commerce, then, we may infer from all that has been said, is a very good thing when it comes spontaneously, but a thing which may very easily be bought too dear. The two main springs of national wealth and prosperity, are the cultivation of the land, and manufactures for home employment and consumption. Foreign commerce is a mere auxiliary to these two; and its sole utility consists in enabling the nation

to obtain its supply to certain demands, at a less expence of land and labour than it could have supplied them at home. It may be clearly seen too, that it depends upon the circumstances of other nations, in what degree foreign commerce may be advantageous. When the nations which surround England, for example, are so situated that certain articles which England affords bear in them a very high price, while many other articles in them which England wants bear a very low price, it suits England to manufacture a great deal for foreign markets, because, with a small quantity of what she produces, she can supply herself with a great quantity of what they produce. But should those articles in the surrounding countries gradually become dearer, while the articles from England become cheaper, it would then become less and less the interest of England to manufacture for these countries; and if the articles which she wants should rise in them to the price at which she could provide them for her own land and labour, it would then become her interest to provide them at home, and manufacture for these countries no longer. The fluctuations then of foreign commerce, afford a very fallacious indication of national prosperity. The national prosperity may in some cases even be consulted by abstaining from it.

After forming these conclusions respecting the sources of production, one great branch of the subject of which we have treated in this pamphlet, some remaining reflections yet force themselves upon us respecting its other great branch, consumption; concerning which the misapprehensions of our countrymen are not less numerous, and are still more nearly allied to practice.

Notwithstanding the avidity for immediate gratification, with which the greater part of mankind appear to be inspired, the disposition to accumulate seems, from experience, to be a still more powerful propensity; and wherever men are secure in the enjoyment of their property, a great proportion of them always exert themselves to make what they get exceed what they spend. By means of this powerful principle it is natural for every nation, which has scope for its industry, to make continual advancement, to see the produce of every succeeding year surpass that of the year which went before it. One arrangement of society may be more favourable to this advancement than another. In one country the natural subdivision of property may be more counteracted than in another. But no arrangement of society, consistent with any tolerable degree of freedom and security, seems capable

of preventing this wonderful agent from adding something every year to the fund of production, from continually increasing the annual produce. As it is this gradual progress on which the happiness of the great body of the people depends, we may reflect with satisfaction and wonder on the strength of the principle on which it is secured; on the provision which is laid in the original laws of human nature for the well-being of the species!

But when we contemplate this beneficent arrangement, and afterwards turn our eyes to the actual state of things among mankind, it is impossible not to be struck with grief and amazement. From the operation of so powerful and steady a principle we should every where have expected opulence and prosperity; we actually behold, almost every where, poverty and wretchedness! Where are we to find the solution of this strange contradiction in human affairs? By whom is that property devoured, which mankind, in their individual capacity, have so strong an inclination to increase?

The general expensiveness of government, of which complaints are so common, and so well founded, will not account for the fact. All governments constantly spend as much as ever the people will let them. An expensive government is a curse. Every farthing which is spent upon it, beyond the expence necessary for maintaining law and order, is so much dead loss to the nation, contributes so far to keep down the annual produce, and to diminish the happiness of the people. But where a nation is considerable, and its industry improved and productive, the mere expence of government, however prodigal, cannot bear a great proportion to the whole of the annual produce; and the general savings of all the individuals in the nation can hardly fail to surpass the expences of the court. A country therefore can hardly fail to improve, notwithstanding the ordinary expence even of a wasteful government; it will only improve more slowly than it would have done had the government been more economical. The people may be still prosperous and happy, though they might have been a little more prosperous and happy, had the expence of the government been less.

To what baneful quarter, then, are we to look for the cause of the stagnation and misery which appear so general in human affairs? War! is the answer. There is no other cause. This is the pestilential wind which blasts the prosperity of nations. This is the devouring fiend which eats up the precious treasure of national economy, the foundation of national improvement, and of national happiness. Though the

consumption even of a wasteful government cannot keep pace with the accumulation of individuals, the consumption of war can easily outstrip it. The savings of individuals, and more than the savings of individuals, are swallowed up by it. Not only is the progression of the country stopped, and all the miseries of the stationary condition are experienced, but inroads are almost always made upon that part of the annual produce which had been previously devoted to reproduction. The condition of the country therefore goes backwards; and in general it is only after the country is so exhausted that the expence of the war can hardly by any means be found, that it is ever put an end to. When the blessing of peace is restored, the country slowly recovers itself. But hardly has it gained its former prosperity when it is generally re-struck by the calamity of war, and compelled to measure back its steps. In this alternation between misery and the mere beginnings of prosperity, are nations for the most part, condemned to remain; the energies of human nature are exerted to no purpose; its beneficent laws are counteracted; and the happiness of society, which seems to be secured by such powerful provisions, like the water of Tantalus, is only allowed to approach the lip, that it may be immediately dashed away from it. The celebrated Vauban, the unrivalled engineer of Louis the 14th, whose profession made him locally acquainted with every part of his country, and who spoke the language of an honest observation, untainted by the prejudices of his education, or the course of his life, observed, 'Si la France est si misérable, ce n'est ni à l'intemperie de l'air, ni à la faute des peuples, ni à la stérilité des terres, qu'il faut l'attribuer; puisque l'air y est excellent, les habitans laborieux, adroits, pleins d'industrie et tres nombreux; *mais aux guerres qui l'ont agitée depuis longtems et au defect d'économie que nous n'entendons pas assez.*'⁷²

In every country, therefore, where industry is free, and where men are secure in the enjoyment of what they acquire, the greatest improvement which the government can possibly receive is a steady and enlightened aversion to war. While such a nation remains at peace, the faults of the government can hardly ever be so great, that the merits of the nation will not more than compensate them, and that society from its own beneficent tendency will not improve. Nothing however can compensate the destruction of war. The creative efforts of individuals can never equal its gigantic consumption, and the seeds of prosperity are eaten up.

⁷² Vauban Dixme Royale.

[From this point on Mill develops his view that the war with France had reached stalemate. France controls the Continent, Britain the seas; neither side can gain by continuing a war which weakens both equally. In particular he is pessimistic about the possibility of raising an army or creating a stable coalition to defeat Napoleon. He believes that a truce could be drawn up which would accord with the self-interest of both France and Britain.]

SMITH ON MONEY AND EXCHANGE

Edinburgh Review, Oct. 1808, vol. 13, no. XXV, pp. 50-68

There are two kinds of paper money, which are so remarkably different, that it is surprising any occasion should remain to point out the distinction between them; yet such confusion has prevailed on this subject, that some great errors owe their origin to the misapprehension of one for the other. Of these, one species is the paper money issued by government, and which it is rendered obligatory upon the people to receive. Of this nature were the assignats, and the mandats, issued by the revolutionary government of France; of this nature, too, was a paper money issued by the government of the United States in the crisis of revolution, and by the Dutch in their celebrated war for the independence of the republic. The second species of paper money consists in the notes of bankers, payable to bearer on demand, and which pass current for the sums there specified. Bills of exchange and other obligations, payable only at a stated time, and bearing interest, are sometimes denominated paper currency; but it will contribute to distinctness, if we exclude them from the appellation of paper money.

We are disposed to give Mr Smith very considerable praise, whether he discovered the distinction, or learned it elsewhere, for having very clearly perceived the difference between the paper money which a government may force upon the people, and the paper money circulated from banks, which nobody receives but at his pleasure. He has seen, too, that many errors may be traced to the strange inaccuracy of confounding together these two species of paper money. 'It is very extraordinary,' he says, 'that many erroneous doctrines are still kept up, - the writers on this subject continuing to persevere in support of many maxims, which, in practice, have been long ago abolished. One great cause of this appears to be, that there have existed two species of paper money, perfectly separate and distinct in their nature, properties and effected but which have been hitherto confounded together by all these writers.' It is unfortunate, after making this salutary distinction, that he should have been misled, by his own notion of an imaginary standard, into an unprofitable train of speculation; otherwise it is

probable that some useful truths would have been the consequence of so hopeful a commencement.

Fortunately, it is the free and voluntary species of paper money, almost exclusively, with which we have been experimentally acquainted in this country; and as the other is abundantly simple in its nature, and moreover very circumscribed in its use (for it necessarily very soon destroys itself), it is only the paper money consisting in the notes of bankers, which calls on us for consideration on the present occasion. The notion which we have endeavoured to establish of the nature of coined money, will speedily enable us to discover the principle and laws of paper currency.

As coins are neither more nor less than commodities which are bought and sold for their value, like other commodities, so banknotes are obviously obligations upon the issuers to pay a certain quantity of those commodities; and these obligations also are bought and sold for their value, or for that quantity of the valuable commodity, coin, which they can command. They are usually denominated the representatives or symbols of coin. It is very evident, however, that this is not only a vague but an inaccurate expression. They are no more representatives or symbols of coin than bills of exchange, or any other transferable bonds for the payment of money. They are actual obligations for the receipt of a certain quantity of specie; and they are received in payment as readily as the specie itself, – only when it is well known that specie can be received for them, without delay, and without inconvenience, – or when it is known, that they will be as readily received in the market as the coin which they specify. If bills of exchange, therefore, and other transferable bonds, are regarded in the market as mere commodities, – as goods or chattels, and are bought and sold as such, bank notes differ in no other respect than as being payable on demand, and, from that circumstance, being more conveniently received in all common purchases and sales. If the term, representative of money, is clearly understood to be a metaphorical expression, and to mean nothing more, than an obligation for money, when a people are pleased with it, may perform the business of currency, as well as money itself, we have no objection to it. But if it give occasion, as it certainly does among authors, to vague and mystical apprehensions respecting paper money, which serve to involve this subject in obscurity and confusion, it ought to be discarded. In fact, when we endeavour to assign an accurate idea to the term, representative of money, as applied to bank notes, we find

it impossible. A bank note is a mere contract, of a known party, to pay to the bearer a certain quantity of gold and silver in the shape of coin. When a man takes this bank note in payment, it is not as a representative of coin; for how does it represent coin? or what advantage to him would it be, though it represented it ever so exactly? The most accurate representative of coin, are well fabricated counterfeits; yet every man, when he knows them, refuses these in payment. It is not, therefore, because the bank note represents coin, but because it is a satisfactory obligation to receive coin, that it is accepted in payments; and because it is often more convenient to receive the obligation than to receive the coin. A common cheque upon a banker, which nobody ever dreamed of calling a representative of money, is just as much a representative of it as bank notes; nay, in fact, the order which a manufacturer on the Saturday night puts into the hand of one of his workmen, to get from his clerk the wages of the week, is a representative exactly of the same description. The only real difference in practice is, that the one obligation generally passes but through one, or a few hands, till it comes upon the obligee; the other commonly passes through many hands, each accepting it as a satisfactory security for the valuable commodity which it is an order to receive.

Having satisfied ourselves with regard to the nature of paper currency, it will be no difficult matter to comprehend the phenomena which it exhibits; although these have given rise to some questions and speculations which well deserve a short consideration.

The doctrine of depreciation, on which some other conclusions depend, is that which we shall first consider. When bank paper becomes depreciated in consequence of diminished credit, the nature of this event is sufficiently understood; and no misapprehension prevails in regard to it. When a man foresees any risk or difficulty attending the payment of a bank note offered to him in exchange, he naturally refuses to accept it, unless with such a deduction as appears to him sufficient to cover the risk or difficulty which he apprehends.

There is, however, another species of depreciation, to which, it has been imagined, that paper currency may give occasion; a depreciation arising from a superabundance of the circulating medium. To those who are not acquainted with the subject, some explanation is necessary to understand the tenor of the assertion. As the price of any article, or its value in exchange, is determined by the proportion which the supply bears to the demand, it necessarily happens, if the supply is enlarged

while the demand continues the same, that the price of the article diminishes. It is imagined, therefore, by the analogy of this case, that banks may cause the value of paper money to descend. Suppose, that the country is at any particular moment supplied with that quantity of currency which its occasions demand, it is concluded that the banks, by an overissue of their paper, may increase this quantity, and so produce a depreciation. Dr Smith, indeed, maintained, that a certain quantity of currency was necessary to fill the channel of circulation; that as soon, however, as it was full, any thing more thrown into it, by necessity overflowed. But this doctrine has been lately derided. Mr Henry Thornton, in his 'Inquiry into the Nature and Effects of the Paper Credit of Great Britain,' brought forward a speculation, which has been followed by almost all the writers who have succeeded him, to prove that, after the channel of circulation is full, banks may increase by their notes the quantity of currency; because every addition depreciates their value, or, in other words, raises the price of commodities in proportion to the increase. He thinks, therefore, that he may turn the metaphor of Dr Smith against himself, by remarking, that the channel of circulation, whatever currency may be thrown into it, can never overflow, as it immediately enlarges itself in proportion to the quantity received.

No proposition seems to be more certainly established than this, – that the precious metals, in all countries which are not exceedingly distant from one another, approach very nearly to an equality of price. We have no occasion, here, to enter into the explanation of the particular kind of traffic, by which they circulate from country to country; it is enough to know that they do circulate, and that so easily, that the smallest rise of their value, in any particular country, is sure to draw them speedily from other countries, or a fall in their value to send them out of any country, till the usual level or balance is established. Let us now see how this fact operates upon the question of depreciation. It is evident that Mr Thornton, by that depreciation which he describes as consisting in a rise of prices, does not mean a depreciation of bank notes, compared with gold and silver, – such a depreciation, for example, as would take place, if a pound note should only pass in circulation for eighteen shillings; he means that kind of depreciation which takes place when a pound note is still received for the full amount of twenty shillings, – but when neither the note nor the twenty shillings can purchase more of any commodity than eighteen shillings would do

before. It is evident that such a depreciation as this, if it any where exists, does not confine itself to the paper currency, but communicates itself equally to the specie of the country. It is a depreciation of the gold and silver, in the same degree as of the bank notes. But the price of gold and silver must remain the same, or very nearly the same, in this country, for example, and all the other countries in the world. If the doctrine of Mr Thornton, then, be just, our banks are powerful instruments indeed; not only can they depreciate our own currency; they necessarily depreciate, by the same operation, the currency of nearly all the nations on the face of the earth. If, however, the currency of all nations be so immense a quantity, compared with ours, that any possible fluctuations which it can undergo, resemble the addition or subtraction of a drop in the waters of the ocean, then, no such depreciation as Mr Thornton supposes can take place; and Dr Smith, little as Mr Henry Thornton appears to respect him, was probably right in asserting, that when the channel of circulation is full, if any thing more is thrown in, it overflows.

It is a remarkable proof of the confusion and obscurity which have reigned on this subject, that many of the writers appear to have lost sight of the broad distinction between the paper money which a government compels the people to receive, and the notes of bankers, which no man receives but at his pleasure. In the first place, no man ever takes from a bank but the smallest quantity of notes he possibly can. Every man desires to have in his hands no more currency than what is absolutely necessary for his immediate payments, that he may continue to make a profit with the larger portion of his funds. This, however, is not the case with those to whom the compulsory paper of government is tendered. It is offered to them in payment of the debts which the government has contracted; and whether they want so large a quantity of currency or not, they must receive it. In the next place, the paper which is issued by a bank is perpetually returning to it; every man into whose hands a greater quantity of it comes than he has immediate occasion for, carrying it to the bank for payment. The paper, on the other hand, which is issued by government, never returns to it; because the government never pays. It is evident, therefore, that while there is no limit to the emissions of government, but its own wants, or the extreme depreciation of its paper, and that, while this species of paper may be accumulated in the country to any excess, there is a visible and impassable limit to the emission of bank notes, in the desire of every

individual to draw from it as small a quantity as possible; and to the accumulation of these, a still more remarkable limit, in the utility which every man finds in remitting them to the bank, whenever a quantity of them beyond his immediate occasions is collected in his hands.

When the nature of those limits is duly considered, and when we reflect upon the fact, that a gold and silver currency can never fall below the level of the price of those metals in surrounding countries, is it not probable, that the emission of bank paper is, by its own nature, so restrained, that it cannot produce the general depreciation of currency which is supposed? There is a remarkable fact, which seems entirely to confirm this inference. When the paper which was issued by the governments of Holland and America exceeded a certain amount, it began to depreciate though the confidence in the governments which emitted it was then as great as when the issue commenced. The depreciation arose, not from the credit of government having become less, but from the quantity of paper having become too great. But this depreciation, it is to be observed, affected not the gold and silver which at any time appeared, – that retained its ancient value, and could at last command ten or twenty times the amount of the paper which it could have purchased before the depreciation commenced. How should this paper have become depreciated by its excess, without affecting the value of gold and silver; and the excess of bankers' paper have carried the depreciation of gold and silver along with it? The operation upon prices must have been exactly the same in the one case as in the other. If this difference cannot be explained upon the principle of Mr Thornton, it follows that those principles are not just.

But, without proceeding further with these reasonings, which are rather *argumenta ad hominem*, than conclusions drawn from the nature of the thing, let us see whether we cannot arrive at some decisive evidence by aid of the principles which we have already discovered. We have seen that specie, and even bank notes, are commodities, which are bought and sold like other commodities. Now, were the commodity of notes obtained at the Bank of England for nothing, – did every man obtain them merely for the asking, – there might very easily be an extraordinary quantity of them thrown into circulation. But it so happens, that a man cannot obtain one of them, without having something to give for it. Every one which is transferred to him he has bought and paid for, with a value equivalent to the sum specified in the

note. But it is abundantly certain, that no man, in general, buys more of any commodity than he has occasion for, and least of all of the commodity called money. No money is therefore ever drawn by individuals from the bank, but for the business of immediate payments; and the money wanted for immediate payments is just the money requisite for the circulation of the country.

We must entreat the excuse of our mercantile readers, when we use a language so unusual to them, as to denominate the discounting of a bill the purchase of bank notes; and must implore them, for a moment, to lay aside the consideration of the name, and endeavour, if possible, to fix their attention upon the thing. We studiously aim to avoid the technical phraseology respecting money, which, by its extreme abridgement, is admirably adapted, indeed, to the despatch of business, both in speaking and writing, but, by the same circumstance, has contributed greatly to introduce obscurity and confusion into the *rationale* of the subject.¹ A very slight degree of reflection may convince them, that the operation is literally a purchase. What the man carries to the bank, who wants to obtain notes, is a bill of exchange, due in sixty days. The bank receives this bill, which is an obligation upon a responsible party for a sum of money, giving in exchange for that sum, with the deduction of interest. The owner has therefore sold his bill to the bank, as truly as the man who sells a bill upon 'Change; and the commodity he has bought with it is banknotes. If we carry this analysis a step further, we shall still more clearly perceive the nature of the transaction. A bill of exchange, such as is commonly discounted at the bank, is a promise of payment, at a fixed day, for goods bought and received. Thus, a merchant purchases of the manufacturer a thousand pounds worth of goods; but as it is not convenient to give the money for them immediately, he gives his bill for payment of the sum at a future day. The manufacturer, however, wants his money. He therefore carries the bill to the bank, where he receives money for it, only deducting interest for the time which it has to run. Is not this the very

¹ A very competent judge, Sir James Steuart, (see *Polit. Econom.* b. iii. c. 6.), has expressed himself with peculiar emphasis on this point. 'QUEST. 1. The first question I shall propose, for illustrating this subject, shall be, Whence it comes to pass that the doctrine of money is so extremely difficult and involved? - ANSW. This I ascribe chiefly to the introduction of a money jargon, employed by the people who have had the management of mints, or who have been practical merchants, without knowing any thing of the theory of their business.'

same thing, in reality, to the manufacturer who gets the bill discounted, as if he had sold his goods to the bank, allowing discount for prompt payment? It is with goods, therefore, in the last resort, that notes are always bought at the bank; and it is observable, that nobody goes to the bank to receive notes for his bills, thereby losing the discount, to any greater amount than is necessary to make the payments for which he is immediately called upon. But if bank notes are never called into circulation but in the payment of goods, it would appear that they are never called but to answer the natural exigencies of business, and in this way cannot become superabundant. Their amount can never surpass that of the gold and silver coin, which would circulate if they were not in existence. This we seem now entitled to assume as an established proposition. When a man purchases bank notes with real goods, at the rate of gold and silver, he would certainly purchase gold and silver with these goods, if the notes were not present, or if they did not equally well answer his purpose. He only buys the notes because he has occasion for currency; and if the notes were not to be had, he would buy the only other species of currency, – gold and silver coin: real goods being always able to command it at the market price of the contiguous countries.

The other peculiarity attending a currency in bank notes, – that they are perpetually returning to the bank, – is likewise followed by consequences, of which it is of some importance to have a just conception. Let us suppose, that by any means a superabundance of paper money has come into circulation. Government, for example, being unable to wait for the slow influx of the taxes, prevails upon the bank, we shall suppose, to advance some millions of bank notes, which are to be paid with interest when the taxes come in. But there was already a sufficient quantity of currency in circulation, both to pay the taxes, and to perform the other payments of the country. This advance therefore to government, in bank notes, when it comes into circulation, is all surplus. The question is, what becomes of it? A considerable quantity of it – let us suppose, for the sake of simplicity, the whole – will be immediately paid away in discharging debts contracted by government in the purchase of goods. The individuals into whose hands the additional currency is first paid, discover in it no symptoms of superfluity. They sold their goods to government, and they have received payment, as they would have received it from any other purchaser. They proceed again to market with the money come in, precisely as

on any other occasion. But the next step, or a few more steps, produces a difference. The money which is proceeding towards government in the shape of taxes, is not yet paid, but is partly in the hands of the contributors, and partly accumulated in other hands. When any of the additional currency, therefore, comes into the hands of any of those persons, who have already a sufficiency, and who are under no obligation, for some months, to strip themselves of what they have, by making their payments, they have a surplus, and are disposed to turn it to advantage. But, as they know that, in the course of a few months, as soon as their payments must be made, what is now surplus, will become necessary to them, it cannot be embarked in any extension of their trade, from which the return would not be sufficiently prompt; it is, therefore, by various ways, and for various considerations, allowed to accumulate in the hands of the different private dealers in money, by whom it is employed in the retiring or discounting of bills.

It now returns to the bank by the following process. When bills which have been discounted at the bank are retired, currency is directly returned to the bank; when it is employed by private money-dealers in discounting bills, it prevents the demand of discounts at the bank, and, by consequence, all fresh issues of notes. But while, by this process, a greater quantity of money is daily returned to the bank, in retiring the bills which daily become due, than issues from it in the discounting of new bills, it is evident that a diminution of currency is effected; and this process necessarily continues till the proper balance of currency is restored, and the superabundant issue is all drawn back. In this manner, likewise, does it appear, that no greater amount of bank notes can be made to circulate in any country, than would circulate of gold and silver, if paper currency were unknown; that a rise of prices, or a depreciation of the currency,² cannot be the effect of an overissue;

² We are aware that we have not here obviated *the whole* of the objections which may be made to this conclusion; and that the excess of the bullion price of gold and silver, over the mint price, has appeared to some persons a sufficient proof of actual depreciation, arising from an overissue. The full consideration of this subject, we must reserve for another opportunity; at present, we can only state it to be our opinion that the phenomenon in question may be explained from the fact of our having a currency composed of *two* metals, which are constantly varying in value as to each other. To those, too, who are habituated to such speculations, our whole theory of depreciation may be sufficiently explained, perhaps, by the following simple propositions. There can be *no depreciation of coin*, except in consequence of the wearing or adulteration of the metals; and there can be no depreciation of *paper* which circulates

but that, the channel of circulation being once full, whatever flows in must run over.

Let us put, however, an extreme case. Let us suppose, that government, not satisfied with one advance, goes on demanding, and the bank granting, faster than the retiring or the bills which it has discounted, can withdraw its notes from circulation. The consequence of this would speedily be, that all its bills would be retired, and few or none would be offered for discount; yet still, by means of government, it might continue to pour its paper upon the country; and if it was exempt from the obligation of paying in cash, – but not otherwise, – the amount of this paper might extend to any degree beyond that of the gold and silver which would circulate in the country. But it is very evident, that where this is the case, *i.e.* wherever government distributes a paper currency *which cannot be converted into cash at pleasure*, there is no difference between the paper thus issued, and the compulsory emissions of government itself. They must follow, therefore, similar laws. In the first place, the precious metals would *entirely* disappear from the circulation, and the notes would sink to any degree of depreciation; but gold and silver would retain its price; and the man who had preserved a guinea, might soon be able to purchase with it a bank note for a hundred pounds.

From what we have thus discovered, one practical consequence of great importance may be deduced. As a bank, which issues notes, while it emits them solely in the discounting of good bills at short dates to individuals, can never issue more than the demands of business require; but, as it may, by advances to government, easily surpass the limit of those demands, it is evident that any general derangement, arising from a surplus of currency, must of necessity be owing to ad-

at par with coin – whatever be its quantity: – *All* depreciation of paper, it appears to us, is produced by suspicion of the *credit* of those who issue it. A suspension or postponement of cash payment, is obviously a ground for such suspicion; and the more that is issued while this continues, the more must this suspicion and depreciation accumulate. When it has once begun, it is easy to see how rapidly it must increase. But this is merely because the additional issue is an additional load on a credit already suspicious, – not because there is a surplus of currency in the country. No man receives Government paper, even in the first instance, but in exchange for something which he thinks worth the same sum in coin; – and no man *ever* receives paper money from another, except when he chooses to receive it for his goods or his labour; – consequently, he can never receive more than he wants; nor can there be any depreciation from mere overissuing.

vances to government. What is, therefore, wanting to prevent these derangements, is a law by which all advances of that nature should be prohibited, under the most awful sanctions. We do not mean to say that government should, on all possible occasions, be prevented from anticipations on the revenue, though, on all accounts, this should be allowed as seldom as possible. We only say, that government should never be allowed to anticipate, through the medium of a bank which issues notes. When these anticipations are really necessary, the advances should be made (as loans, a much heavier concern, are) by the money-dealers, and bankers of discount, but never by banks of circulation. The difference between the cases is prodigious. What is advanced by the money-dealers, and bankers of discount, is by them, first drawn from the channel of circulation, and a vacuum is thus previously made to receive what is about to be immediately poured in by governments. What, however, is advanced by the banks which circulate notes, is not necessarily, nor generally, withdrawn first from the channel of circulation. These banks advance most frequently a quantity of new-made notes, which, being poured into a channel already full, necessarily overflow, and more or less derange and disturb the regular movement of the current. If regularity of movement in that current, then, be of any importance, banks which issue notes of circulation, should be interdicted, under pain of confiscation, from all advances to government. They should, indeed, be strictly prohibited from all connexion with government whatsoever. By this rule, the bank of England should be immediately freed from all the business of government, with which it is loaded and embarrassed, in paying the interest of the national debt, in the management of exchequer bills, and other functions; and thus have its operations limited to the issuing of its own notes in the discounting of bills. It would, in this way, be impossible that it could ever derange the channel of circulation, while the business of government might be managed with equal efficacy by banks, which, not issuing notes, could have no means to produce a surplus of currency.

After these remarks on the laws which the phenomena of depreciation in respect to paper money observe, remarks which we are fully aware require more ample illustration, but on which we have already exceeded the limits of that species of disquisition to which we are at present confined, we shall next inquire, how the obligation to pay in cash operates upon a paper currency. But, on this topic, we shall be obliged greatly to contract our observations.

The obligation to pay in cash, may be considered, 1st, in its relation to the credit of the bank; 2d, in its relation to the quantity of currency.

1. That, to the first of these, it is an indispensable requisite, will not require many words to prove. That any man would give real value for a piece of paper, for which he knew that nobody was under any obligation to give him value again, would be ridiculous to imagine. Yet, that no possible absurdity might remain, to which some writer on paper money had not attained, it is seriously asserted and argued by Mr Smith, that banks should be entirely exempt from the obligation of paying in cash the notes which they circulate. We could have been well content to have amused ourselves a little with the ludicrous observations which he brings forward in support of this new position. But, as we have serious matter before us, in much greater quantity than we can overtake, we must deny both ourselves and our readers this relaxation. Though payments in cash are suspended at the bank of England, it is universally understood that this is only for a time; it is universally understood that the obligation to pay will, in a short time, be put in force; and, above all, it is universally understood, that the bank is able and ultimately liable to pay. It is obviously in consequence of these convictions, that the paper of that bank continues to circulate. Let it, however, be once passed into a law, that the bank of England is *for ever* exempt from the obligation of paying her notes in cash, and we should quickly see to what depreciation they would fall. Let it only become the general conviction, that she is unable to pay, and remarkable effects would be the consequence. It is very true, as Mr Smith observes, that the paper of the bank might still continue to perform the office of money, as well as coin, *'provided the people would be pleased with it.'* But we do not stand in need of reasoning; we have the most remarkable facts to prove to us that they would *not* continue pleased with it. When sovereigns themselves have issued stamped pieces of leather for money, or when they depreciated the coins, these might have performed the office of money to the amount of the sums they were issued for, *'had the people been pleased with them.'* But did this ever happen? Or is it necessary to say *why* it never happened?

2. To discover the effects of the obligation to pay in cash upon the quantity of currency, is a much more difficult and complicated inquiry.

In the first place, it is evidently a check upon overissuing. When a bank is apt to be called upon to pay gold for its notes, it feels itself

obliged to confine the quantity which it issues, within a certain proportion to the gold which it can readily command. What that proportion may be, depends upon circumstances. When the credit of a bank is firmly established, and when habit has confirmed the people in the use of paper money, cash will very seldom be demanded for notes; and the paper may safely bear a very large proportion to the gold which is reserved as its security. Where, on the other hand, the credit of a bank is suspected by the people, or where they have a taste for a good deal of gold in their circulation, there the paper must bear a less proportion to the gold which must be reserved as its security. But, in both cases, the bank has a very obvious motive in imposing limits upon the quantity of notes which it may issue, and which it is obliged to pay in cash; – it will not advance, even to the importunities of government, beyond all chance of safety, if the least pecuniary alarm should arise.

In the next place, let us consider the effects of the obligation to pay in cash, upon the state of the currency, when an overissue has really been made. It is not the immediate effect of a superabundance of paper money, to produce what is called a run upon the bank, or a demand for guineas. When the man wants, who has in his hands more notes of good credit than he has immediate occasion for, is – not to get coin for them, which would not in the smallest degree alter his situation, but – to get them employed. On the other hand, if guineas were universally obtained, it would not directly reduce the superabundant currency; because, for every note which was then withdrawn, a portion of coin would be substituted. Indirectly, however, the demand for guineas upon the bank would have a powerful effect. Whenever guineas were by this means thrown into circulation, so as in any degree to exceed the effective demand, they would experience that slight reduction of price, which so rapidly carries the precious metals out of one country into another. They would continue to be exported, till this drain from the circulation, together with the notes which the bank in the mean time would call in, should have reduced the currency to that quantity, which the transactions of the nation, and the price of gold and silver in the neighbouring countries, might require.

These effects are so visible, that they must be acknowledged by all; and so salutary, that their importance can be disputed by none: but there are certain other effects which are ascribed to them as concomitants, which are not of so agreeable a nature, and which we must now

endeavour to understand. Mr Henry Thornton, our present author, and other writers who have had an interest in defending the suspension of payments in cash at the bank of England, have attempted to prove that this bank may, by means of a demand for coin, raised by an alarm, or any other cause, be drained of guineas to any possible amount, however small be the quantity of paper which she maintains in circulation. The amount of notes which she finds it useful to maintain in circulation are at present, we shall say, 15 millions. If the bank resolves to maintain these 15 millions, in circulation, and if a demand for guineas arise, she may be called upon for gold to double, or ten times, or, indeed, to any number of times that amount. Thus, for example, notes to the amount of 100,000*l.* we shall suppose, are brought to her for gold; but, when she has drawn back those notes, and given for them gold, her paper currency is reduced to that extent; and if she resolves to maintain her quantity of notes in circulation, she must immediately reissue the notes which have been thus returned. But no sooner are they reissued, than they are brought back for gold: again the quantity of the paper circulation is reduced; again the notes must be issued; and, if the demand for gold continues, and this process is repeated a sufficient number of times, the bank may be exhausted to any conceivable extent, while she has never had more than her usual quantity of notes in circulation. 'Even,' says Mr Thornton, (*Inquiry into the Nature and Effects of the Paper Credit of Great Britain*, p. 92.) 'if we should suppose the bank to bring down its paper circulation to one hundred thousand pounds, and to maintain it at that sum, it is obvious that this same operation might be so reiterated from day to day, as to extract at length from the bank the greatest imaginable number of guineas.'

In order to see further into this subject, we must analyze a little the operations of this bank. Let us suppose, for the sake of simplifying the inquiry, that the sole business of the bank of England is that of issuing notes in the discounting of bills. Let us suppose that, as she discounts none at more, so she discounts none at less than sixty days date. And let us suppose, too, that she maintains 15 millions of paper currency in circulation. She has thus at all times in her coffers bills of exchange to the amount of 15 millions. But, of all this quantity of bills, the whole must be paid in sixty days; she therefore draws back in sixty days the whole of her 15 millions of notes; that is to say, she draws back, at the rate of 250,000*l.*, or a quarter of a million, every day. But, if she draws

back notes by the retiring of bills, at the rate of a quarter of a million a day, she must issue notes in the discounting of bills at the rate of a quarter of a million a day, to compensate this return, and keep the paper in circulation at its accustomed amount. That this would be the course of business in regular times, is abundantly evident. The rate of discounting bills at the bank every day would exactly balance the rate at which bills were retired; and the notes drawn in by the one operation, would exactly correspond to the notes sent out by the other. If the persons by whom the bills were retired were, on each day, an entirely distinct set of persons from those to whom bills were discounted, 250,000*l.* would literally every day be paid into the bank, by the one operation, and the same sum drawn out by the other. It so happens, however, in practice, that the man who has a bill to retire, has very often, on the same day, a bill to get discounted: in this manner, instead of giving one sum, and receiving another, the two sums are compared together, and the man only gives or receives the balance. But it is very evident that this common way of retiring one set of bills by discounting another, in no respect alters the nature of the case. It is still true, in fact, that a quarter of a million has been paid, and a quarter of a million drawn, though these payments and drawings may to a certain degree, have balanced one another, without the actual trouble of counting and transferring the money.

We may now discern a fact, the consequences at least of which Mr Henry Thorton and his disciples have entirely overlooked. Let us suppose, while the bank is going on in her accustomed course, discounting bills at the rate of 250,000*l.* a day, that a demand for guineas comes upon her to the same amount; and that her daily issues are immediately paid back for gold. What is the consequence of this? First, her fifteen millions of notes in circulation, are reduced 250,000*l.*, or a quarter of a million. If she resolves to keep up her 15 millions, she must immediately reissue, in the discounting of additional bills, the notes which have been thus returned. On the first day, therefore, of the demand for guineas, while the usual quantity of bills, to the amount, namely, of a quarter of a million, have been retired, she has discounted double that quantity. Another consequence, then, is, that, at the end of this first day, she has added a quarter of a million to the amount of bills in her coffers, while the sum of her notes in circulation remains the same. By the same operation on the second day, she adds to her bills another quarter of a million; and the effect is every day repeated, till,

at the end of sixty days, the amount of her bills is fairly doubled; that is to say, the bank has then extended her loans from 15,000,000*l.* to 30,000,000*l.*, – one half in her own notes, the other half in gold and silver.

Here, however, a very important question suggests itself; Whence is this extraordinary quantity of bills for discount to come? Or what possible use can there be in thus extending the discounts of the bank, for the sake of maintaining a certain quantity of notes in circulation? To this question Mr Thornton has an answer very ready, and an answer on which he seems to lay the greatest stress. The consideration of it will enable us to discover the whole mystery of his reasoning. He enters into a long detail to prove that any sudden revolution in the transactions of the bank of England, by which the regularity of payments in London should be interrupted, would occasion a shock to the credit of the whole country, attended with the most pernicious consequences; and to prevent this, the bank is under the necessity, he says, of always maintaining her accustomed quantity of notes. But it will appear that, in this answer, Mr Thornton has confounded two things together, of which the difference is peculiarly important; – he has confounded together the *discounts* of the bank and the *currency* of the bank. There is no doubt, that any considerable interruption to the regularity of the great payments in London, would occasion a shock to the general system of credit, which is anxiously to be avoided. It is very evident, too, that the bank, by withholding suddenly from the merchants those accommodations which they have been accustomed to receive, would produce that interruption. But wherein does the accommodation which the merchants are accustomed to receive from the bank consist? Most evidently in affording them loans, – not in giving them one kind of currency in preference to another.

If the bank, according to the foregoing supposition, has regularly afforded loans on bills to the amount of 15,000,000*l.*, any considerable and sudden reduction of those loans, might produce the most serious consequences. But let her discounts be regularly maintained at this level, and she need give herself no trouble about the currency. Currency is a thing which always, and infallibly, provides for itself. Now, we have seen already in what manner a run upon the bank for guineas affects her discounts. If she persist in keeping out the usual quantity of notes, her discounts must be daily *enlarged* to the whole amount of the notes which daily return upon her for gold. But if the notes which

come in for gold are merely not issued, her discounts remain invariably at 15,000,000*l.*, – and her business of discounting proceeds without any alteration. If the demand for gold continues till any considerable portion of her notes are withdrawn from circulation, what remain are not sufficient to retire the bills in her coffers which are daily becoming due; they must be retired, therefore, with gold; and, when this happens, she then begins to receive with one hand what she pays away with the other, and the drain upon her can proceed no further.

Mr Thornton, indeed, says, that as there is never any doubt about the credit of the bank of England notes, the guineas are drawn away to supply the discredited notes in the country. But to suppose that guineas could be accumulated in the country, and yet be impossible to be had in London, if there was occasion for them, is too absurd to require refutation. The guineas which are drawn from the bank of England to be sent to the country, are all drawn by the London bankers and money-dealers, in the first instance; and if there is any demand for them in London, there they will remain. Would a London banker send ten thousand guineas to the country to accommodate his correspondent, if to-day, or to-morrow, he had bills to that amount falling due upon himself, which he had no other means of retiring? Indubitably he would not; – he would retire his own bills in the first instance, and leave his correspondent in the country to shift for himself. It is evident, that little or none of the gold issued by the bank would go to the country, or any where else, till the circulation of London was completely supplied.

It appears, therefore, that there is no danger to the regularity of the London payments by diminishing the notes of the bank of England, provided she diminishes not her discounts; and, were the demand for guineas to continue so great as to exclude her notes from circulation, she could only be called upon to find a quantity of gold equal to her 15,000,000*l.* in notes, to afford the whole of the usual discounts, and preserve the regularity of the London payments. Even then, too, she would be in no worse condition, than the rest of the banks who discount without issuing notes, and find it still a very gainful trade. But it is perfectly certain that she could never be called upon, while she confined her business to the discounting of bills, for nearly so great a quantity of guineas as her notes amount to. It is always found, that when a bank can stand, with every demonstration of ease, a run for but a few days, confidence is restored, and the drain is interrupted. As to the drain

which may arise from the exporting of guineas to foreign countries, it is perfectly evident, that the smallest increase to the difficulty of finding them at home gives them a value, which entirely prevents that operation, and even brings gold from abroad. Mr Henry Thornton enters into a long explanation of the difficulties and delay of bringing bullion from abroad; but he completely forgets another very obvious circumstance, that the delay and difficulties are equally great of drawing gold from this to other countries; and that these two sets of difficulties, therefore, exactly balance one another.

This doctrine is entirely confirmed by the facts connected with the crisis in our pecuniary affairs during the year 1796, and the beginning of 1797, when the suspension of payments in cash took place. From the end of 1794, or the beginning of 1795, there had been a rapid increase of the advances to government, insomuch, that these advances had risen, in the course of a few months, from six to ten millions; while the cash and bullion in the bank had, during the same months, sunk from eight millions to five. During this time, the directors of the bank continued to make loud and frequent remonstrances to the Chancellor of the Exchequer, on the dangers into which the bank was brought by these extraordinary advances, and earnestly to implore that they might be reduced. So far, however, was this from taking place, that from the urgent demands of government on the one hand, and the compliance of the bank on the other, they were carried, in the month of March 1796, to the enormous amount of 11,351,000*l.* From September to December they were reduced about a million and a half, but, after that, began again to rise; and on the 26th of February, when the cash and bullion in the bank scarcely exceeded one million, the advances to government, including interest, amounted to 10,762,490*l.* For a little time before this memorable juncture, the governors of the bank having no command over the money advanced to government, endeavoured to draw in their notes by lessening the amount of their discounts; and, by this circumstance, not by a want of currency, produced that derangement and difficulty in the London payments of which Mr Thornton complains. From the end of December to the 26th of February, the quantity of discounted bills had sunk from 3,796,000*l.* to 2,905,000*l.*

The conclusion from all this appears abundantly certain. If the bank of England, provided she never made advances to government, could not, as we have already shown, be ever drained of gold, unless she chose,

beyond the amount of her notes in circulation, – and would not, to a moral certainty, be drained to nearly so great an amount, – and if we find her in advance to government, to a pitch so enormous, when she became plunged in inextricable difficulties, is it not clear that to these advances the difficulties must have been owing? It would have given us great pleasure to have entered upon the analysis of this case likewise, and to have traced the operation of these advances, step by step, to the crisis which they at last produced. But we have already so far exceeded all reasonable limits, that we are absolutely precluded from an inquiry, which would still lead us to a considerable length. Besides, the principles which we have already laid down, may be applied by any one who is at all accustomed to these inquiries, in the solution of this case, which presents no peculiar difficulty . . .

III. JAMES MILL AND DAVID RICARDO

Mill's most important contribution to classical political economy lay in his twin rôle as schoolmaster and disciple to Ricardo, whom he met in 1808 as a result of the publication of *Commerce Defended*. A large part of the history of their friendship and remarkable intellectual affinity can be found in Mr Sraffa's superb edition of Ricardo's correspondence. The correspondence can be divided into three main overlapping phases. First, there is the initial period of co-operation on monetary questions which begins with the revival of the bullion controversy in 1810-11, and ends with the publication of Ricardo's *Economical and Secure Currency* in 1816. Secondly, there are Mill's efforts, beginning in earnest in August 1815, to encourage Ricardo to extend the scope of his economic studies and to publish his *Principles of Political Economy*. The final phase in the correspondence, which can only be touched on here, concerns Mill's attempts to complete Ricardo's political education, and to make him the parliamentary spokesman for the Benthamite cause.

From the very beginning James Mill established a *rapport* with Ricardo on economic questions which was notably absent in his relations with Bentham. Bentham's economic writings were finished (though very few of them had been published) before collaboration with Mill began; by which time also, Mill's own views on economic questions had been formed and stated. The divergence of their opinions can be seen briefly in the positions which they adopted with respect to the corn trade during the period of grain scarcity at the turn of the century. In his *Defence of a Maximum* (1801), Bentham advocated temporary restrictions on the price of corn, whereas Mill in his essay on the corn trade roundly condemned all forms of interference in the free market for provisions. Bentham was inclined to unorthodox views on economic matters, while Mill rarely strayed from the path laid down by Smith and, later, Ricardo.

It was evidently as a result of finding themselves on the same side during the bullionist controversy of 1810-11 that Mill and Ricardo

became close friends.¹ Mill abandoned the equivocal position adopted in his early writings on this question in favour of Ricardo's strong, not to say dogmatic, view of the issue.² The first letters between Ricardo and Mill that have been preserved concern Bentham's *True Alarm*. Dumont had sent the French translation of Bentham's MS. to Mill in 1810 for his opinion as to whether it should be published as a contribution to the current bullionist discussion. Mill was dubious, and when Ricardo also returned an unfavourable verdict on the work, Dumont reluctantly decided to give up the project.³ In September 1811, Mill sent Ricardo a paper on the bullion question which supported Ricardo's position. Apart from 'some trifling points', Ricardo was very favourably inclined to the paper: 'it assails our adversaries in most of their strongholds and contains the most close reasoning that has appeared on our side of the question. I shall not rest till you publish it.'⁴ The idea of publication was dropped when Malthus, who had approved of Mill's earlier article, gave his opinion that: 'The style appears to me to be rather heavy and laboured, too much abounding in repetition; and with a pretension to accuracy and precision which it does not fulfill.'⁵

The currency question was raised once more in 1815 when Ricardo wrote his *Proposals for an Economical and Secure Currency*; here he dealt with the management of paper money and the National Debt by the Bank of England. He was doubtful as to whether the pamphlet was worthy of publication and, as Mr Sraffa says, 'Mill's encouragement was decisive.' Ricardo called on Mill's advice as to style and on tactics. He wished to attack the existing agreement between the government and the Bank which fixed the charges for managing the currency at what he thought to be an excessive level, but was afraid that some of his ammunition might be wasted on a target which, though vulnerable, could not be destroyed.⁶ This was precisely the kind of question which suited Mill's dialectical skills. Mill held that it was important to 'expose that bargain, and show that it was such a bargain as ought never to have

¹ Ricardo to Trower, 26 Jan. 1818, *Works*, vol. VII, p. 246.

² Ricardo's *High Price of Bullion* was reviewed favourably in the *Eclectic Review*, March 1810, vol. VI, pp. 216-27. Mill contributed several economic articles to this journal and this review may have been written by him: if so, it would give the first indication of Mill's change of position.

³ A full history of the event together with Ricardo's *Notes on Bentham* can be found in *Works*, vol. III, pp. 261-341. See also the letters, vol. VI, pp. 13-20.

⁴ The paper itself has not been found; for the letters, see Ricardo's *Works*, vol. VI, pp. 49-56.

⁵ See *ibid.*, p. 61.

⁶ *Ibid.*, pp. 333-4.

been made'. The Bank should be forced to return its unjust gains at the expense of the public.⁷ In a subsequent letter Mill emphasised this point:

. . . the only advice which I think I can offer . . . is to dwell with some force on the *moral* part of the argument against the Bank; which will not only afford a variety in the midst of the other more abstract and less familiar topics, but will really press with a more galling weight upon the parties concerned. Hold up to view unsparingly the infamy of a great and opulent body like the bank, exhibiting a wish to augment its hoards by undue gains wrested from the hands of an overburthened people.⁸

Ricardo, who needed little encouragement to attack the Bank, accepted this advice and incorporated Mill's exact words into the text of his pamphlet.⁹ This incident is symptomatic of Mill's relationship with Ricardo as a whole. He could give Ricardo little substantive assistance, but he bolstered Ricardo's confidence and brought to the fore the political and moral issues underlying Ricardo's economic arguments. This emerges more clearly in the second phase of the correspondence which concerns the publication of Ricardo's *Principles of Political Economy*.

From late 1811 until the summer of 1814 both Mill and Ricardo were in London; they met frequently and went on long walks together. It seems likely that among the subjects discussed was Ricardo's theory of profits which he was working out at this time.¹⁰ Ricardo's first statement of this theory was in his *Essay on Profits*, and not long after its publication in 1815 we learn that Mill was urging him 'to write it over again more at large'.¹¹ In August, Mill set out clearly his ambitions for Ricardo; he considered that Ricardo had made enough money to satisfy his family's needs so there would now be 'leisure for other pursuits'.

That you will devote yourself to them, in that case, with a calm but vigorous perseverance, I have no doubt; for that is part of your nature. I should advise you to do so, if I had nothing in view but to promote the happiness of a friend; even if I had no

⁷ *Ibid.*, pp. 337-8.

⁸ *Works*, vol. VII, p. 5.

⁹ *Works*, vol. IV, p. 93.

¹⁰ See G. S. L. Tucker, 'The Origin of Ricardo's Theory of Profits', *Economica*, 1954, vol. XXI, pp. 320-33. One of the crucial points dividing Ricardo and Malthus at this time was what they called 'Mr Mill's idea, that in reference to a nation supply can never exceed demand'. See *Works*, vol. VI, pp. 132, 134, 141-2, 149.

¹¹ Ricardo to Say, 18 Aug. 1815, *Works*, vol. VI, p. 249. The first hint of Mill's efforts to encourage Ricardo to extend the scope of his contributions to the science of political economy comes earlier in Sept. 1814. See *ibid.*, pp. 137-8.

hopes of your gaining any illustration to your name, and sharing in the dignity which does attend upon the reputation for talents, and profound knowledge of an important subject. When I am satisfied, however, that you can not only acquire that reputation, but that you can very greatly improve a science on which the progress of human happiness to a singular degree depends; in fact that you can improve so important a science far more than any other man who is devoting his attention to it, or likely to do so, for Lord knows how many years – my friendship for you, for mankind, and for science, all prompt me to give you no rest, till you are plunged over head and ears in political economy.¹²

Ricardo's reply was typically modest: he accepted the call to action but doubted whether Mill's ambitions for him could be fulfilled. By October Mill was demanding a progress report.¹³ Ricardo was warming to the task, though he continued to claim that he would write more for his own amusement than for publication.¹⁴ Ricardo's main doubts centred on his inability to express his ideas clearly. On these matters Mill, as a professional journalist, had some right to think he could be of assistance, though he freely admitted that on matters of substance he had become an amateur.

Notwithstanding my passion for the science of political economy, it has so happened that for a good many years I have not been able to think of it, except when I was excited by your instructive conversation or by your writings. Why do you cry, 'Oh that I were able to write a book!' when there is no obstacle to your writing, but this want of confidence in your own powers. You want some practice in the art of laying down your thoughts, in the way most easy of apprehension to those who have little knowledge, and little attention; and this is to be got infallibly by a little practice. As I am accustomed to wield the authority of a schoolmaster, I therefore, in the genuine exercise of this honourable capacity, lay upon you my commands, to begin to the first of the three heads of your proposed work, rent, profit, wages – viz. *rent*, without an hours' delay. If you entrust the inspection of it to me, depend upon it I shall compell you to make it all right, before you have done with it.¹⁵

Mill's advice on the art of composition was for Ricardo to write as though to a friend of average understanding. He attempted to make Ricardo's style less elliptical by forcing him to write exercises like the following:

¹² *Ibid.*, pp. 251-2.

¹⁴ *Ibid.*, pp. 315-16.

¹³ *Ibid.*, p. 309.

¹⁵ *Ibid.*, pp. 320-1.

You have stated repeatedly this proposition, that improvements in agriculture (suppose in such a state as that of England at present) raises the profits of stock, and produce immediately no other effects. But you have no where stated the proof. You have left it to be inferred from your general doctrine as to rent. The additional produce cannot be received as rent, which is limited by another circumstance. And it cannot go as wages, because they too are otherwise limited. Therefore, it must be received as profit. But what I wish you to do, is, not to content yourself with this inference – but to show by what steps, in practice, the distribution would take place. As for example – By improvements, all the capital employed on the English soil becomes more productive – the same quantity of corn is consumed in cultivating the land; a greater quantity is returned: What, in their order, are the effects which follow? On this subject, I ordain you to perform an exercise – a school exercise: in other words, write me a letter. That is to say, provided you understand what I propose to you. My meaning is, that you should successively answer the question, What comes next? First of all is the improvement. What comes next? Ans. the increase of produce. What comes next? Ans. a fall in the price of corn. What comes next? – and so on. I shall see then what next is to be proposed to you. For as you are already the best *thinker* on political economy, I am resolved you shall also be the best writer.¹⁶

As a further aid to clarity he suggested the favourite Benthamite device of making analytical, marginal summaries of each paragraph. The extent to which Ricardo was willing to place himself in Mill's hands, even down to accepting advice as to how his every-day life should be organised, is a tribute to Ricardo's faith in Mill's counsel.

In December 1815, however, Ricardo was 'stopped by the word price', and Mill's vague reassurances could hardly have been of much assistance.¹⁷ As a result of his difficulties over the problem of value, Ricardo's efforts began to flag. In May 1816 he gave up writing altogether for two months and was dubious as to whether he would ever resume.¹⁸ In August Ricardo resumed work, but informed Mill that 'I am often inclined to throw my writing aside as a task much beyond my powers to accomplish, and I believe my sole inducement to go on is the reflection that I am not obliged to publish.'¹⁹ The following bracing reply came back from Mill:

¹⁶ *Ibid.*, pp. 339-40.

¹⁷ See *ibid.*, p. 348, and Mill's reply, vol. VII, p. 7.

¹⁸ See vol. VII, pp. 28 and 36.

¹⁹ *Ibid.*, p. 53.

I was much delighted with your kind letter, received a few nights ago, though it continues so much in the old desponding tone. Why should a man that is not afraid to talk upon a subject before any body, be afraid to write; since writing is nothing but talking upon paper? You can not only talk before the people who are the most celebrated for their knowledge upon this subject, but you are not afraid to contest with them, and to hold your opinion in preference to theirs; and make it appear to the auditors that you are right. Well, then, just do the same thing upon paper – what more would you have? – I shall begin by and bye to think that your misgivings, and your faintness at heart, are apologies ingeniously contrived by you in defence of idleness? Or (what is a more ingenious conjecture, just come into me head) that you employ them as baits with which to fish for compliments; – as who should say, – Ah, I have not talents for the thing, my capacity is not sufficient – And then comes the kind friend, who cries with enthusiasm, My dear Sir, allow me to correct the only mistake in which in the course of your life you ever fell – your talents are admirable; your capacity is immense – only do write and astonish the world! Now I, not being much practiced in the arts of pleasing, shall say quite the contrary – that no talents are wanted, but what any body possesses – you have the thoughts in your mind already and have only to put them down upon paper – after they are down, to look them over, and see that nothing is omitted which you wish to have there – that no one thing is there in more places than one – and that every thing is in the right place. Surely there is nothing in all this to frighten any body – Well, this is all you have to do. The first thing is, to go over your subject, from the beginning to the end, in any way, no matter what. If then, it don't please you, have it back and go over the ground again, altering when you find altering to be good. If it should not please in this form, go over it again. Do you think that any man writes a good book by Divine Grace, and the favour of inspiration? Rousseau declares that he never gave anything to the public, which, so far from pleasing him the first time, had not been written five times over. I do not mean to let you retract your faith solemnly pledged that I am to be your School master, fully vested with all the rights belonging to that redoubtable office. Well then, in virtue of these rights, I solemnly command and ordain that you proceed, without loss of time, on the plan which you have already sketched out, till you have gone over the whole field of Political Economy, from the beginning to the end, thinking nothing of order, thinking nothing of repetitions, thinking nothing of stile – regarding nothing, in short, but to get all the thoughts blurred upon paper some how or another. We shall see what is to be done with it after that –

that is the first thing. Surely you can do that – for it is only saying do what you can – and you will not pretend to say that you cannot do what you can.

Another command of mine is, that – as I know you have by this time a pretty mass of papers, written first and last upon the subject – you put as much of them as possible, that is all except those which are absolutely necessary for you to go on with, up in a parcel, and send them here. I have a quantity of things to learn, which I know they will teach me. And perhaps they may enable me to give some directions to you which may not be useless. I mean that you should include those which you read to me in London, because hearing a thing read is very different from reading it when you have leisure by yourself. If you can put the sheets that relate to one subject up by themselves – and give some indication of what each subdivision is about, so much the better – but if not, no matter – send them higgledy-piggledy all together.²⁰

Ricardo promised to obey but procrastinated for two months on the grounds that he needed to copy out the papers.²¹ However, on 14 Oct. 1816, after further badgering, the papers covering the first seven chapters of the *Principles* were sent to Mill.²² A month later the second half of the book containing the principles of taxation was despatched.²³ Having had these parts of the work read to him by Ricardo earlier, Mill was familiar with the general line of argument; he accepted both parts of the work wholeheartedly.

My opinion may be given in very few words; for I think you have made all your points. There is not a single proposition the proof of which I think is not irresistible. With the curious result pointed out in your letter with respect to the effects produced by the rise of wages, on the price of those commodities which are chiefly the return from fixed capital, I was very much struck; but have no doubt whatsoever as to the validity of your conclusions, the proof of which I think is incontrovertible . . .²⁴

I have now gone over your inquiry into the subject of Taxation, with the same care as the former part of the work. I have also the pleasure to tell you that I am equally well satisfied. Now for the first time is the real operation of taxes explained; for this was a part of his subject on which Adam Smith was superficial, and added not a great deal to the knowledge of the world. Your doctrines are original and profound, for it was by no means an easy matter to get down to them; and I have no hesitation what-

²⁰ *Ibid.*, pp. 58-60.

²¹ *Ibid.*, pp. 65-66.

²² *Ibid.*, pp. 82-84.

²³ *Ibid.*, pp. 87-89 and pp. 91-92.

²⁴ *Ibid.*, p. 98.

soever in saying that they are fully and completely made out. I embrace every one of them; and am ready to defend them against all the world.²⁵

Mill's contribution in inducing Ricardo to write his great work was very fairly assessed by Ricardo himself.

If I am successful in my undertaking it will be to you mainly that my success will be owing, for without your encouragement I do not think I should have proceeded, and it is to you that I look for assistance of the utmost importance for me – the arranging of the different parts, and curtailng what may be superfluous.²⁶

Apart from acting as impresario and coach to a shy performer, Mill helped with the detailed preparation of the text for publication. He does not seem to have had much influence on the final arrangement of topics – he adopted a different plan for his own exposition of Ricardo's principles – but his hand can be detected at a number of points in matters of style and emphasis.²⁷ On questions of theory Mill had little to offer Ricardo. In this respect, it might be said that Malthus, by acting as a constant antagonist, was of more help to Ricardo. But Mill's efforts on his friend's behalf were prodigious; and the vicarious pleasure which he took in Ricardo's success brings out the human side of the more familiar picture of Mill as the stern schoolmaster.

Besides wanting to place Ricardo 'beyond all dispute at the head of Political Economy', Mill hoped that Ricardo would become the parliamentary spokesman for 'correct' economic principles and 'good government'. On the latter subject Mill was the expert, and there was good reason for him to believe in the malleability of Ricardo's mind when subjected to the hammer of reason. The first step in Ricardo's political education was to convince him that the principal source of misgovernment was the subservience of public men to their private interests.²⁸ Ricardo, to begin with, rejected out of hand Mill's suggestion that he should enter parliament. He also felt that Mill was 'unjustly severe' in his strictures on the venality of public men; and that he was inclined 'to allow too much force to the stimulus of money, and the praise of princes, and too little to the effect of public opinion'.²⁹

²⁵ *Ibid.*, p. 106.

²⁶ *Ibid.*, p. 101.

²⁷ These are enumerated by Mr Sraffa, in *Works*, vol. I, pp. xxxi-xxxii.

²⁸ See *Works*, vol. VI, pp. 252-4, and pp. 306-9. A fuller account of 'James Mill and the Political Education of Ricardo' is given by T. W. Hutchison in the *Cambridge Journal*, Nov. 1953, vol. VII, pp. 81-100.

²⁹ *Works*, vol. VI, pp. 310-11 and pp. 263-4.

For a time the matter was left in abeyance, but towards the end of 1816 it is clear that Mill had made inroads on Ricardo's firm rejection of the parliamentary scheme.³⁰ Ricardo was now saying that he would consider entering parliament if his book was successful.³¹ Ricardo was true to his word and negotiations to obtain a seat began late in 1817, although they were not brought to fruition until February 1819. Throughout this period Ricardo continued to express doubts as to his ability to speak or contribute anything to the cause of reform. A good deal of his diffidence sprang from his belief that outside questions of political economy his education had been irreparably neglected. Nevertheless, he allowed Mill to take charge of his general and political education. As groundwork Mill advised Ricardo to read Locke, Hume, and Millar, and later, his own *History of India*.³² He felt sure that he would be able to overcome Ricardo's feeling that legislation was a 'most difficult science'.

I have no doubt about removing all your difficulties; and showing you that instead of being a science, the practical results of which must always be uncertain, rendering it always prudent to try to remain in the state we are in, rather than venture the unknown effects of a change, legislation is essentially a science the effects of which may be computed with an extraordinary degree of certainty; and the friends of human nature cannot proceed with too much energy in beating down every obstacle which opposes the progress of human welfare.³³

It is clear that Ricardo was eager to be convinced by Mill's sweeping claims. By the spring of 1818 he was an enthusiastic, though moderate, parliamentary reformer. It was at this time that he began his attempts to convert Hutches Trower to the cause, making use of arguments supplied by Mill in the course of their walks together. As further preparation for his duties as an M.P., Ricardo undertook the task set him by Mill of writing a few 'discourses' on the principles of reform.³⁴ As an M.P. Ricardo was looked upon as an 'ultra-reformer and a visionary'. Mill's influence on him in this respect was crucial. This was acknowledged by Ricardo himself when he wrote to Francis Place that: 'I as well as you am a disciple of the Bentham and Mill school.'³⁵ It was also apparent to neutral contemporary observers like J. L. Mallet.

³⁰ *Works*, vol. VII, p. 110-11.

³¹ *Ibid.*, pp. 113-14.

³² *Ibid.*, pp. 195-8.

³³ *Ibid.*, pp. 210-11.

³⁴ See *Works*, vol. V, for two of these discourses.

³⁵ *Works*, vol. IX, p. 52.

He early became an advocate of the principle of utility. James Mill... a pupil of Bentham's, and a man of considerable acuteness, research and talents, was Ricardo's most intimate friend, and no doubt contributed to the formation of many of his opinions.³⁶

1. *The Elements of Political Economy*

In 1819, when John Stuart Mill had reached the ripe age of thirteen, James Mill decided that it was time for him to be initiated into the mysteries of political economy. In the course of their daily walks he lectured John on the subject: these lectures were then written up in note form, and submitted for rigorous criticism the following day. The notes served as an outline for the *Elements of Political Economy*, which James Mill began to write towards the end of 1820.³⁷ By April 1821 the work was nearly finished, although it was not published until November.

The *Elements* was intended as a 'school-book' for those who wished to learn the essential doctrines of the 'new school of political economy', but who were not willing to make the effort necessary to understand Ricardo's *Principles*. It was Mill's attempt to do for Ricardo what he had already done for Bentham in the field of law and government: to consolidate the Ricardian school and remove any obstacles which might bar the way to a full acceptance of 'correct' principles. In spite of its aim, the style of the work was not a very popular one. It is written in a manner which seems to confirm Macaulay's jibe against Mill's *Essay on Government*, that its author was 'an Aristotelian of the 15th Century born out of due season'. The *Westminster Review* actually recommended that Mill's book should be read as Euclid and not as a novel;³⁸ but others from the ranks of the converted considered its 'geometric' approach a drawback to its success. McCulloch had this to say about the book:

... it is of too abstract a character to be either popular or of much utility. Those secondary principles and modifying circumstances, which exert so powerful an influence over general principles are wholly, or almost wholly, overlooked by Mill. But although their consideration might be omitted in an original

³⁶ *Political Economy Club; Centenary Volume*, London, 1921, pp. 208-9.

³⁷ See J. S. Mill's *Autobiography*, pp. 19-20. Mill's intention to write a 'popular work on Political Economy' was mentioned by Ricardo in a letter to Malthus, 4 Sep. 1820, *Works*, vol. VIII, p. 229.

³⁸ *Op. cit.*, Oct. 1824, vol. IV, p. 289.

work like that of Ricardo, it is not so easily excused in an elementary treatise . . . The Science is very far from having arrived at the perfection Mr Mill supposed.³⁹

John Stuart Mill put his finger on his father's weakness when he said that he trusted 'too much to the intelligence of the abstract, when not embodied in the concrete.'⁴⁰ John considered that the *Elements* was 'a very useful book when first written, but which has now for some time finished its work'⁴¹: he obviously did not think it was one of his father's more enduring contributions.

James Mill was not interested in theoretical refinements for their own sake; he merely wished to give a logical account of the Ricardian system, avoiding or cutting through any disputed areas. This is a justifiable procedure in any introductory work, but the truth is that Mill was unwilling to recognise many of the difficulties with which others struggled. When he was writing the *Elements* he was pleased with his success in treating the subject 'within a narrow compass'; but clearly found sections like that on money, for example, where 'many different circumstances had to be noticed', tedious to write.⁴² Although he made fairly extensive revisions to the book when the second edition was published in 1824, these mostly took the form of fuller expositions of positions already held. He made little effort to alter those parts of the work on which Ricardo had commented; and although in the third edition he modified his treatment of international values and profits as a result of criticisms arising out of discussions of the book by the younger utilitarians led by his son, he did not go as far as they would have liked.⁴³

At this point in time the very crudity of Mill's *Elements* makes it an interesting document to the modern reader. We are presented with the Ricardian interpretation of the classical model in its simplest form. Ricardo was too absorbed in his task of following through the logic

³⁹ *Literature of Political Economy*, London 1855, pp. 17-18. Thomas Hodgskin wrote to Francis Place from Edinburgh when the *Elements* first appeared saying that McCulloch was not favourably disposed to the book; and he added, 'I suppose it is not calculated to drive Mrs Marcet out of the market'. Letter, 26 Dec. 1821. B.M. Add. MSS. 35153, f. 202.

⁴⁰ *Autobiography*, p. 16.

⁴¹ *Ibid.*, p. 144.

⁴² See Ricardo's Works, vol. VIII, p. 327. For John Stuart Mill's remarks on his father's 'impatience of detail' see his preface to *Analysis of the Phenomena of the Human Mind*, London, 1869, pp. xix-xx.

⁴³ *Autobiography*, pp. 84-85.

of an original insight to present a balanced picture of this model. Mill brings out more clearly the continuing Smithian basis of classical thinking by emphasising the growth factor, the division of labour, and the distinction between productive and unproductive consumption. The opening chapter and the whole arrangement of the *Elements* make it clear that the book is addressed mainly to 'real' problems; that the grand, equilibrium circle – primitive accumulation, production, distribution, exchange, consumption and back to accumulation – is to occupy the centre of the stage.⁴⁴ In this respect, and especially in view of his stress on the Law of Markets, Mill's *Elements* follows naturally on his earlier work *Commerce Defended*. The important difference is that at the heart of the *Elements* lay Ricardo's theorems linking accumulation with the distribution of the total product between wages, rent and profits. As Mill saw it, these were the final pieces in the jig-saw of political economy. 'Till the laws were discovered, which determine the boundaries of these several portions . . . almost all the conclusions of Political Economy were vague and uncertain.'⁴⁵

Ricardo's *Principles* opens with a long and tortuous chapter on the determinants of exchange value and the related question of the measure of value; for several years these were the chief topics of theoretical discussion among economists. It was Mill's original intention to concentrate on the distribution question, and 'steer clear if possible of the difficult word value'.⁴⁶ Ricardo obviously did not think this approach was impossible. He had attempted to do the same in his 1815 essay on the corn laws; and even after he had found it necessary to wrestle with the problem of value in the *Principles*, he maintained, on one occasion at least, that 'the great questions of Rent, Wages, and Profits must be explained by the proportions in which the whole produce is divided between landlords, capitalists and labourers, and which are not essentially connected with the doctrine of value'.⁴⁷ Nevertheless, neither Ricardo nor Mill succeeded in sidestepping the issue. In Mill's case this was probably due to the fact that Ricardo's treatment of the issue had

⁴⁴ Mill was influenced by Say's *Traité d'Economie Politique* in his division of topics. In a letter to Place he said: 'With the first edition of Mr Say's book I have been well acquainted since its first appearance in this country. It is an admirable production. As an elementary book it is much superior to Adam Smith's because the arrangement is much improved and the principles are stated most compleatly.' B.M. Add. MSS. 3562, f. 95.

⁴⁵ See below, p. 253.

⁴⁶ See Ricardo's letter to McCulloch, 17 Jan. 1821, *Works*, vol. VIII, p. 337; see also *ibid.*, p. 297.

⁴⁷ *Ibid.*, p. 194.

come under fire from Torrens, and Mill felt it necessary to make good his promise to defend Ricardo's doctrines 'against all the world'.

Mill accepted Ricardo's view that the existence of capital made little or no difference to the general rule that the quantity of labour embodied in a commodity determined its exchange value. But his dogmatic treatment of the question in the *Elements* obscured Ricardo's acknowledgment that the rule required modification where capital was employed in different proportions and possessed differing degrees of durability. As Ricardo said: 'What I call exceptions and modifications of the general rule you appear to me to say come under the general rule itself.'⁴⁸

Mill's *plus royaliste* position merely served to inflame Torrens, Bailey and Malthus, Ricardo's chief critics; but Mill himself does not appear to have been eager to enter into extended controversy on the issue. He got his son, a mere boy of sixteen at the time, to answer Torrens's criticisms of his section on value as it appeared in the first edition. It is true that Mill may have written the reply to Bailey's attack on the Ricardian theory of value in the *Westminster Review*;⁴⁹ but Mill did not think it worth mentioning Bailey's name in the third edition of the *Elements*. He also made critical notes on Malthus's *Measure of Value*, but made no effort to get them published.⁵⁰ John Stuart Mill spoke for his father when he said that the dispute over value was 'a question of pure curiosity and of no practical use whatever'.⁵¹

Ricardo himself reopened the question a few weeks before his death in a paper on *Absolute Value and Exchangeable Value*, in which he criticised Mill and McCulloch's solution to the measure of value problem. When these papers came into Mill's hands he took the decision not to have them published. He was simply following the line he had

⁴⁸ *Works*, vol. IX, p. 127. Ricardo's comments on the 1st edn. of the *Elements* are appended to the text below.

⁴⁹ *Op. cit.*, Jan. 1826, vol. V, pp. 157-72. For a review of the evidence supporting attribution of this article to Mill see R. M. Rauner, *Samuel Bailey and the Classical Theory of Value*, London School of Economics, 1961, Appx. II.

⁵⁰ These can be found in Mill's *Commonplace Book* in the Mill-Taylor Collection, vol. 59, ff. 13-15 at the London School of Economics. In view of the fact that these notes are incomplete, and would require reprinting large sections of Malthus's book to make sense of them, it has been decided, reluctantly, not to include them in this volume.

⁵¹ See his reply to Malthus's attack on the 'new school' in the *Westminster Review*, Jan. 1825, vol. IV, p. 220.

advocated earlier when he discouraged Ricardo from publishing his *Notes on Malthus* as an appendix to the third edition of the *Principles*.⁵² It could not serve the cause of 'correct principles' to confuse the public mind with prolonged disputes and revisions.

The same decided view is apparent in Mill's attitude to the Political Economy Club, of which he was a founder member in 1821. He clearly felt that the object of the Club was not so much to debate where Ricardo had or had not been mistaken, but to act in concert to defend and propagate an *accepted* doctrine. In the draft of the rules of the Club prepared by Mill, it was proposed that each member should answer a catechism before every meeting which contained questions like the following: 'Do you know anything in the legislation or practice of this country, not recently under consideration of this Society, peculiarly at variance with the principles of Political Economy and has anything occurred to you with respect to the measures of remedying such evils?'⁵³ The catechism idea was rejected, but the rules themselves contain ample evidence of Mill's desire to use the Club to influence public opinion. It was, for instance, the duty of members to watch the press 'to ascertain if any doctrines hostile to sound views in Political Economy have been propagated; and to contribute whatever may be in their power to refute such erroneous doctrines and counteract their influence'. Mill wanted the Club to do what he had been doing constantly for the cause of parliamentary reform.

It shall be the duty of the Society to study the means of obtaining access to the public mind through as many as possible of the periodical publications of the day and to influence as far as possible the tone of such publications in favour of just principles of Political Economy.

Despite this early zeal, before 1826 Mill proposed only one question for discussion by members of the Club, concerning the effect of Irish immigration on English living standards⁵⁴; and after this date, he attended on only three occasions. After the third edition of the *Elements* was off his hands, Mill was anxious to return to an early love, namely the analysis of the human mind. J. L. Mallet, however, con-

⁵² See *Works*, vol. VIII, p. 333.

⁵³ *Political Economy Club; Centenary Volume*, pp. 3-4.

⁵⁴ Mill's correspondence with Wilmot Horton, the leading exponent of assisted emigration as a remedy for the 'condition of the people' in the 1820's, can be found in the Horton Papers at the Derby Borough Public Library.

sidered that there were less flattering reasons for Mill's failure to attend the Club's meetings.

He is not enough of an oracle among us, and does not find among his equals in intellect, so far as this science is concerned, Torrens, Malthus, McCulloch, Tooke, that deference, not to say adulation, which is paid him by the younger Utilitarians and Aristocratical worshippers of Talent.⁵⁵

A more charitable interpretation might be that he considered the main work in political economy to have been done already by Ricardo. The task now was simply one of spreading the good tidings; and this the Club did not seem interested in doing.

One further attempt by Mill to add to the public understanding of political economy deserves brief mention here. As a member of the Committee of the Society for the Diffusion of Useful Knowledge he was responsible for pressing the Society to publish treatises on practical aspects of political economy written by the younger utilitarians.⁵⁶

A number of books have been written on Ricardian economics since the publication of Ricardo's collected works.⁵⁷ It does not seem necessary, therefore, to traverse the whole of this ground by comment on Mill's exposition of Ricardo's principles in the *Elements*. Two topics on which Mill added to or differed from Ricardo are discussed here: more detailed comment is reserved for footnotes to the text.

2. *Population and Wages*

The treatment given to population and wages in the *Elements* provides a good example of Mill's penchant for what Ricardo called 'strong cases'. Throughout his discussion of these matters he dramatised the remedy which he favoured for 'the condition of the people', by putting forward an apparently water-tight argument which minimised the value of alternative solutions or outcomes. Mill's treatment of the population question also shows the way in which he introduced

⁵⁵ *Political Economy Club; Centenary Volume*, pp. 224-5.

⁵⁶ An interesting letter in the Hollander Collection at the University of Illinois to T. Hodgskin, 4 Aug. 1829, indicates that Mill found most of the members of the committee too squeamish at first to enter into this new field.

⁵⁷ See e.g. Blaug, *op. cit.*; G. S. L. Tucker, *Progress and Profits in British Economic Thought, 1650-1850*, Cambridge University Press, 1960; B. A. Corry, *Money, Savings and Investment in English Economics 1800-1850*, Macmillan, 1961.

socio-political arguments into what purported to be a 'school-book' confined to the 'science' of political economy.

Mill declared his support for the Malthusian principle, that population has a consistent tendency to grow faster than the means of support, in his earliest economic pamphlet.⁵⁸ There were many ways in which this principle could be interpreted: Mill chose to adopt an extreme view, although it is more accurate to describe him as an extreme *neo*-Malthusian. His first full discussion of the problem was in his article on 'Colonies' for the *Supplement to the Encyclopaedia Britannica* written in 1817. Here he contrasts the evidence of population redundancy under a system of slavery with that of a modern wage-economy. In a slave system, the burden of redundancy falls on the slave-owner who has to meet higher food costs. In a wage economy, competition for available food supplies takes the form of the mass of the population offering more labour in exchange for food; or, in other words, accepting lower wages and living standards.

This is the point of departure for the treatment given to the subject in the *Elements*. In a wage economy, wages depend on the ratio of population to capital, i.e. the wage-fund doctrine, which Mill expresses in its most unqualified form. He now sets out to show that population has a universal tendency to outpace capital accumulation, and his first argument is an assertion to the effect that the consequences of this tendency are plainly in evidence throughout the world; the living standards of the masses are actually at the physical subsistence minimum.⁵⁹ Here Mill typically fails to distinguish between what could happen according to his model, and what has in fact occurred: he moves directly from a *ceteris paribus* situation to the real world. Unlike Smith and Ricardo, Mill makes no allowance for the possibility that real wages may remain above the psychological or physical minimum for what amounts to a lengthy short run.

The next stage of the argument is based on the notion that the biological factors underlying population growth are more persistent in their operation than the social and psychological factors which

⁵⁸ See above, pp. 55-56. Here he was chiefly concerned with its consequences for the market for corn and foodstuffs.

⁵⁹ See below, pp. 231, 237. In his earlier work, *Commerce Defended*, there was an attempt, at least, to marshal evidence on this point; see above, pp. 145ff. Elsewhere, he was content with the view that the standard of living of the workers had not improved; see 'State of the Nation', *Westminster Review*, Oct. 1826, vol. III, p. 263.

determine capital accumulation. The exercise in deductive sociology used to support the proposition that capital accumulates slowly constitutes the most interesting part of the whole chapter. At one end of the scale, according to Mill, there are those societies where the many are poor and the rich are few. The poor cannot save and the rich have little incentive to add to their possessions. Alternatively, there are those societies in which both capitalists and labourers possess 'the means of all the substantial enjoyments of life'. In this type of society neither the near-sighted nor those capable of foresight have any great incentive to accumulate; the former by definition, and the latter because they realise that what they will add to their 'enjoyments' by saving 'is in a great measure fancy'. Two possible motives for saving are left: 'the desire of a command over the sentiments of mankind' and 'the wish to make a provision for children'. Power and influence are difficult to acquire if most people are moderately well-provided for and independent, which is one reason why Mill considered this type of society to be ideal. As to the desire to provide for children, Mill claims that a man who has reached a satisfactory plateau of wealth is not likely to wish to place his children in a 'better' position. For these reasons only 'moderate effects' (whatever these might be) are to be expected from the motives for accumulation. Mill seems to have recognised that this type of argument did not constitute a 'proof' of the tendency for capital to accumulate more slowly than population; this he thinks is given by invoking the law of diminishing returns, the fall of profits and the consequent decline in the source of savings.

Mill's sociological arguments are redolent of the kind used by Adam Smith when discussing 'the desire of every man to better his condition'. Smith too was basically an ascetic when it came to the question of individual riches; but unlike Mill, Smith seems to have thought that men were not sufficiently rational to realise that the pursuit of wealth or command over the sentiments of others was, beyond a certain point, fruitless; there was no rational millennium, the attainment of which would weaken the desire for further accumulation. John Stuart Mill is usually considered to be unique in his concept of an ideal stationary state in which further economic striving ceases⁶⁰; but it seems clear that this notion was derived from his father.

The rest of Mill's chapter on wages is devoted to a demonstration of the futility of all remedies for the population problem other than

⁶⁰ See his *Principles of Political Economy* (ed. W. J. Ashley), pp. 748-9.

the one which he favoured. He considers the possibility that the legislature might intervene to create capital by taxation, but concludes that forced accumulation would merely push a society more rapidly towards the stationary state by increasing population, raising rents and lowering profits. All members of society except the existing land-owners would become poor wage-earners; population density would rise, and land would be increasingly subdivided. At this point Mill invokes another sociological argument to show that the elimination of the middle classes, those living on moderate incomes and enjoying sufficient leisure to cultivate the arts and sciences, would be disastrous to the progress of society.⁶¹

Since little hope of raising living standards could be expected from increased capital accumulation, the only remedy left was to control the growth of population; and by this Mill meant birth control and not simply moral restraint. In his article on 'Colonies' for the *Supplement to the Encyclopaedia Britannica* Mill became the first economist to endorse birth control in print, albeit rather circumspectly. He is discussing the question of 'what are the best means of checking the progress of population?'

It is, indeed, the most important practical problem to which the wisdom of the politician and moralist can be applied. It has, till this time, been miserably evaded by all those who have meddled with the subject, as well as by those who were called upon by their situation to find a remedy for the evils to which it relates. And yet if the superstitions of the nursery were discarded, and the principles of utility kept steadily in view, a solution might not be very difficult to be found . . .⁶²

In the *Elements* the advocacy of birth control is less oblique. He speaks of the form of prudence where 'care is taken that children, beyond a certain number, shall not be the fruit', and of 'securing the happiness of the matrimonial union without the attendant evil of over-population'. Having started from the assumption that wages were constantly at the barest minimum, he ends by holding out boundless hopes of improvement; the limitation of births could 'raise the condition of the labourer to any state of comfort and enjoyment which

⁶¹ An early statement of this view can be found in his article 'Colonies' for the *Supplement to the Encyclopaedia Britannica*. See also above pp. 13-14 for further comment on the crucial rôle assigned by Mill to the middle classes.

⁶² *Op. cit.* as separately reprinted, pp. 12-13.

may be desired, and prevent the need for further accumulation'.

These were the beliefs which Mill instilled in the younger philosophical radicals, as his son's account makes clear.

The Malthusian principle was quite as much a banner, and point of union among us, as any doctrine specially belonging to Bentham. This great doctrine, originally brought forward as an argument against the indefinite improbability of human affairs, we took up with ardent zeal in the contrary sense, as indicating the sole means of realizing that improbability by securing full employment at high wages, to the whole labouring population through a voluntary restriction of their numbers.⁶³

3. *Taxes on Rent*

In his *History of British India*, Mill referred to Ricardo's treatment of taxation as 'the most profound, by far, which has yet been given to the world'.⁶⁴ As one might expect, therefore, Mill's discussion of taxes in the *Elements* is largely derived from Ricardo. But on one important question, the feasibility and desirability of taxes on rent, Mill went a good deal further than either Ricardo or McCulloch were willing to go. This was not simply a textbook matter because, as will be seen later, in his capacity as Chief Examiner at the India Office, Mill attempted to implement the radical conclusions which he drew from Ricardo's interpretation of the rent doctrine.⁶⁵ Though this is seldom realised, Mill's influence on the Indian land revenue system represents perhaps the single most important application of Ricardian economics in practice.

The first clues as to Mill's position with regard to taxes on rent can be found in the *History of British India*, where he discusses the Hindu system of raising revenue from the produce of the land.⁶⁶ Although he levelled severe criticism at this system, he considered the objections 'to arise from the mode rather than the essence'; it was an obvious expedient in a society dependent on agriculture but it also had 'no inconsiderable recommendation from science itself'. By science Mill meant the rent doctrine. If rent was a pure surplus earned on intra-marginal land after the payment of wages and profits, then it could be taxed without affecting production or prices. In the early stages of society when

⁶³ *Autobiography*, pp. 73-74.

⁶⁴ See below, pp. 423.

⁶⁵ See below, pp. 391-5.

⁶⁶ See below, pp. 415-23. His remarks on land taxes in *Commerce Defended* (p. 96 above) might be taken as an early indication of his attitude.

land is owned communally, it becomes a simple matter for the state to appropriate that part of the annual produce which, under a system of private land ownership, would go to the landlord as rent. This was one case where Mill obviously felt that European progress, in the shape of the establishment of private incomes from land, had been a retrograde step: what might have gone to meet community needs had been annexed to private individuals.

This was basically the position which Mill upheld in his chapter on taxes on rent in the *Elements*, though here he was faced with the problem of how rent could be taxed once land had become private property, and land values reflected expectations of private rent income. He admitted that in the absence of complete land nationalisation, the solution he favoured in India, it would be unjust to meet the whole of the needs of the government by appropriating rent. But he saw no reason why a kind of generalised betterment charge should not be imposed in the form of a tax on incremental land values. This would require making a distinction between present land values, based on existing rents plus a reasonable allowance for improvement, and any increase in values beyond present levels which could be imputed to the acts of the legislature. The land-owner had acquired a right to the former but not to the latter. Any legislative measure which increased population and the demand for food gave to the land-owner an unearned increment, which Mill thought it proper for the state to tax.

In upholding the principle of taxing rent Mill was merely taking to its logical political conclusion, Ricardo's argument that there was an inherent conflict between the interests of land-owners and the rest of the community. Ricardo himself did not think that Mill's scheme was practicable; it would be difficult to separate pure rent from profit on capital invested by the land-owner, and therefore a tax on contractual rents might inhibit the improving landlord. But, as always, Ricardo was willing to face the logical consequences of his doctrines, and does not seem to have been afraid of considering the possibility of complete land nationalisation.⁶⁷ The same could not be said of McCulloch who invariably stressed the harmony of the economic order⁶⁸; he criticised Mill's argument concerning taxes on rent on the grounds that it involved discriminatory taxation. Mill replied to this criticism in the

⁶⁷ For Ricardo's comments see below p. 340n. John Stuart Mill remained closer to his father than to Ricardo on this issue; see his *Principles* (Ashley edn.), pp. 818-21.

⁶⁸ See Blaug, *op. cit.*, pp. 168-9.

third edition of the *Elements*, pointing out McCulloch's inconsistency in recognising the special nature of rent income, while, for taxation purposes, regarding it as similar to profits.

The difference between Mill and McCulloch on this issue is, of course, basically political. Ricardo's rent doctrine merely provided scientific support for Mill's longstanding antagonism towards the land-owning classes; it accorded completely with his view that the politics of the day were dominated by the clash of selfish interests. McCulloch, on the other hand, was a Whig, and regretted that Mill was such an 'incurable radical'. Even before Ricardo had published his *Essay on the Influence of the Corn Laws on the Profits of Stock* (1815), in which the idea of conflict between land-owners and the rest of the community was first emphasised, we find Mill stressing the class struggle side of the Corn Law issue.⁶⁹ In a letter to McCulloch on the subject later, Mill's political motive in stressing this conflict becomes clear.

There was an excellent paragraph the other day in the *Scotsman*, stating the effect of the Corn-Laws in setting the rest of the community against the landlords, and showing the indispensable necessity of taking the monopoly of legislation out of their hands. The terror arising out of this view is the only thing which will work upon them. They must therefore be plied with it.⁷⁰

The political implications of Mill's tax proposal did not go unnoticed. During the second reading of the Reform Bill, an opponent, Vyvyan, pointed out the danger to property if such men as Mill were allowed access to power. After quoting from Mill's chapter on taxes on rent he went on to say:

These were Mr Mill's sentiments upon the subject of rent: he is one of the class who in future are to be called upon to regulate our affairs: and I will ask any hon. Member if, after land has been so treated, the funded property can last a single hour?⁷¹

He predicted that all forms of property, including the 'poor man's hoardings' in the Savings Banks, would be placed in jeopardy by the passage of the Bill.

Vyvyan's fears were exaggerated. Mill believed that the Savings

⁶⁹ See a review of pamphlets by Lauderdale, Malthus and others on the Corn Laws in the *Eclectic Review*, Jul. 1814, vol. II, pp. 1-17.

⁷⁰ Letter to McCulloch, 18 Aug. 1825, reprinted in Bain, *op. cit.*, p. 292; cf. his advice to Ricardo on the Bank of England cited above, p. 181.

⁷¹ *Hansard Debates*, 21 Mar. 1832, p. 638.

Banks and the Benefit Societies were valuable institutions, helping to encourage working-class prudence and foresight in the face of the Malthusian menace.⁷² There were special reasons for Mill's animosity towards the landed interest which did not apply to any other form of property. He believed that land-owners controlled parliament in their own interests, and that their income and influence was 'unearned' in the precise economic sense of the term. As we have seen in our discussion of population and accumulation, Mill shared Adam Smith's view that the possession of a large fortune, particularly as derived from large estates, was inimical to foresight and saving; it encouraged the cultivation of idle pleasures and was not conducive to the pursuit of the 'intellectual virtues' which Mill prized so highly. To this point of view must be added Mill's special insistence on the contribution of the hard-working, prudent, middle classes to the progress of society.

In an article on 'Aristocracy' for the *London Review*, Mill went out of his way to point out that:

Reformers are far from thinking evil of inequality of fortunes; on the contrary they esteem them a necessary consequence of things which are so good, that society itself, and all the happiness of human beings, depend upon them: a consequence of those laws whence the generations and augmentation of a property proceed. That the property of nations may advance, there must exist motives to accumulation.

Inequality was essential for cultural progress as well,

To have men of high intellectual attainments, we must have men who have their time at their command, not under necessity of spending it wholly, or in greater part, in providing the means of subsistence: – or in other words, we must have men of independent income.⁷³

But this inequality had to be the result of the 'natural laws of accumulation' and not derived from 'unnatural restraints put upon the natural laws of distribution'. By the latter Mill meant inheritance under the law of primogeniture. He opposed this law because it required 'that a man should not leave his property to whom he will, or that it should not go in equal parts to those whose proximity of

⁷² See his articles on these institutions in the *Supplement to the Encyclopaedia Britannica*, Edinburgh, 1824, vol. II.

⁷³ 'Aristocracy', *London Review*, Jan. 1836, vol. II, p. 284.

relation to him is the same.⁷⁴ Once more Mill was at logger-heads with McCulloch, who defended primogeniture as the means by which efficient farming and political stability were preserved.⁷⁵

Having stated his preference for a society in which the necessary inequality was based on accumulation and intellectual merit, James Mill was anxious to combat redistributive measures.

When a man has attained eminence by intellectual acquirements, by a course of beneficent conduct to his fellow-creatures, by presenting a model of what is amiable in his amusements and tastes, or, lastly, by the honourable accumulation of wealth, why should he be robbed of any portion of the dignity which those merits confer?⁷⁶

In his article on 'Colonies' for the *Supplement to the Encyclopaedia Britannica* Mill went out of his way to 'prove' by means of the law of diminishing utility that income redistribution reduces the total sum of happiness.

When from one of two parties, equally provided with the means of enjoyment, you take a portion to give it to the other, the fact is, – a fact too well established, and too consonant with the experience of every man, to need illustration here, – that you do not add to the happiness of the one, so much as you take from the happiness of the other, and that you diminish the sum of happiness of the two taken together. This, in truth, is the foundation upon which the laws for the protection of property rest. As the happiness of one man, is, or ought to be, of no more value to the state than the happiness of another man, if the man who takes from another man a part of his property, added to his own happiness, as much as he took from the happiness of the other, there would be no loss of happiness upon the whole, and the state would have no ground, in utility, on which to interfere.⁷⁷

This is yet another example of the polemical use of the 'strong case'. Without the question-begging assumption that both parties are 'equally

⁷⁴ *Ibid.*, p. 285. This subject was taken up and further developed by John Stuart Mill in his *Principles* (Ashley edn.), pp. 221-6.

⁷⁵ See his *Treatise on the Succession of Property Vacant By Death*, London, 1848. Despite their early friendship, Ricardo's two disciples gradually drifted apart. See e.g. McCulloch's comments on Mill's *Elements*, quoted above, pp. 188-9; and Mill's remark to Brougham that McCulloch 'has a knack of finding people stealing from him; though there is nothing to steal; for all that he has which is sound is either the opinion of some other previous writer or an error'. See Bain, *op. cit.*, p. 393.

⁷⁶ *London Review*, Jan. 1836, p. 294.

⁷⁷ *Op. cit.*, p. 22.

provided with the means of enjoyment', the whole argument could be reversed.

Having isolated the land-owner from the rest of society, Mill argued that the interests of labour and capital were harmonious. This conclusion could be supported by the wage-fund doctrine, and was strengthened by Mill's belief that the working classes would be guided by 'the most wise and the most virtuous part of the community, the middle rank'. Indeed, he considered that the working classes would 'account it to their honour' to adopt middle-class opinions. The 'occasional turbulence of a manufacturing district' was entirely due to the absence of sufficient middle-class influence.⁷⁸ He was bitterly opposed to those working-class radicals who, like Thomas Hodgskin, attacked property and 'sound' money, and championed the right of labour to the whole produce.

These opinions, if they were to be spread, would be the subversion of civilised society; worse than the overwhelming deluge of Huns and Tartars. This makes me astonished at the madness of people of another description who recommend the invasion of one species of property, so thoroughly knavish, and unprincipled, that it can never be executed without extinguishing respect for the rights of property in the whole body of the nation, and can never be spoken of with approbation, without encouraging the propagation of those other doctrines which directly strike at the root of all property.⁷⁹

If the proper information were to be made available, the working classes would realise 'that the existence of property was not only good for the labouring man, but of infinitely more importance to the labourers as a class, than to any other'.⁸⁰ Mill wished to substitute middle-class rule for aristocratic domination. He was quite unable to understand the nature of the working-class movement and its aspirations. For all his talk of 'the people', his view of the working class was basically paternalist; their best fate was to be guided, and perhaps ultimately assimilated, by their immediate superiors.

⁷⁸ See *Essay on Government* (ed. E. Barker), Cambridge University Press, 1937, pp. 71-73.

⁷⁹ Letter to Brougham, 3 Sep. 1832, in Bain, *op. cit.*, p. 364.

⁸⁰ *Ibid.*, p. 365, see also a letter to Place, 25 Oct. 1831. 'The fools! not to see that what they madly desire would be such a calamity for them, as no hands but their own, can bring upon them.' B.M. Add. MSS. 35149, ff. 120-3. On the conflict at this time between middle- and working-class radicalism, see J. D. Hamburger, *James Mill and the Art of Revolution*, Yale University Press, London, 1963, pp. 79-80.

ELEMENTS
of
POLITICAL ECONOMY,

by

JAMES MILL, ESQ.

Scientia propter potentiam; Theorema propter problemata; omnis denique
speculatio, actionis vel operis alicujus gratiâ, instituta est.

Hobbes.

THIRD EDITION,
REVISED AND CORRECTED.

LONDON:
PRINTED FOR BALDWIN, CRADOCK, AND JOY.

1826.

PREFACE

There are few things of which I have occasion to advertize the reader, before he enters upon the perusal of the following work.

My object has been to compose a school-book of Political Economy, to detach the essential principles of the science from all extraneous topics, to state the propositions clearly and in their logical order, and to subjoin its demonstration to each. I am, myself, persuaded, that nothing more is necessary for understanding every part of the book, than to read it with attention; such attention as persons of either sex, of ordinary understanding, are capable of bestowing.

They who are commencing the study ought to proceed slowly, and to familiarize themselves with the new combinations of ideas, as they are successively presented to them. If they proceed to a subsequent proposition before they are sufficiently imbued with the first, they will of course experience a difficulty, only because they have not present to their memory the truth which is calculated to remove it. If they who begin the study of mathematics were to content themselves with merely reading and assenting to the demonstrations, they would soon arrive at doctrines, which they would be unable to comprehend, solely because they had not, by frequent repetition, established in their minds those previous propositions, on which the evidence of the subsequent ones depends.

In a work of this description I have thought it advisable not to quote any authorities, because I am anxious that the learner should fix his mind upon the doctrine and its evidence, without any extraneous consideration. I cannot fear an imputation of plagiarism, because I profess to have made no discovery; and those men who have contributed to the progress of the science need no testimony of mine to establish their fame.

PREFACE
(to the 2nd edn.)

To this edition I shall prefix only an account of the changes which have been made in it.

The whole of the work has been carefully revised; and where it appeared that the expression could be rendered more clear or precise, the requisite alteration was attempted. The instances are too numerous to be specified.

A greater development has been given to the subject of Production; and two sections, one on labour, another on Capital, have been added to that Chapter.

In the Chapter on Interchange, I have endeavoured to illustrate more completely the controverted subject of Value, and to establish on clearer proof the view which I have taken of the circumstances by which it is regulated.

In the same Chapter a new Section has been introduced, on the effect of employing two metals, as standard money, and of using subsidiary coins, at less than their metallic value.

A considerable portion of what relates to the doctrine of Exchange, or the transactions by bills among nations, has been re-written, in the hope that the difficulties by which that subject is enveloped, might be still farther removed.

In the Chapter on Consumption I have endeavoured by new illustrations to render more palpable what appears to me to be demonstration of that most important doctrine, that the aggregate demand and supply of a nation are always equal, that production can never be too rapid for the market; in other words, that there never can be a general glut of commodities.

The Section which treats of a Tax on Wages has been re-written, and the subject more fully expounded.

The question relating to the operation of a tax, proportional to their value, upon all commodities, has been cleared of some ambiguity of language, and has received farther illustrations.

A new Section has been introduced to ascertain the effects of a tax

upon Farmers' Profits, and of taxes upon the Instruments of Agriculture.

In the Section which treats of taxes intended to fall indiscriminately upon all sources of Income, I have endeavoured to give a reply to the question, whether an income tax ought to fall equally on equal incomes, without regard to the time they are to endure, or the value which they derive from that duration.

In this third edition, the only alterations, not merely verbal, will be found, in the section on Profits, where the different modes of expressing the relation of profits to wages is more fully expounded; in the section which treats of 'what determines the quantity in which commodities exchange for one another,' where I have added something in illustration of the analysis of what regulates value; in the section, which explains the 'occasions on which it is the interest of nations to exchange commodities with one another,' where I have corrected an error of the former editions; and in the section, which treats of a tax per acre on the land, where I have thought it necessary to explain a case to which I had not before adverted.

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INTRODUCTION

THE SUBJECT – ITS LIMITS – AND DIVISION

Political economy is to the State, what domestic economy is to the family.¹
The family consumes; and, in order to consume, it must supply.

Domestic economy has, therefore, two grand objects; the consumption and supply of the family. The consumption being a quantity always indefinite, for there is no end to the desire of enjoyment, the grand concern is, to increase the supply.

Those things, which are produced, in sufficient abundance for the satisfaction of all, without the intervention of human labour; as air, the light of the sun, water, and so on; are not objects of care of providence; and therefore, accurately speaking, do not form part of the subject of domestic economy. The art of him, who manages a family, consists in regulating the supply and consumption of those things, which cannot be obtained but with cost; in other words, with human labour, 'the original purchase-money, which is given for every thing.'

The same is the case with Political Economy. It also has two grand objects, the Consumption of the Community, and that Supply upon which the consumption depends. Those things, which are supplied without the intervention of human labour, as nothing is required in order to obtain them, need not be taken into account. Had every thing, desired for consumption, existed without human labour, there would have been no place for Political Economy. Science is not implied in putting forth the hand, and using. But when labour is to be employed, and the objects of desire can be multiplied only by a pre-concerted plan of operations, it becomes an object of importance to ascertain completely the means of that multiplication, and to frame a system of rules for applying them with greatest advantage to the end.

¹ [In an attempt to distinguish clearly between the science of political economy and its practical application, John Stuart Mill rejected this definition. See his *Essays on Some Unsettled Questions* (L.S.E. reprint), p. 125.]

It is not pretended, that writers on Political Economy have always limited their disquisitions to this object. It seems, however, important to detach the science from all considerations not essential to it. The Reader is therefore requested to observe that, in the following pages, I have it merely in view, to ascertain the laws, according to which the production and consumption are regulated of those commodities, which the intervention of human labour is necessary to procure.

The Science of Political Economy, thus defined, divides itself into two grand inquiries; that which relates to Production, and that which relates to Consumption.

But, after things are produced, it is evident, that, before they are consumed, they must be distributed. The laws of distribution, therefore, constitute an intermediate inquiry.

When commodities are produced, and distributed, it is highly convenient, for the sake both of reproduction and consumption, that portions of them should be exchanged for one another. To ascertain, therefore, the laws, according to which commodities are exchanged for one another, is a second inquiry, preceding that which relates to the last great topic of Political Economy, Consumption.

It thus appears, that four inquiries are comprehended in this science.

1st. What are the laws, which regulate the production of commodities:

2dly. What are the laws, according to which the commodities, produced by the labour of the community, are distributed:

3dly. What are the laws, according to which commodities are exchanged for one another:

4thly. What are the laws, which regulate consumption.

CHAPTER I

PRODUCTION

The distinction, between what is done by labour, and what is done by nature, is not always observed.

Labour produces its effects only by conspiring with the laws of nature.

It is found that the agency of man can be traced to very simple elements. He does nothing but produce motion. He can move things towards one another, and he can separate them from one another. The properties of matter perform the rest. He moves ignited iron to a portion of gunpowder, and an explosion takes place. He moves the seed to the ground, and vegetation commences. He separates the plant from the ground, and vegetation ceases. Why, or how, these effects take place, he is ignorant. He has only ascertained, by experience, that if he perform such and such motions, such and such events are the consequence. In strictness of speech, it is matter itself, which produces the effects. All that men can do is to place the objects of nature in a certain position. The tailor, when he makes a coat; the farmer, when he produces corn, do but the same thing. Each performs a set of motions; the properties of matter accomplish the rest. It would be absurd to ask, to which of any two effects the properties of matter contribute the most; seeing they contribute every thing, after certain portions of matter are placed in a certain position.

As our inquiry is confined to that species of production, of which human labour is the instrument; and as human labour produces its effects chiefly in two modes; either with, or without, the aid of implements; this chapter naturally divides itself into two sections; of which the first will treat of Labour, simply, and as much as possible detached from the consideration of the instruments by which the powers of labour may be improved: the second will treat of Capital, or of the origin, and nature of that provision of materials, on which labour is employed, and by which its operations are assisted.

SECTION I

LABOUR

In the state of society, in which we exist, we seldom see Labour employed except in conjunction with Capital. To conceive the separate operations of Labour more distinctly, it may be useful to recur, in imagination, to that simple state of things, in which society may be conceived to have originated.

When the savage climbs a tree, and gathers the fruit; when he ensnares a wild beast, or beats it down with a club, he may be considered as operating with his naked powers, and without the aid of any thing, to which the name of Capital can properly be annexed.

The principal thing, which, with a view to the conclusions of Political Economy, it is necessary to remark, in regard to Labour, considered as a distinct portion of a composite whole, and apart from Capital, is, the necessity of subsistence to the labourer. In the idea of labour, the idea of this subsistence is included. Whenever we say that such and such effects are produced by pure labour, we mean the consumption and operations of the labourer, taken conjunctly. There can be no labour, without the consumption of the labourer. If the man, who climbs the tree to gather the fruit, can manage to find two such trees, and to climb them in a day, he can continue his employment with the subsistence of half a day provided in advance. If the man who subsists on animals cannot make sure of his prey, in less than a day, he cannot have less than a whole day's subsistence in advance. If hunting excursions are undertaken, which occupy a week or a month, subsistence for several days may be required. It is evident, when men come to live upon those productions which their labour raises from the soil, and which can be brought to maturity only once in the year, that subsistence for a whole year must be laid up in advance.

The previous provision of the labourer may be greater or smaller, in different cases, in proportion to the greater or less time, which it may require, to realize the fruit of his labour, in the shape of subsistence; but in all these cases, equally, whenever we speak of his labour, as a thing by itself, a detached, independent, instrument of production, the idea of the subsistence is included in it.

This is the more necessary to be remembered, that the terms, Labour and Wages, are, sometimes, incautiously used; and confusion of ideas, and some fundamental errors, are the consequence. It is clear, that

when we speak of the labour of a man, for a day, or a month, or a year, the idea of his subsistence is as necessarily included, as that of the action of his muscles, or his life. His labour is not one thing, the action of his muscles another thing; to the purpose in hand, they are one and the same thing. If wages be taken as synonymous with the consumption of the labourer, the labour cannot be taken, as one item of an aggregate and its wages as another. As often as this is done, an error is the necessary consequence.

Having thus seen, what ideas are necessarily included in that of labour, in its detached, and simplest form, it is only further necessary, under this head, to consider the improvements, in respect to its productive powers, of which it is susceptible.

It will be seen hereafter, that the most important of these improvements arise, from the use of those instruments, which form one of the portions of capital. Great improvements also arise, from the division, including the distribution, of labour.

The foundation of this latter class of improvements is laid, in the fact, that an operation, which we perform slowly at first, is performed with greater and greater rapidity by repetition. This is a law of human nature so familiar, and well understood, that it hardly stands in need of illustration. The simplest of all operations, that of beating a drum, is a proper example. A man who has not practised this operation, is often surprised, upon trial, at the slowness with which he performs it, while the rapidity of a practised drummer is still more astonishing.

The repetition, upon which the greatest celerity depends, must be frequent. It is not therefore compatible with a great number of different operations. The man, who would perform one, or a few, operations, with the greatest possible rapidity, must confine himself to one or a few. Of the operations, therefore, conducive to the production of the commodities desired by man, if any one confines himself to a small number, he will perform them with much more rapidity, than if he employed himself in a greater; and not only with more rapidity, but, what is often of the highest consequence, with greater correctness and precision.

A certain immense aggregate of operations, is subservient to the production of the commodities useful and agreeable to man. It is of the highest importance that this aggregate should be divided into portions, consisting, each, of as small a number of operations as possible, in order that every operation may be the more quickly and perfectly

performed. If each man could, by the more frequent repetition thus occasioned, perform two of these operations, instead of one, and also perform each of them better, the powers of the community, in producing articles useful and agreeable to them, would, upon this supposition, be more than doubled. Not only would they be doubled in quantity, but a great advantage would be gained in point of quality.

This subject has been fully illustrated by Dr Smith, in the first chapter of the first book of the 'Inquiry into the Nature and Causes of the Wealth of Nations,' where the extraordinary effect of the division of labour in increasing its productive powers, in the more complicated cases, is displayed in some very remarkable instances. He states that a boy, who has been accustomed to make nothing but nails, can make upwards of two thousand three hundred in a day; while a common blacksmith, whose operations are nevertheless so much akin to those of the nailer, cannot make above three hundred, and those very bad ones.

Even in the simplest state of labour, it cannot be doubted, that, if one man should confine himself to the operation of climbing trees for their fruit, another to the operations of ensnaring and killing animals, they would acquire a dexterity, the one in climbing trees, the other in procuring animals, greater than they would have acquired, had each occasionally performed both operations; and that they would by such means obtain a greater abundance, both of fruit, and of game.

So obvious is this advantage, that some remarkable cases of the division of labour are exemplified, in the earliest stages of the arts. The hands which spin the thread, and the hands which weave it into cloth, were different, in every country, perhaps, in which we have any memorial of the early state of the art. The man who tans the hide, and the man who makes it into shoes, the man who works in iron, and the man who works in wood, were all separated at an early period, and had divisions of labour appropriated to them.

If the immense aggregate of the operations which are subservient to the complicated accommodations, required in an artificial and opulent state of society, were to be divided, under circumstances the best calculated for breaking it down into those small groupes of operations, which afford the greatest aid to the productive powers of labour, the most perfect philosophical analysis of the subject would be the first operation to be performed; the next would be an equally perfect philosophical synthesis.

In order to know what is to be done with a vast aggregate of materials, existing in forms, ill adapted to the ends which are to be obtained, it is necessary to contemplate the aggregate in its elements; to resolve it into those elements; and carefully and comprehensively to pass them under review. This is the analytical operation.

When we have the full knowledge of the elements, which we are to combine, as means, towards our ends, and when we have an equally perfect knowledge of the ends, it then remains that we proceed to form those combinations, by which the ends will be most advantageously produced. This is the synthetical operation.

It is well known, that neither of these operations has as yet been performed, in order to obtain the best division and distribution of labour. It is equally certain, that this division is still in a most imperfect state. As far as it has been performed, it has been performed practically, as they call it; that is, in a great degree, accidentally; as the fortuitous discoveries of individuals, engaged in particular branches, enabled them to perceive that in these branches a particular advantage was to be gained. Such improvements have almost always been founded on some very narrow view; an analysis and synthesis, certainly; but including a small number of elements, and these but imperfectly understood. Improvements, founded upon narrow views, are almost always equally confined in their application. There is no generalization. An improvement, introduced into one machine, or one manufacture, is often long before it is introduced into another, where it would be equally important. And one improvement is still more slow in suggesting another which is akin to it; because a narrow view discovers no relations, between the things which it embraces, and the things which it excludes.²

SECTION II

CAPITAL

We have already observed, that labour performs its operations, either simply, by the unaided powers of the human body; or, with the use of instruments, which augment not only the quantity, but often also the accuracy and precision of its results.

² [Further evidence of Mill's fascination with the quasi-philosophical and psychological problems of order, synthesis and generalisation can be found in the dialogue reprinted below, pp. 371-82.]

As examples of the earliest and simplest of the instruments, contrived for this purpose, we may mention the bow and arrow, and the sling, of the huntsman. The spade is an instrument easily invented for turning the soil; and a certain rude machine, to which the force of cattle may be applied, and which is the first form of a plough, suggests itself at an early stage of improvement.

From these beginnings men proceed, inventing one instrument after another, the axe, the hammer, the saw, the wheel, the wheel-carriage, and so on, till they arrive at last at that copious supply of complicated machinery by which labour is rendered productive in the most artificial states of society. The provision which is made of these instruments is denominated capital.

This, however, is not the whole of what is denominated capital. Labour in its earliest stage is not employed upon any materials but such as nature presents, without any preparation at the hands of man. When the savage climbs the tree, to gather the fruit; when the huntsman tears down the branch, to form his club or his bow, he operates upon materials, which are prepared for him by the hand of nature. At a subsequent stage in the progress of industry, the materials upon which labour is employed, have generally been the result of previous labour. Thus, the flax and the cotton, which are to be manufactured into cloth and muslin, have been the result of the labour of agriculture; the iron has been the result of the labours of the miner and smelter, and so of other things. The materials, upon which labour is to be employed, when they have thus been the result of previous labour, are also denominated capital.

When we speak of labour, as one of the instruments of production, and of capital, as the other, these two constituents, namely, the instruments which aid labour, and the materials on which it is employed, are all that can be correctly included in the idea of capital. It is true that wages are in general included under that term. But, in that sense, labour is also included; and can no longer be spoken of as an instrument of production apart from capital. We have already seen, that, whenever labour is spoken of as a separate, distinct, instrument of production, the idea of the subsistence, or consumption, of the labourer, for which wages is but another name, is included in the idea of the labour.

Having thus endeavoured to annex precise ideas to the terms Capital and Labour, a matter of the utmost importance in the study of political economy, and to distinguish their respective departments, in the business

of production, it is only further necessary, to advert to the origin of capital, and the laws of its accumulation.

It is easy to discover, that the source, from which capital is ultimately derived, is labour. Production, of necessity, begins with the hands. There can be no instrument till it is made; and the first instrument had no previous instruments to be made with.

The first portion of capital, therefore, was the result of pure labour, without the co-operation of capital.

Speedily, however, after the first instrument, which increased the productive powers of labour, had been made, another instrument would be made to assist in the formation of it, as a knife, to aid in the formation of the bow; and then capital, for the first time, becomes the result of labour, and of capital conjoined.

This subject is too clear to need to be illustrated, by tracing the mode, in which capital and labour combine, in producing the articles, of which capital is composed, from the simplest, to the most complicated, cases. It will be hereafter seen, that, in the more artificial and improved states of the business of production, a very great porportion of the whole of the labour and capital of the country is constantly employed in the production of the articles, which form capital.

As capital, from its simplest, to its most complicated state, means, something produced, for the purpose of being employed, as the means towards a further production; it is evidently a result of what is called saving.

Without saving there could be no capital. If all labour were employed upon objects of immediate consumption, all immediately consumed, such as the fruit, for which the savage climbs the tree, no article of capital, no article to be employed, as a means to further production, would ever exist. To this end, something must be produced, which is not immediately consumed; which is saved and set apart for another purpose.

Of the consequences of this fact, all, to which it is necessary here to advert, are sufficiently obvious.

Every article, which is thus saved, becomes an article of capital. The augmentation of capital, therefore, is every where exactly in proportion to the degree of saving; in fact, the amount of that augmentation, annually, is the same thing with the amount of the savings, which are annually made.

The labour and the capital, which combine to the production of a

commodity, may belong both to one party, or one of them may belong to one party, the other to another. Thus, when the savage, who kills a deer, kills it with his own bow and arrows, he is the owner both of the labour and of the capital: when he kills it with bow and arrows of another man, the one is the owner of the labour, the other of the capital. The man, who cultivates his little farm with his own labour and that of his family, without the aid of hired servants, is owner both of the capital and the labour. The man, who cultivates with none but hired servants, is owner of the capital. The servants may be considered, at least for the present purpose, as owners of the labour, though we shall presently see under what modification that meaning is to be taken.

In this sense of the term 'owners of labour,' the parties, concerned about production, are divided into two classes, that of capitalists, the rich men who supply the materials and instruments of production; and that of the workmen, who supply the labour.

These terms are all sufficiently familiar; but a few observations are further necessary, in order, on this important subject, to preclude, as far as possible, confusion of ideas.

The great capitalist, the owner of a manufactory, if he operated with slaves instead of free labourers, like the West India planter, would be regarded as owner both of the capital, and of the labour. He would be owner, in short, of both instruments of production: and the whole of the produce, without participation, would be his own.

What is the difference, in the case of the man, who operates by means of labourers receiving wages? The labourer, who receives wages sells his labour for a day, a week, a month, or a year, as the case may be. The manufacturer, who pays these wages, buys the labour, for the day, the year, or whatever period it may be. He is equally therefore the owner of the labour, with the manufacturer who operates with slaves. The only difference is, in the mode of purchasing. The owner of the slave purchases, at once, the whole of the labour, which the man can ever perform: he, who pays wages, purchases only so much of a man's labour as he can perform in a day, or any other stipulated time. Being equally, however, the owner of the labour, so purchased, as the owner of the slave is of that of the slave, the produce, which is the result of this labour, combined with his capital, is all equally his own. In the state of society, in which we at present exist, it is in these circumstances that almost all production is effected: the capitalist is the owner of both

instruments of production: and the whole of the produce is his.³

There is a distinction of capital into two sorts, arising from a difference in the mode of applying it. To this distinction as some consequences of importance are attached, it is necessary that a correct idea should be attained of it.

Of the articles, whereof capital consists, some are of a durable nature, and contribute to production without being destroyed. Of this nature is a great proportion of the tools and machines, which are employed both in agriculture and manufactures. Such are the buildings subservient to the various kinds of production; and such are all the other accommodations, not necessary to be enumerated, which do not perish in the using. That portion of capital, which comes under this description, has been denominated 'Fixed Capital.'

There is another portion of the articles, subservient to production, which do perish in the using. Such are all the tools worn out in one set of operations, all the articles, which contribute to production only by their consumption, as coals, oil, the dye stuffs of the dyer, the seed of the farmer, and so on. Of this nature, also, are the raw materials worked up in the finished manufacture. The wool of the clothier is consumed in the making of his cloth, the cotton of the cotton-manufacturer in making his muslins. Under the same head must be included the expence of repairing and keeping in order the more durable articles of fixed capital. The distinctive character of all this portion of capital is, that it is necessarily consumed, in contributing to production, and that it must be reproduced, in order to enable the producer to continue his operations. This has been denominated 'circulating' capital; but by a very inappropriate appellation. There is nothing in its consumption and reproduction which bears much resemblance to circulation. It would be much better to call it 'reproduced' capital, although the word 'reproduced,' being a past and not a future participle, is not unexceptionable; it is capital which constantly needs to be reproduced, because, in contributing to production, it is constantly consumed.

There is another thing, which is also constantly consumed, and constantly needs to be reproduced and that is, the subsistence, or consumption, or wages of the labourer; and that, equally, whether the labourer supplies it to himself, or receives it from the capitalist, in the

³ [It is difficult to avoid the conclusion that Mill, by stressing the 'real' aspects of the relationship between labour and capital, encouraged the development of Ricardian socialism, more perhaps than did Ricardo himself.]

shape of wages; that is, pay, in advance, for his labour. In this latter shape, being advanced by the capitalist out of those funds, which would otherwise have constituted capital in the distinctive sense of the word, and being considered as yielding the same advantage, it is uniformly spoken of under the name of capital, and a confusion of ideas is sometimes the consequence.

When all these items are included, it is obvious, that a very great proportion of the consumption and production, of every country, takes place for the sake of reproduction. This is a highly important fact, of which the consequences will hereafter occur for more particular consideration.

It follows, necessarily, if the instruments of labour, the materials on which it is employed, and the subsistence of the labourer, are all included under the name of capital, that the productive industry of every country is in proportion to its capital; increases when its capital increases; and declines when it declines. If the instruments of labour, the materials to work upon, and the pay of workmen, are all increased, the quantity of work will be increased, provided more workmen can be obtained. If more workmen cannot be obtained, two things will happen; First, wages will be raised; which, giving an impulse to population, will increase the number of labourers: Secondly, the scarcity of hands will whet the ingenuity of capitalists to supply the deficiency, by new inventions in machinery, and by distributing and dividing labour to greater advantage.⁴

CHAPTER II

DISTRIBUTION

WE have seen that two classes of persons are concerned in production; Labourers, and Capitalists. Each of these classes must have its share of the commodities produced: or, which comes to the same thing, of the benefit derived from them. When the Land is one of the instruments of production, another party comes in for a portion; I mean, the Owners of the Land. And these

⁴ [No further use is made of this idea. See note to p. 230 below.]

three classes; the labourers, the capitalists, and the landlords; immediately share, that is, divide among them, the whole annual produce of the country.

When the parties are determined, among whom the whole of the produce is distributed, it remains to be ascertained, by what laws the proportions are established, according to which the division is made. We shall begin with the explanation of Rent, or the share received by Landlords; as it is the most simple, and will facilitate the explanation of the laws, upon which the shares, of the Labourers, and of the Capitalists, depend.

SECTION I

RENT⁵

Land is of different degrees of fertility. There is a species of land, the elevated or stony parts, for example of high mountains, loose sand, and certain marshes, which may be said to produce nothing. Between this and the most productive sort, there are lands of all the intermediate degrees of fertility.

Again; lands, of the highest fertility, do not yield the whole of what they are capable of yielding, with the same facility. A piece of land, for example, may be capable of yielding annually ten quarters of corn, or twice ten, or three times ten. It yields, however, the first ten, with a certain quantity of labour, the second ten, not without a greater, the third ten, not without a greater still, and so on; every additional ten requiring to its production a greater cost than the law, according to which, by a greater expenditure of capital, a greater produce is obtained, from the same portion of land.

Till the whole of the best land is brought under cultivation, and till it has received the application of a certain quantity of capital, all the capital employed upon the land is employed with an equal return. At a certain point, however, no additional capital can be employed upon

⁵ [W. S. Jevons, not normally an admirer of Ricardian economics, praised the clarity of Mill's exposition of the Ricardian rent doctrine in his *Theory of Political Economy*. The leading contemporary opponent of Ricardo's theory of rent as a differential payment, T. P. Thompson, took Mill's account as his starting point. See his *Exposition of Fallacies on Rent, Tithes etc., containing an examination of Mr Ricardo's Theory of Rent, in the form of a review of Mr Mill's Elements*, London, 1826.]

the same land, without a diminution of return. In any country, therefore, after a certain quantity of corn has been raised, no greater quantity can be raised, but at a greater cost. If such additional quantity is raised, the capital, employed upon the land, may be distinguished into two portions; one, producing a higher; another, a lower return.

When capital producing a lower return is applied to the land, it is applied in one of two ways. It is either applied to new land of the second degree of fertility, then for the first time brought under cultivation; or it is applied to land of the first degree of fertility, which has already received all the capital which can be applied without a diminution of return.

Whether capital shall be applied to land of the second degree of fertility, or in a second dose to the land of the first degree of fertility, will depend, in each instance, upon the nature and qualities of the two soils. If the same capital which will produce only eight quarters, when applied in a second dose to the best land, will produce nine quarters, when applied to land of the second degree of fertility, it will be applied to that land, and *vice versâ*.

The land of the different degrees of fertility; first, or highest sort; second, or next highest, and so on, may, for facility of reference, be denominated, No. 1, No. 2, No. 3, &c. In like manner, the different doses of capital, which may be applied to the same land, one after another, with less and less effect, may be denominated 1st dose, 2d dose, and so on.

So long as land produces nothing, it is not worth appropriating. So long as a part only of the best land is required for cultivation, all that is uncultivated yields nothing; that is, nothing which has any value. It naturally, therefore, remains unappropriated; and any man may have it, who undertakes to render it productive.

During this time, land, speaking correctly, yields no rent. There is a difference, no doubt, between the land which has been cultivated, and the land which is yet uncleared for cultivation. Rather than clear the fresh land, a man will pay an equivalent, annual, or otherwise, for the cost of clearing: and it is evident that he will pay no more. This, therefore, is not payment for the power of the soil, but simply for the capital bestowed upon the soil. It is not rent; it is interest.

The time, however, arrives, as population, and the demand for food increase, when it is necessary either to have recourse to land of the

second quality, or to apply a second dose of capital, less productively upon land of the first quality.

If a man cultivates land of the second quality, upon which a certain quantity of capital will produce only eight quarters of corn, while the same quantity of capital upon land of the first quality will produce ten quarters; it will make no difference to him, whether he pay two quarters for leave to cultivate the first sort, or cultivate the second without any payment. He will therefore be content to pay two quarters for leave to cultivate the first sort; and that payment constitutes rent.

Let us suppose, again, that instead of cultivating land of the second quality, it is more advisable to apply a second dose of capital to land of the first quality; and that, while the first dose produces ten quarters, the second, of equal amount, will produce only eight quarters; it is equally implied in this, as in the former case, that it is impossible to employ any more capital with so great an effect as the ten supposed quarters, and that there are persons who are willing to apply it with so little return as eight. But if there are persons who are willing to apply their capital on the land with so little a return as eight quarters, the owners of the land may make a bargain, by which they will obtain all that is produced above eight. The effect upon rent is thus the same in both cases.

It follows that rent increases in proportion as the productive power of the capital, successively bestowed upon the land, decreases. If population has arrived at another stage, when, all the land of second quality being cultivated, it is necessary to have recourse to land of third quality, yielding, instead of eight quarters, only six, it is evident, from the same process of reasoning, that the land of second quality will now yield rent, namely, two quarters; and that land of first quality will yield an augmented rent, namely, two quarters more. The case will be exactly the same, if, instead of having recourse to land of less fertility, a second and a third dose of capital, with the same diminution of produce, are bestowed upon land of the first quality.

We may thus obtain a general expression for rent. In applying capital, either to lands of various degrees of fertility, or, in successive doses, to the same land, some portions of the capital so employed are attended with a greater produce, some with a less. That which yields the least, yields all that is necessary for re-imbursing and rewarding the capitalist. The capitalist will receive no more than this remuneration

for any portion of the capital which he employs, because the competition of others will prevent him. All that is yielded above this remuneration, the landlord will be able to appropriate. Rent, therefore, is the difference between the return made to the more productive portions, and that which is made to the least productive portion, of capital, employed upon the land.

Taking, for illustration, the three cases, of ten quarters, eight quarters, and six quarters, we perceive, that rent is the difference between six quarters and eight quarters for the portion of capital which yields only eight quarters; the difference between six quarters and ten quarters for the portion of capital which yields ten quarters; and if three doses of capital, one yielding ten, another eight, and another six quarters, are applied to the same portion of land, its rent will be four quarters for dose No. 1, and two quarters for dose No. 2, making together six quarters for the whole.

If these conclusions are well supported, the doctrine of rent is simple, and the consequences, as we shall see hereafter, are exceedingly important. There is but one objection, which it seems possible to make to them. It may be said, that, after land is appropriated, there is no portion of it which does not pay rent, no owner being disposed to give the use of it for nothing. This objection has, indeed, been raised; and it has been urged, that some rent is paid even for the most barren of the Scottish mountains.⁶

If an objection is taken, it affects the conclusion, either to a material, or to an immaterial extent. Where the matter alleged in objection, even if admitted, would still leave the conclusion substantially, and to all practical purposes, true, the objection must be owing to one of two defects in the mind of the objector; either a confusion of ideas, which prevents him from seeing to how small a degree the matter which he alleges affects the doctrine which he denies; or a disposition to evade the admission of the doctrine, even though nothing solid can be found with which to oppose it.

That the matter alleged in this objection, even if allowed, would leave the conclusion, to all practical purposes, just where it was, can hardly fail to be acknowledged, as soon as the circumstances are disclosed. It cannot be so much as pretended that the rent paid for the

⁶ [This was one of the earliest objections made to Ricardo's theory and was based on a remark made by Adam Smith in the *Wealth of Nations* (ed. Cannan), Modern Library edn. pp. 146-7.]

barren mountains of Scotland is anything but a trifle; an evanescent quantity, when we speak of any moderate extent. If it were *5*l. for a thousand acres, that is, about one penny per acre, it would bear so small a proportion to the cost of cultivation, which could not be less than several pounds per acre, that it would little affect the truth of the conclusion we have endeavoured to establish.

Let us suppose, for the sake of the argument, that the worst species of land under cultivation pays one penny per acre: rent, in that case, would be the difference between the produce resulting from different portions of capital, as explained above, with the correction required on account of the penny per acre paid as rent for the worst species of land under cultivation. Assuredly, if right in every other respect, we shall not be far wrong in our conclusions, by leaving this penny out of the question. A very slight advantage, in simplifying our language on the subject, would justify the omission.

But it is not true, that our conclusions stand in need of any such correction, even for metaphysical exactness. There is land, such as the sands of Arabia, which yields nothing. Land is found at all the intermediate stages from this to the highest fertility. Some land, though not absolutely incapable of yielding any thing for the accommodation of man, could not be made to yield what would maintain the labourers required for its cultivation. This land can never be cultivated. There is land, the annual produce of which would just maintain the labour necessary for its cultivation, and no more. This land is just capable of being cultivated, but obviously incapable of paying rent. The objection, therefore, is not only practically immaterial, it is metaphysically unsound.

It may be safely affirmed, that there is no country, of any considerable extent, in which there is not land incapable of yielding rent: that is, incapable of yielding to human labour more than would be necessary for the maintenance of that labour. That such, at least, is the case in this country, seems very unlikely to be disputed. There are parts of its mountains where nothing less hardy than heath, others where nothing but moss, can vegetate. When it is asserted that every part of the mountains of Scotland pays rent, the state of the facts is misunderstood. It is only true that there is no tenant of any portion of any man's estate in the highlands of Scotland, who does not pay rent. The reason is, because even in the mountains of Scotland there are spots in the valleys, the produce of which is considerable. It does not follow,

though hundreds of acres of mountain are added to these valleys, that therefore every part of the mountain yields rent; it is certain that many parts neither do nor can.

Even where the land is not absolutely barren, and where there is still something for the more hardy of the useful animals to pick up, it is not to be allowed that rent is the necessary consequence. It ought to be remembered, that these cattle are capital, and that the land must afford enough not only to make the return for that capital, but to pay for the tendance of the cattle, of which, in such situations, especially in winter, not a little is required. Unless the land yields all this, and something more, it cannot yield any rent.

In the greater part of this island, there is hardly a farm, of any considerable extent, which does not contain land, some of more, some of less fertility, varying from a high or moderate degree of fertility, down to land which yields not enough to afford any rent. Of course I do not request admission to this affirmation upon my authority; I rest it upon an appeal to the experience of those men who are best acquainted with the circumstances. If the state of the facts corresponds with the affirmation, it follows demonstratively, that the last portion of the land which is placed under cultivation yields no rent. In such farms as those we have now described, the tenant has bargained for a certain sum to the landlord. That, of course, was calculated, upon the produce of the land which yielded not only the proper return for the capital with which it was cultivated, but something more. As the motive of the tenant to cultivate is wholly constituted by the proper return to his capital, if there is any portion of the barren land, included in his farm, which will just yield the profit of stock, and no more; though it will not afford any thing for rent, it affords to him the adequate motive for cultivation. It can hardly be denied that, in the insensible degrees by which land declines from greater to less fertility, there will, in all considerable farms, be generally found a portion with this particular degree and no more.

The conclusion, however, may be established, by the clearest evidence, without regard to the question, whether all land pays or does not pay rent. On land which pays the highest rent, we have seen that capital, applied in successive doses, is not attended with equal results. The first dose yields more, possibly much more, than the return for the capital. The second also may yield more, and so on. The rent, if accurately calculated, will be equal to all that is rendered by those

several doses, over and above the profits of stock. The cultivator, of course, applies all those several doses of capital on which he has agreed to pay rent. But immediately after them comes another dose, which though it yields nothing for rent, may fully yield the ordinary profits of stock. It is for the profits of stock, and them alone, that the farmer cultivates. As long, therefore, as capital applied to his farm will yield the ordinary profits of stock, he will apply capital, if he has it. I therefore conclude, with assurance, that in the natural state of things, in every agricultural country, one portion of the capital employed upon the land pays no rent; that rent, therefore, consists wholly, of that produce which is yielded by the more productive portions of capital, over and above a quantity equal to that which constitutes the return to the least productive portion, and which must be received, to afford his requisite profits, by the farmer.

SECTION II

WAGES

Production is performed by labour. Labour, however, receives the raw material which it fashions, and the machinery by which it is aided, from capital, or more properly speaking, these articles are the capital.

The labourer is sometimes the owner of all the capital which his labour requires. The shoemaker or tailor has, sometimes, not only the tools with which he works, but also the leather or cloth upon which his labour is employed. In all cases of that description, the commodity is wholly the property of the man by whose labour it is prepared.

In the greater number of cases, however, especially in the more improved stages of society, the labourer is one person, the owner of the capital another. The labourer has neither raw material nor tools. These requisites are provided for him by the capitalist. For making this provision, the capitalist, of course, expects a reward. As the commodity, which was produced by the shoemaker, when the capital was his own, belonged wholly to himself, and constituted the whole of his reward, both as labourer and capitalist, so, in this case, the commodity belongs to the labourer and capitalist together. When prepared, the commodity, or the value of it, is to be shared between them. The reward to both must be derived from the commodity, and the reward of both makes up the whole of the commodity.

Instead, however, of waiting till the commodity is produced, and abiding all the delay and uncertainties of the market in which the value of it is realized, it has been found to suit much better the convenience of the labourers to receive their share in advance. The shape under which it has been found most convenient for all parties that they should receive it, is that of wages. When that share of the commodity, which belongs to the labourer, has been all received in the shape of wages, the commodity itself belongs to the capitalist, he having, in reality, bought the share of the labourer and paid for it in advance.

1. *That the rate of wages depends on the proportion between Population, and Employment, in other words, Capital*

We come now to the question as to what determines the share of the labourer, or the proportion in which the commodity, or its worth, is divided between him and the capitalist. Whatever the share of the labourer, such is the rate of wages; and, *vice versâ*, whatever the rate of wages, such is the share of the commodity, or commodity's worth, which the labourer receives.

It is very evident, that the share of the two parties is the subject of a bargain between them; and if there is a bargain, it is not difficult to see on what the terms of the bargain must depend. All bargains, when made in freedom, are determined by competition, and the terms alter according to the state of supply and demand.

Let us begin by supposing that there is a certain number of capitalists, with a certain quantity of food, raw material, and instruments, or machinery; that there is also a certain number of labourers; and that the proportion, in which the commodities produced are divided between them, has fixed itself at some particular point.

Let us next suppose, that the labourers have increased in number one half, without any increase in the quantity of capital. There is the same quantity of the requisites for the employment of labour; that is, of food, tools, and material, as there was before; but for every 100 labourers there are now 150. There will be 50 men, therefore, in danger of being left out of employment. To prevent their being left out of employment they have but one resource; they must endeavour to supplant those who have forestalled the employment; that is, they must offer to work for a smaller reward. Wages, therefore, decline.

If we suppose, on the other hand, that the quantity of capital has increased, while the number of labourers remains the same, the effect

will be reversed. The capitalists have a greater quantity than before of the means of employment; of capital, in short; from which they wish to derive advantage. To derive this advantage they must have more labourers. To obtain them, they also have but one resource, to offer higher wages. But the masters by whom the labourers are now employed are in the same predicament, and will of course offer higher to induce them to remain. This competition is unavoidable, and the necessary effect of it is a rise of wages.

It thus appears, that, if population increases, without an increase of capital, wages fall; and that, if capital increases, without an increase of population, wages rise. It is evident, also, that if both increase, but one faster than the other, the effect will be the same as if the one had not increased at all, and the other had made an increase equal to the difference. Suppose, for example, that population has increased one-eighth, and capital one-eighth; this is the same thing as if they had stood still, with regard to the effect upon labour. But suppose that, in addition to the above-mentioned one-eighth, population had increased another eighth, the effect, in that case, upon wages, would be the same as if capital had not increased at all, and population had increased one-eighth.

Universally, then, we may affirm, that, other things remaining the same,⁷ if the ratio which capital and population bear to one another remains the same, wages will remain the same; if the ratio which capital bears to population increases, wages will rise; if the ratio which population bears to capital increases, wages will fall.⁸

From this law, clearly understood, it is easy to trace the circumstances which, in any country, determine the condition of the great body of the people. If that condition is easy and comfortable, all that is necessary to keep it so, is, to make capital increase as fast as population; or, on the other hand, to prevent population from increasing

⁷ [As Cannan has pointed out, Mill leaves unexplained what these 'other things' are; see his *Theories of Production and Distribution*, Staples Press, 1953 reprint, p. 204.]

⁸ [Ricardo's comment here was: 'You say in this chapter that the demand for labour and the power of employing it will be in proportion to the increase of capital - I believe I have said the same, and it may be perhaps right to say so in an elementary book, altho' it is not strictly correct. The power of employing labour depends on the increase of the whole capital. (See my Chapter on Machinery).' *Works*, vol. IX, p. 127. Earlier (p. 221) Mill had recognised the possibility that an increase in fixed capital in the form of machinery might be substituted for labour; but here he ignores fixed capital and later (p. 251) attempts to assimilate it with circulating capital.]

faster than capital. If that condition is not easy and comfortable, it can only be made so, by one of two methods; either by quickening the rate at which capital increases, or retarding the rate at which population increases; augmenting, in short, the ratio which the means of employing the people bear to the number of people.

If it were the natural tendency of capital to increase faster than population, there would be no difficulty in preserving a prosperous condition of the people. If, on the other hand, it were the natural tendency of population to increase faster than capital, the difficulty would be very great. There would be a perpetual tendency in wages to fall. The progressive fall of wages would produce a greater and a greater degree of poverty among the people, attended with its inevitable consequences, misery and vice. As poverty, and its consequent misery increased, mortality would also increase. Of a numerous family born, a certain number only, from want of the means of well-being, would be reared. By whatever proportion the population tended to increase faster than capital, such a proportion of those who were born would die: the ratio of increase in capital and population would then remain the same, and the fall of wages would proceed no farther.

That population has a tendency to increase faster, than, in most places, capital has actually increased, is proved, incontestably, by the condition of the population in most parts of the globe. In almost all countries, the condition of the great body of the people is poor and miserable. This would have been impossible, if capital had increased faster than population. In that case wages must have risen; and high wages would have placed the labourer above the miseries of want.

This general misery of mankind is a fact, which can be accounted for, upon one only of two suppositions: either that there is a natural tendency in population to increase faster than capital, or that capital has, by some means, been prevented from increasing so fast as it has a tendency to increase. This, therefore, is an inquiry of the highest importance.

2. *Proof of the tendency of Population to increase rapidly*

The natural tendency of population to increase is to be collected from two sets of circumstances; the physiological constitution of the female of the human species; and the statements respecting the rate of increase⁹ in different countries.

The facts respecting the physiological constitution of the human

female are well ascertained, and are indubitable grounds of conclusion. The statements respecting the rate of increase⁹ in different countries will be found to be, either suppositions with respect to matters of fact, upon the conformity of which suppositions to any real matters of fact we can have no assurance; or statements of facts, of such a nature, as prove nothing with regard to the points in dispute.

That the possible rate of increase in the numbers of mankind depends upon the constitution of the female, will not be disputed. The facts, which are fully ascertained in regard to the female of the human species, and the inferences which the sciences of physiology and comparative anatomy enable us to derive from the analogy of other animals, whose anatomy and physiology resemble those of the human species, afford the means of very satisfactory conclusions on this subject.

The females of those species of animals, whose period and mode of gestation are similar to those of the female of our own species, and which bring forth one at a birth, are capable, when placed in the most favourable circumstances, of a birth every year, from the time when the power of producing begins, till the time when it ends, omitting one year now and then, which, at the most, amounts to a very small proportion on the whole.

The suckling of the infant, in the case of the female of the human species, if continued more than three months, has a tendency to postpone the epoch of conception beyond the period of a year. This, it is to be observed, is the only physiological peculiarity which authorizes an inference of any difference in the frequency of the births in the case of the female of the human species, and in that of those other species to which we have referred.

To reason correctly, we should make an allowance for that peculiarity. Let such ample allowance be made as will include all interruptions; let us say that one birth in two years is natural to the female of the human species. In Europe, to which we may at present confine our observations, the period of childbearing in women extends, from sixteen or seventeen, to forty-five, years of age. Let us make still more allowance, and say it extends only from twenty to forty years of age.

⁹ [In the first edition the word 'procreation' was used. Ricardo commented: 'Hume and I . . . both regretted that you had used the word procreation so often in a book you call a school book; it will we fear excite prejudice in the minds of many against it, and the doctrines might have been nearly as well explained without the use of it.' *Works*, vol. IX, p. 118.]

In that period, at the allowance of two years to one birth, there is time for ten births, which may be regarded as not more than the number natural to the female of the human species.

Under favourable circumstances, the mortality among children is very small. Mortality among the children of very poor people is unavoidable, from want of the necessary means of health. Among the children of people in easy circumstances, who know and practise the rules for the preservation of health, the mortality is small; and there can be no doubt, that, under more skilful modes of managing the food, and clothing, the air, the exercise, and education of children, even this mortality would be greatly diminished.

We may conclude, therefore, that, in the most favourable circumstances, ten births are the measure of fecundity in the female of the human species; and that of the children born a small proportion would die before the age of maturity. For occasional instances of barrenness, and for this small degree of mortality, let us make much more than the necessary allowance, a deduction of one-half; and say, That every human pair, united at an early age, commanding a full supply of things necessary for physical welfare, exempt from the necessity of oppressive labour, and sufficiently skilled to make the best use of their circumstances for preventing disease and mortality among themselves and their children, would, one with another, rear five children. If this is the case, it is needless to exhibit an accurate calculation, to show that population would double itself in some moderate portion of years. It is evident, at once, that it would double itself in a small number of years.¹⁰

To meet a conclusion so well established as this, recourse has been had to certain tables, respecting population, and respecting births and deaths, in various countries. The reasoning from these tables evades the point in dispute. I know no tables which exhibit any thing, even if we give them, what they never deserve, credit for exactness, except the mere fact with regard to the state of increase. They show, or pre-

¹⁰ [Ricardo commented: 'The fecundity of woman would not be admitted as a conclusive argument, by the objectors to the theory, that the population of a rich, luxurious and populous country could under favorable circumstances, increase in the same proportion as a new and poor country, because they contend, that in consequence of the prevalence of luxury, so many women are withdrawn from the office of childbearing, that there are not a sufficient number left to augment the population in the same proportion as at an earlier period. They contend that the demand for nurses, and female servants of all descriptions, lessen the number of childbearing women.' *Works*, vol. IX, p. 126.]

tend to show, whether a certain population is increasing or not increasing; and, if increasing, at what rate. But, if it appeared, from such tables, that the population of every country in the world were stationary, no man, capable of reasoning, would infer, that the human race is incapable of increasing. Every body knows the fact, that in the greater number of countries, the population is stationary, or nearly so. But what does this prove, so long as we are not informed, by what causes it is prevented from increasing? We know well, that there are two causes, by which it may be prevented from increasing, how great soever its natural tendency to increase. The one is poverty; under which, let the number born be what it may, all but a certain number undergo a premature destruction. The other is prudence; by which either marriages are sparingly contracted, or care is taken that children, beyond a certain number, shall not be the fruit. It is useless to inform us, that there is little or no increase of population in certain countries, if we receive not, at the same time, accurate information of the degree in which poverty, or prudence, or other causes, operate to prevent it.

That population, therefore, has such a tendency to increase as would enable it to double itself in a small number of years, is a proposition resting on the strongest evidence, which nothing worth the name of evidence has been brought to controvert.

3. *Proof that capital has a less tendency than Population to increase rapidly*

We come next to consider the tendency which capital may have to increase. If that should increase as fast as population, along with every labourer produced, the means of employment and subsistence would also be produced; and no degradation of the great body of the people would be the consequence.

Though it is found, where property is secure, that there is a considerable disposition in mankind to save; sufficient, where vast consumption is not made by the government, and where the difficulties of production are not very great, to make capital progressive; this disposition is still so weak, in almost all the situations in which human beings have ever been placed, as to make the increase of capital slow.

The annual produce is always distributed in such a manner, that, either the great body of the people are liberally provided with what is necessary for subsistence and enjoyment, when of course a smaller portion goes to swell the incomes of the rich; or, the great body of the people are reduced to mere necessaries, when there is naturally a class

of people whose incomes are large. To one or other of these two cases the state of every community approximates.

1. In the case, in which there is a class reduced to necessaries, and a class of rich, it is evident that the first have not the means of saving. A class of rich men, in the middle of a class of poor, are not apt to save. The possession of a large fortune generally whets the appetite for immediate enjoyment. And the man who is already in possession of a fortune, yielding him all the enjoyments which fortune can command, has little inducement to save. In such a state of the social order, any rapid increase of capital is opposed by causes which are in general irresistible.

2. We are next to consider the state of the social order, in which a large share of the annual produce is distributed among the great body of the people. In that situation, neither the class which labours, nor that which is maintained without labouring, has any forcible motives to save.

When a man possesses, what we are now supposing possessed by the great body of the people, food, clothing, lodging, and all other things sufficient not only for comfortable, but pleasurable existence, he possesses the means of all the substantial enjoyments of human life. The rest is in a great measure fancy. There are two sets of men; one, in whom the reasoning power is strong, and who are able to resist a present pleasure for a greater one hereafter; another, in whom it is weak, and who can seldom resist the charm of immediate enjoyment. Of course, it is not in the latter class that the motive to save can be expected to prevail. The class, on the other hand, in whom reason is sufficiently strong to form a due estimate of pleasures, cannot fail to perceive that those which they can obtain by adding penny to penny, after all the rational desires are satisfied, are not equal to the pleasures which, in the circumstances we have supposed, they must relinquish to obtain them. Both the higher and the lower principles of our nature are in such circumstances opposed to accumulation. So far, as to the strength of the motive which, in the supposed circumstances, can operate upon the labouring class.

What remains of the annual produce, after the share of the labouring class is deducted, is either distributed in large portions among a small number of very rich men, or among a large number of men of moderate fortunes.

We have already examined the state of the motives to accumulate when fortunes are large; and have found that it never can be such as to

produce very considerable effects. We have now to examine the state of the motives to accumulate, in a society, in which there is a great number of moderate fortunes, without the prevalence of large. In the way of physical enjoyment, these fortunes yield every thing which the largest fortunes can bestow. There are only two motives, therefore, which, in this situation, can counteract the strong tendency to immediate enjoyment: either the desire of a command over the sentiments of mankind; or the wish to make a provision for children.

The strength of the motive to command by riches the favourable sentiments of mankind will depend upon the effect they are calculated to produce. That is different, in different states of society. In the state of society, supposed in the present case, men are distributed into two classes: men of easy but moderate fortunes; and a well paid body of labourers and artisans.

The first class; men with fortunes equal to all the purposes not only of independence, and of physical enjoyment, but of taste and elegance, and who at the same time constitute the governing portion of society, giving the tone to its sentiments and amusements; are not in the situation of men whose imaginations are apt to be dazzled by the glare of superior riches. The persons belonging to the second, or labouring class, are cringing and servile, where the frown of the rich is terrible, and his little favours important: but when they are placed in circumstances which impart the feeling of independence, and give them opportunity for the cultivation of their minds, they are little affected by the signs of wealth. This, therefore, is a state of society in which the possession of great riches gives little command over the sentiments of others, and cannot constitute a powerful motive for saving.

With respect to the provision for children, if a man feels no great desire to make a larger than the ordinary moderate fortune for himself, he feels as little desire at the least to make it for his children. The provisions, which he desires to make for them, can only, therefore, be such as to place them in the same situation which is held by himself. He will be anxious to afford to them the same means for beginning life advantageously, as were afforded, or would have been desirable, to himself. To this extent the desire of making a provision for children might be expected to be very general, and it would ensure a certain moderate increase of capital. This may therefore be considered, as, perhaps, the most favourable state of society for accumulation; with the exception of those cases in which colonists, with all the knowledge

and power of civilized life, are transported into a country uninhabited, or nearly so, and have the power of cultivating without limit the most productive species of land. These are coincidences so extraordinary, and so rare, that, in tracing the general laws of human society, it is only necessary to show that they are not forgotten.

These considerations seem to prove that more than moderate effects can rarely flow from the motives to accumulation.¹¹ But the proof, that population has a tendency to increase faster than capital, does not depend upon this foundation, strong as it is. The tendency of population to increase, whatever it may be, is at any rate an equable tendency. At what rate soever it has increased at any one time, it may be expected to increase at an equal rate, if placed in equally favourable circumstances at any other time. The case with capital is the reverse.

Whether, after land of superior quality has been exhausted, capital is applied to new land of inferior quality, or in successive doses with diminished returns upon the same land, the produce of it is continually diminishing in proportion to its increase. If the return of capital is, however, continually decreasing, the annual fund, from which savings are made, is continually diminishing. The difficulty of making savings is thus continually augmented, and at last they must totally cease.

It thus sufficiently appears, that there is a tendency in population to increase faster than capital. If this be established, it is of no consequence to the present purpose to inquire about the rapidity of the increase. How slow soever the increase of population, provided that of capital is still slower, wages will be reduced so low that a portion of the population will regularly die of want. Neither can this dreadful consequence be averted otherwise than by the use of means to prevent the increase of capital from falling short of that of the population.

4. *That forcible means employed to make capital increase faster than its natural tendency would not produce desirable effects*

There are two modes in which artificial means may be employed to make population and capital keep pace together: expedients may be

¹¹ [On the preceding argument Ricardo commented: 'Do you not underrate the power and the willingness to save? You do not speak of the two ways by which capital may be increased by saving; of one, the common and usual way, devoting more of the annual production to productive employments, you do speak, but you say nothing of the great increase which sometimes takes place in capital by the discovery of cheaper modes of producing.' *Works*, vol. IX, p. 127.]

sought, either to restrain the tendency of population to increase; or to accelerate beyond its natural pace the increase of capital.

The principal means, by which legislatures have it in their power to alter the course of human actions, is by rewards and punishments. Neither is very applicable to the purpose of counteracting the tendency in the human species to multiply. Suppose a law were proposed for annexing penalties to the father and mother of a child, the circumstances of whom were inadequate to its maintenance; it would not be easy to find a mode of punishing, which would be equal to the effect, without producing almost as much uneasiness in society as that which it would propose to remedy: neither would it be very possible to ascertain and define the state of circumstances which is, and that which is not, adequate to the maintenance of one, or two or any other number of children. To apply rewards to the case of not having any children, in such a manner as to operate usefully upon the principle of population, would be still more difficult.

Legislation, in cases ill adapted to its direct, can sometimes produce considerable effects by its indirect operation; as when a desire, which gratifies itself in a hurtful course of action, and cannot easily be counteracted by reward and punishment, is drawn to gratify itself in a less hurtful or an innocent direction. If legislatures have taken measures, as they very often have done, sometimes by direct, more frequently by indirect means, to stimulate the principle of population, such mischievous legislation may be corrected.

The powerful agency of the popular sanction might in this, as in other cases, be turned to great account. If an intense degree of disapprobation were directed upon the men, who, by their folly, involved themselves, through a great family, in poverty and dependence; or approbation upon those who, by their self command, preserved themselves from this misery and degradation, much of this folly would unquestionably be prevented.¹²

The result to be aimed at is, to secure to the great body of the people all the happiness which is capable of being derived from the matrimonial union, without the evils which a too rapid increase of their numbers involves. The progress of legislation, the improvement of the education of the people, and the decay of superstition, will, in time, it

¹² [This is one of the few places where Bentham's influence on Mill's economic ideas can be detected. See *Jeremy Bentham's Economic Writings* (ed. W. Stark), London, 3 vols., 1952-4, vol. I, pp. 272-3 vol. II, pp. 361-3.]

may be hoped, accomplish the difficult task of reconciling these important objects.¹³

Such are the modes in which legislation can weaken the tendency in population to increase. It remains to inquire by what means it can strengthen the tendency in capital to increase. These are, also, direct and indirect. As the legislature, if skilful, has great power over the tastes of the community, it may contribute to render frugality fashionable, and expense disgraceful. The legislature may also produce that distribution of property which experience shows to be the most favourable to saving. Sumptuary laws have been adopted in several countries; but it is not easy to contrive sumptuary laws, the effect of which would be very considerable, without a minute and vexatious interference with the ordinary business of life.

There is certainly one course by which the legislature might produce considerable effects upon the accumulation of capital; because it might lay hold of any portion which it pleased of the net produce of the year, and convert it into capital. We have only, therefore, to inquire, in what manner this could be performed, and what effects it would produce.

The mode of taking whatever portion it might find expedient, is obvious and simple. An income tax, of the proper amount, would effectually answer the purpose.

The legislature might employ the capital, thus forcibly created, in one or other of two ways: it might lend it to be employed by others: or it might retain the employment in its own hands.

The simplest mode, perhaps, would be, to lend it to those manufacturers and capitalists who might apply for it, and could give security for the repayment. The interest of what was thus laid out in one year might be employed as capital the next. Every annual portion would

¹³ [The oblique reference here and in other places in Mill's writings to birth control drew an attack from T. P. Thompson: 'What then, is to be the situation of the women of the lower and middle classes, when in every street political economists go about seeking whom they may devour, under the assurance that they bring with them the "expedients" for evading the ordinary consequences of sexual irregularity? And what will be the purity of the wives and daughters of the higher classes, when in every room the footmen are neighing after the chambermaids under assurances of like impunity? There is difficulty enough in keeping the passions of mankind in a state of decent suppression, with all the existing checks on their irregular exhibition; and what is to be the case when one of the strongest checks, the fear of consequences, is removed?' *Exposition of Fallacies on Rent*, London, 1820, p. 63.]

thus make compound interest, and, so long as interest remained pretty high, would double itself in a small number of years. If wages appeared likely to fall, a higher income tax would be required. If wages rose higher than seemed to be necessary for the most desirable condition of the labourer, the income tax might be reduced.

Without waiting to inquire, whether a machinery, capable of producing these effects, be or be not practicable, we may proceed to another consideration, which seems calculated to decide the merits of the scheme.

According to the progress above supposed, the increase of population would be rapid. The progress would also be rapid, in the application of capital to land of a worse and worse quality, or in doses attended with a less and less return.

In proportion as capital is attended with less and less of annual return, the owners of capital have less and less income. If the income from capital be continually diminished, in process of time none but the owners of large masses of capital will derive from it the means of existence. This is the extreme state of things to which the operation of the scheme, supposing it not impracticable, certainly tends.

It remains to inquire how far these effects are to be considered as good.

Let us suppose that the command of the labourer over the articles of his consumption remains unaltered. Those who do not subsist by the wages of labour, live either upon the produce of stock, or upon the rent of land. In the case supposed, the tendency is, to impoverish those who live upon the produce of stock; but to increase the rent of land. With the exception of the owners of land, all the rest of the community would be either labourers, or capitalists almost equally poor. As often as land were offered to sale, a great amount of capital would of course be given for it; nobody, therefore, would be able to buy more than a very limited portion.

In this state of things, sales of land would either be frequent, or they would be rare. It is necessary to consider what would be the effects in either case.

The effects which would arise in the case in which the sales of land would be rare, are simple. The owners of land would be a comparatively small number of rich people, in the midst of a population, all equally, and hopelessly, poor. That there is scarcely any state of society less conducive to human happiness, we need not here spend any time to prove.

If sales went on, it being the nature of land, as of other property, to change hands continually, the whole land would be divided, at last, into very small portions; covered by a dense population, no portion of whom would be in circumstances much better than those of the labourer. Is this, in itself, a desirable state of things? Is it either followed or preceded by a desirable state of things?

When any of those accidents occur by which the annual produce is for one year, or a few years, reduced considerably below the usual standard, in a country in which a considerable proportion of the people have better incomes than those who live upon wages, considerable savings may be made from their expenditure, to mitigate the effects of the deficiency. In a country in which all were reduced to the state of wages, any considerable diminution of the usual supply would diffuse general, irremediable calamity.¹⁴

All the blessings, which flow from that grand and distinguishing attribute of our nature, its progressiveness, the power of advancing continually from one degree of knowledge, one degree of command over the means of happiness, to another, seems, in a great measure, to depend upon the existence of a class of men who have their time at their command; that is, who are rich enough to be freed from all solicitude with respect to the means of living in a certain state of enjoyment. It is by this class of men that knowledge is cultivated and enlarged; it is also by this class that it is diffused; it is this class of men whose children receive the best education, and are prepared for all the higher and more delicate functions of society, as legislators, judges, administrators, teachers, inventors in all the arts, and superintendents in all the more important works, by which the dominion of the human species is extended over the powers of nature.

It is also, in a peculiar manner, the business of those whose object

¹⁴ [Ricardo commented: 'Can there be any such country? In all old states rent will constitute a fund which will ensure the existence of a comparatively rich class. I do not quite agree with the opinion expressed in the first part of the paragraph "that considerable savings may be made from the expenditure of the rich to mitigate the effects of the deficiency". This result could not take place for 2 or 3 years, and it would equally take place in the case supposed if we had not reached the end of our resources. Whether the land be very much subdivided or not, there must exist a very large surplus produce in the shape of rent. Under these circumstances it is impossible that all should be poor. I do not speak of this ultimate state as a desirable one, I agree with you that the mass of the people would be exposed to great misery in it, but I think you have drawn it too strongly.' *Works*, vol. IX, p. 126.]

it is to ascertain the means of raising human happiness to its greatest height, to consider, what is that class of men by whom the greatest happiness is enjoyed. It will not probably be disputed, that they who are raised above solicitude for the means of subsistence and respectability, without being exposed to the vices and follies of great riches, the men of middling fortunes, in short, the men to whom society is generally indebted for its greatest improvements, are the men, who, having their time at their own disposal, freed from the necessity of manual labour, subject to no man's authority, and engaged in the most delightful occupations, obtain, as a class, the greatest sum of human enjoyment. For the happiness, therefore, as well as the ornament of our nature, it is peculiarly desirable that a class of this description should form as large a proportion of each community as possible. For this purpose it is absolutely necessary that population should not, by a forced accumulation of capital, be made to go on, till the return to capital from the land is very small. To enable a considerable portion of the community to enjoy the advantages of leisure, the return to capital must evidently be large. There is a certain density of population which is convenient, both for social intercourse, and for that combination of powers by which the produce of labour is increased. When these advantages, however, are attained, there seems little reason to wish that population should proceed any further. If it does proceed further, instead of increasing the net revenue derived from the land and labour of the country, or that portion of the annual produce which exceeds what is necessary for replacing the capital consumed, and maintaining the labourers, it lessens that important fund, on the largeness of which the happiness of society to a great degree depends.

If we may, thus, infer, that human happiness cannot be secured by taking forcible methods to make capital increase as fast as population; and if, on the other hand, it is certain, that where births take place, more numerous than are required to uphold a population corresponding to the state of capital, human happiness is impaired, it is immediately seen, that the grand practical problem is, To find the means of limiting the number of births. It has also appeared, that, beyond a certain state of density in the population, such as to afford in perfection the benefits of social intercourse, and of combined labour, it is not desirable that population should increase. The precise problem, therefore, is, to find the means of limiting births to that number which is necessary to keep

up the population, without increasing it. Were that accomplished, while the return to capital from the land was yet high, the reward of the labourer would be ample, and a large surplus would still remain. If the natural laws of distribution were allowed to operate freely¹⁵, the greater part of this net produce would find its way, in moderate portions, into the hands of a numerous class of persons, exempt from the necessity of labour, and placed in the most favourable circumstances both for the enjoyment of happiness, and for the highest intellectual and moral attainments.

We have yet to mention, that government, instead of lending, may itself employ the capital which it forcibly creates. It is evident, however, that whether government employs this capital, or lends it to be employed by others, all the effects, which we have traced as arising necessarily from its increase, will be the same. The best mode, perhaps, which could be invented for employing, by government itself, a portion of the annual produce, forcibly taken from the owners, to accelerate the growth of capital, would be that which has been so earnestly pressed upon the public attention by Mr Owen, of New Lanark. Mr Owen proposes, that the portion of the annual produce thus converted into capital should be employed by government in making certain establishments; each of a mixed nature, partly for agricultural, partly for manufacturing industry; in erecting the houses, in providing the instruments or machinery, the previous subsistence, and raw materials which might be required. In these establishments, Mr Owen is of opinion that labour might be employed under great advantages, and with unexampled means of felicity to the individuals employed. Mr Owen, however, must intend one of two things; – either that population should go on, or that it should stop. If it is to go on, capital of course holding pace with it, all the evils which would, as above, result from the forcible increase of capital, when lent by government, would result from its forcible increase, when employed in those establishments. If Mr Owen means that population should not go on, and if expedients can be employed to limit sufficiently the number of births, there is no occasion for these establishments, still less for the forcible and painful abduction of a part of their income from the people.¹⁶

¹⁵ [For an explanation of what Mill meant by this see above, pp. 200-1.]

¹⁶ [This antagonism to Owen's views did not extend to Owen the man. In a letter to Francis Place, Mill criticised the attacks made on Owen in *The Examiner*, saying, 'that a man may differ from him – and a man may say, he ascribes too much

The limitation of the number of births, by raising wages, will accomplish every thing which we desire, without trouble and without interference. The limitation of the numbers, if that object can be attained, may be carried so far as not only to raise the condition of the labourer to any state of comfort and enjoyment which may be desired, but to prevent entirely the accumulation of capital.

SECTION III

PROFITS

When it is established, that the whole of the annual produce is distributed as rent, wages of labour, and profits of stock; and when we have ascertained what regulates the portion which goes to rent, and what the portion which goes to wages, the question is also determined with regard to profits of stock; for it is evident that the portion which remains is profits.

From preceding expositions, it appears, that rent is something altogether extraneous to what may be considered as the return to the productive operations of capital and labour. As soon as it is necessary to apply capital to land of an inferior quality, or upon the same land to apply a further dose of capital with inferior return, all that is yielded, more than this inferior return, is as if it did not exist, with respect to the capitalist and labourer. Whatever is yielded beyond this lowest return, either on particular spots of ground, or to particular portions of capital, might be annihilated, the moment it is produced, without affecting the portion which goes to either of those two classes. As soon as a new portion of capital is employed with inferior return, the case would be the same, if the productive powers of all the capital employed upon the land were reduced to this inferior return, and a quantity of produce, equal to the additional return, which used to be made, to the former portions of capital, were, by miracle, rained down from heaven upon the possessors of the land which yielded it.

The portion, which goes, in the shape of rent, to the landlord, and which is an excess beyond the return made to the whole of the capital and labour employed upon the land, is, in fact, the result of an accident. Suppose that all the land cultivated in the country were of one uniform importance to his own opinions. But there is nothing about Owen to provoke hostility'. B.M. Add. MSS. 3512, f. 220.]

quality, and yielded the same return to every portion of the capital employed upon it, with the exception of one acre. That acre, we shall suppose, yields six times as much as any other acre. What would be produced upon all the other acres, might justly be regarded as the return made to the labour and capital employed upon the land; and the whole of that return. The additional five-sixths, accruing from the singular acre, would not be considered as return made to labour and capital; it would be considered as the accidental product of a particular virtue in that particular spot. But what is true of this single acre is equally true of any number of acres, as soon as that event occurs which diminishes the return to any portion of capital, and induces all the owners of capital to limit their profits to the measure of that diminished return.

If there is any portion of capital, employed upon the land, which pays no rent, it is evident that the wages and profits, in that case, must regulate the wages and profits in other cases.

It thus fully appears, that nothing can be considered as the produce of the joint operations of capital and labour upon the land, beyond the return to that portion of capital which is applied without paying any rent, which return measures the quantity of the produce allowed to remain, after the rent is deducted, as the return to all the other portions of labour and capital employed upon the land. The whole of that therefore, which can be considered as the real product of labour and capital, remains to be shared between the labourer and capitalist, after the rent is withdrawn. It follows that, in considering what regulates wages and profits, rent may be left altogether out of the question. Rent is the effect, and not the cause, of the diminished produce which the capitalists and labourers have to divide between them.

When anything is to be divided wholly between two parties, that which regulates the share of one, regulates also, it is very evident, the share of the other; for whatever is withheld from the one, the other receives; whatever, therefore, increases the share of the one diminishes that of the other, and *vice versâ*. We might, therefore, with equal propriety, it should seem, affirm that wages determine profits, or that profits determine wages; and, in framing our language, assume whichever we pleased, as the regulator or standard.

As we have seen, however, that the regulation of the shares between the capitalist and labourer depends upon the relative abundance of population and capital, and that population, as compared with capital,

has a tendency to superabound, the active principle of change is on the side of population, and constitutes a reason for considering population, and consequently wages, as the regulator.

As, therefore, the profits of stock depend upon the share, which is received by its owners, of the joint produce of labour and stock; profits of stock depend upon wages; rise as wages fall, and fall as wages rise.¹⁷

In speaking of the produce which is shared between the capitalist and labourer, it is proper to explain, that I always mean such net produce as remains after replacing the capital which has been consumed. As, in stating the constituents of price, we say that a commodity must fetch in the market a value equal to three things: 1st, to the capital which has been consumed in its production; 2dly, to the ordinary profits of stock upon the capital employed; and, 3dly, to the wages of the labour; so in speaking of the portions into which, as the produce to be shared, the commodity or commodity's worth is to be considered as dividing itself, we must set apart the portion, always a determinate amount, which is for the capital consumed, and which is distinct both from profits and from wages. Thus, if in the production of a commodity, which sells for 100*l.*, capital to the amount of 50*l.* has been consumed, 50*l.* is that which is to be divided between the capitalist and labourer, as profits to the one, and wages to the other.

The terms alteration of wages, alteration of profits, are susceptible of various meanings, to which it is necessary to advert.

1. If, by alteration, is meant, a change in the proportions, it is evident that an alteration of one share implies an alteration of the other; and the proposition that profits depend upon wages, admits of no qualification.

2. If a change in the quantity of commodities is meant, it will not be true, in that sense, that profits so depend upon wages, as to fall when wages rise, and rise when wages fall; for both may fall, and both may rise, together. And this is a proposition which no political economist has called in question. If the powers of production are either increased

¹⁷ [The fuller exposition of 'the different modes of expressing the relation of profits to wages', promised in the preface to the 3rd edition, began here and continued to the end of the section. These efforts were undertaken as a result of the difficulties which readers of Ricardo's involved proof of the relationship between wages and profits had experienced. Both Mill and McCulloch attempted to reduce the problem to one involving the truism that wages and profits considered as relative shares must vary inversely. On this see M. Blaug, *Ricardian Economics*, pp. 59-61; 222.]

or diminished, there will, in the one case, be more, in the other less, to divide. The proportions remaining the same, both wages and profits will, in the one case, be raised, in the other, depressed.

The terms may have another meaning still. When a change in wages and profits is spoken of, it may be the value of what is received under these denominations, which is meant to be indicated.

To perceive what may, and what may not, be truly predicted or spoken of the terms in this sense, it is necessary to advert to a double meaning of the word value.

1. It is used in the sense of value in exchange; as when we say, that the value of a hat is double that of a handkerchief, if one hat will exchange for two handkerchiefs.

2. Mr Ricardo, in his exposition of the principles of political economy, used the word value in a sense referable, not to purchasing power, but to cost of production. Thus, if two days' labour went to the production of one commodity, and two to the production of another commodity, Mr Ricardo would say, the two commodities were of equal value. In like manner, if two days' labour produced at one time a certain amount of commodities, and at another time, by an improvement in the productive powers of that labour, a greater amount of commodities, Mr Ricardo would say that the value of the smaller quantity, and the value of the greater quantity, were the same.

If we use the term value in the sense of exchangeable value, or purchasing power; that is, command over a greater or less quantity of commodities; the case is the same with that which we have already considered, wherein rise and fall of wages or profits were taken to mean, a greater or less amount of commodities. When we say that the labourer receives a greater quantity of commodities, and when we say that he receives a greater exchangeable value, we denote by the two expressions, one and the same thing. In this sense, therefore, nobody has ever maintained that profits necessarily rise when wages fall, and fall when wages rise: because it was always easy to see, that, by an alteration in productive power, both may rise or fall together, and also that one may rise or fall, and the other remain stationary.

We come next to consider what language may be correctly used, in the sense which Mr Ricardo annexed to the word value.

It will immediately be seen that, in this sense, the case corresponds exactly with the first of those which I have already considered, that of proportions. If what is produced, by an invariable quantity of labour,

continues to be divided in the same proportion, say one half to the capitalist, and one half to the labourers, that half may be a greater or a smaller quantity of commodities, but it will always be the produce of the same quantity of labour; and, in Mr Ricardo's sense, always, for that reason, of the same value. In this sense of the word value, therefore, it is strictly and undeniably true, that profits depend upon wages so as to rise when wages fall, and fall when wages rise.

In the common mode of expressing profits, the reference that is made is not to the produced commodity, but to the capital employed in producing it; including the wages, which it is necessary to advance, and from which the owner expects of course to derive the same advantage as from his other advances. Profits are expressed not in aliquot parts of the produce, but of this capital. It is not so much per cent of the produce that a capitalist is said to receive, but so much per cent upon his capital. Now, the capital may be either of more, or of less value than the produce, according to the proportion in which it is capital of the fixed, or the circulating kind. Suppose a capital of 20*l.* of which 50*l.* is consumed in the production of a commodity, which sells for 120*l.*; we have first to deduct 50*l.* for the capital consumed; there then remains 70*l.* to be divided between the capitalist and the labourers; and if we suppose that 50*l.* has been paid for wages, in other words, that such is the share of the labourers, the capitalist receives 10 per cent upon his capital; including here, in the term capital, what he has advanced as wages; but he received 28½ per cent of the produce, or of that which is divided after replacing the capital consumed. It is only, however, the language which here is different; the thing expressed is precisely the same; and whether the capitalist says he received 10 per cent upon his capital, or 28½ per cent of the produce, he means in both cases the same amount, viz, 20*l.*

There are, therefore, in reality, but two cases. The one, that in which we speak of proportions; the other, that in which we speak of quantity of commodities. In the one case, it is correct to say that profits depend literally and strictly upon wages. In the other case, although it is still correct to say that profits depend upon wages; for the greater the share that goes to the labourer, the less the share that remains for the capitalist; yet to make the language of quantity correspond in meaning with the language of proportions, the form of expression requires to be modified.

There is a great convenience in adapting our language to the rate

upon the capital, rather than the shares of the produce; because the rate upon the capital is the same in all the varieties of produce, but the share of the capitalist is different, according to all the different degrees in which capital contributes to the intended result.

This, however, it is evident, makes no difference in the truth of the doctrine. If in one case capital contributes twice as much, in another three times as much, as it does in a third case, whatever share the capitalist in the third case receives, the capitalist in the first case will receive twice as great a share, and the capitalist in the second case will receive three times as great; if the share of the capitalist in the third case is reduced one third by rise of wages, the share of each of the other two will also be reduced one third; and whatever, in percentage on his capital, the profits of the one are reduced, the same in that percentage will the profits of the others be reduced.

As this percentage however is generally spoken in the sense of exchangeable value, it may happen, as we have seen above, that the shares may be altered without an alteration of this percentage. If, at the same time that the shares of the capitalists are reduced, by a rise of wages, there should happen an increase of the productive powers of labour and capital, the reduced shares might consist of as great a quantity of commodities as the previous shares, and of course the exchangeable value, and percentage on the capital, expressed in the language of exchangeable value, would remain the same.

If it should be deemed a better mode of expounding the subject, not to regard, as a separate portion, what is required to replace the capital consumed, but to consider it as forming part of the share of the capitalist; the same propositions will still be true. The whole which is to be divided will, in this case, be different from the former whole, and the shares will not be the same proportion of that whole; but it will still be true that by how much the proportion of the labourers is increased, by so much that of the capitalist will be reduced; and that when the capitalist has set apart that portion of his share which is required to replace his capital, his profits, or the advantage upon the use of his capital, will be affected, precisely as they are said to be according to the former mode of exposition.

If we speak of what accrues to the two parties in the language of quantity, not of proportion, it is equally clear, in this mode of exposition as in the former, that the quantity of commodities is not necessarily altered when the shares are altered; that the shares may alter

when there is no alteration in the quantity of produce to be shared; and, on the other hand that the quantity of produce to be shared may alter, either up or down, while the shares are the same. It is, at the same time, true, that there can be no alteration in the quantity of produce which the one receives, but by an alteration in the quantity which the other receives; unless in that one case, in which the productive powers of the instruments of production have undergone alteration. The following, therefore, is a connected chain of true propositions.

1. That which accrues to the parties concerned in the production of a commodity or commodities, the labourers, and capitalist, as the return for their co-operation, is a share of the produce to each.

2. The share of the one cannot be increased, without a corresponding diminution of the share of the other.

3. These shares remaining the same, the quantity of produce included in them may be either greater or less, according as the productive operations have been followed with a greater or a smaller produce.

4. According as you apply the term value, to the effect, the quantity of produce; or to the cause, the quantity of labour employed; it will be true, or it will not be true, that the value of what is received by the capitalist the labourer and reciprocates along with their shares.

It is equally easy, in this mode of expression as in the former, to translate the language of shares into that of percentage. The amount of the produce, or its exchangeable value, may be greater, or may be less, than the amount of capital employed. If the capital is all circulating capital, and consumed in the process of production, and if, as in ordinary language, we suppose wages to be included, the produce is greater than the capital, by the amount of the profits. Let us suppose that the capital is 500*l.*, and profits 10 per cent; the value of the produce is 550*l.*; let us suppose that of this the capitalist pays 275*l.* in wages; in other words, that the labourers' share is 50 per cent; it follows, that the share of the capitalist is 50 per cent also; but 50 per cent of 550*l.* is a greater amount than 50 per cent of his capital, which is only 500*l.* This is equal to 55 per cent of his capital. And when he has deducted from his share, what is necessary to replace the portion of his capital, otherwise consumed than on the payment of wages, viz. 500*l.* - 275*l.*, = 225*l.* he has 50*l.* remaining, or 10 per cent upon his capital.

Let us next take the case in which the capital 500*l.*, as before, is all

fixed capital, none of it, excepting what is advanced as wages, consumed; that this is small, viz. 25*l.*; and that the value of the commodity is 75*l.*; of this, 25*l.*, or $\frac{1}{3}$, is the share of the labourer; 50*l.*, or $\frac{2}{3}$, is the share of the capitalist; but this, though 66 $\frac{2}{3}$ per cent upon the product, is but 10 per cent upon the capital.

There is a mode of viewing the gross return to the capitalist, which has a tendency to simplify our language, and, so far, has a great advantage to recommend it. The case of fixed and of circulating capital may be treated as the same, by merely considering the fixed capital as a product, which is regularly consumed and replaced, by every course of productive operations. The capital, not consumed, may be always taken, as an additional commodity, the result of the productive process.¹⁸

According to this supposition, the share of the capitalist is always equal to the whole of his capital, together with its profits.

We may consider capital in two senses; first, as including; next, as excluding, wages.

In the first case, let us suppose a capital, of 500*l.*, of which 100*l.* is paid in wages, to produce a commodity worth 550*l.* The share of the capitalist is 450*l.* or somewhat more than four-fifths, while that of the labourers is so much less than one-fifth; and the profit of stock, after replacing capital, is 10 per cent.

Let us suppose, in the second case, a capital of 400*l.*, but exclusive of wages. This capital is employed, and the necessary labourers maintain themselves without wages, and take, as their remuneration, their share of the commodity when produced. The commodity is worth 550*l.*; and of that 100*l.* falls to the share of the labourers. The rate of profits is the same as before, and the proportions are the same as before, only with this correction, that in the former case the labourers sustained a discount of 10 per cent. upon their share, on account of anticipated payment. The real shares in both cases are four-fifths to the capitalist, and one-fifth to the workmen.

It is sufficiently evident that, so long as the capital and the labour remain the same, and the shares remain the same, so long, in Mr Ricardo's sense of the word value, will the same value accrue to each, whether the quantity of produce they receive be greater or less.

That the capital, and the labour, should remain the same, is as necessary a condition, as that the shares should remain the same; for if

¹⁸ [See above, p. 230n.]

either is increased or diminished, the value of the product, in Mr Ricardo's sense of the word value, is also increased or diminished.

The quantity of produce being supposed the same, we may illustrate the subject by the following cases.

1. Let us suppose that both capital and labour are diminished, and in equal proportions. This is precisely the same with the case in which the productive powers of labour and capital are increased; as it comes to the same thing, whether you have the same produce from a less cost of production, or a greater produce from the same cost of production. This case, therefore, has been already considered.

2. Let us suppose, that the capital is diminished, the labour not. This also is a case of diminished cost of production. If, for the produce of 550 yards of cloth, which was at first effected by a capital of 400 yards and a portion of labour which was paid by a fifth of the produce, only a capital of 200 yards should be required, but the same quantity of immediate labour; that the labourers may have the same share as before, it is necessary that they should have a greater aliquot part. Suppose, before that increase of productive power which is supposed in this case, when a capital of 400 yards was required for a produce of 550, and when the wages of the quantity of labour applied was 110 yards, that another commodity had been produced by the same quantity of labour, but by a capital of 200 yards. The value of this commodity would have been 330 yards, equal to the capital with its profits and the wages. Of this the labourers would have received 110 yards, or one-third. This is the same proportion to a capital of 200 yards, as one-fifth is to a capital of 400 yards. If the labour contributed one-fifth to the product of 550 yards, when aided by a capital of 400 yards, it contributed one-third, in the newly supposed case, when aided by a capital of 200 yards. One-third of 550 is $183\frac{1}{3}$; leaving to the capitalist $366\frac{2}{3}$, or a profit upon his capital of $83\frac{1}{3}$ per cent. According to the explanation, which we have already given and repeated, there is here an additional produce to each, by reason of the increase of productive power; and, also, which is only the same thing in other words, an augmented value in exchange. But in Mr. Ricardo's sense of the word value, there is only the same value to each, so long as the proportions remain unchanged.

The cases which I have thus put for illustration, are cases in which the productive powers of labour and capital are augmented; but as the same reasonings apply, *mutatis mutandis*, to the cases in which the pro-

ductive powers are diminished, it is deemed unnecessary to lengthen the analysis by adducing them.¹⁹

It may here be useful to the learner to look back, and ascertain the number and importance of the steps which he has advanced. He has discovered, what are the laws, according to which those commodities, which form the riches of nations, are produced; and what are the laws, according to which, when produced, they are distributed.

He has seen that there are two instruments of production; one primary, the other secondary: that labour is the primary instrument of production, and that, abstracted from those aids which it derives from capital, its productive powers are augmented chiefly by limiting the number of each man's productive operations; in other words, by what has been called the division of labour: that capital is secondary to labour, not only because it is subsequent in order of time, but because it owes its existence to labour; because the first capital is the result of pure labour, and because that which is subsequently the result of labour and capital combined, may thence be resolved into labour, the ultimate principle of all production.

The learner has now also seen, that, what is produced, by the operations of labour and capital, divides itself, in the first instance, into three portions; the rent of land; the wages of labour; and the profits of stock. Till the laws were discovered, which determine the boundaries of these several portions, that which goes as rent, that which goes as profits, and that which goes as wages, almost all the conclusions of Political Economy were vague and uncertain. It has been seen, that rent is something which may be considered independent of the general result of the productive powers of labour and capital; that it is the result of a peculiar defect of the earth, which does not continue to yield its produce in equal abundance to successive portions of capital; and that it is the excess of what is yielded to the more productive portions, above what is equal to the produce of the least productive portion of capital employed upon the land. After the limits were thus fixed of this one of the three portions, into which the produce of industry divides itself, whence it appeared that what may be regarded as the genuine effect of labour and capital in co-operation is left to be divided

¹⁹ [This ended the revisions made in the 3rd edition. An account of the inevitable fall of profits as a result of diminishing returns in agriculture was omitted in the 3rd edition. See pp. 78-80 of the 2nd edition and pp. 60-62 of the 1st edition.]

between the labourer and the capitalist; it is easy for the learner to see, that, in respect to proportions, as what fell to the share of the one was increased, what went to the share of the other was diminished, and that in this sense, wages and profits depend on one another; that in respect, however, to the quantity of produce which these shares may contain, the productive power of the instruments of production is the determining cause.

CHAPTER III

INTERCHANGE

SECTION I

NATURE OF THE ADVANTAGE DERIVED FROM THE INTERCHANGE OF COMMODITIES, AND THE PRINCIPAL AGENTS EMPLOYED IN IT

When two men have more than they need; one, for example, of food; another, of cloth; while the first desires more of cloth than he possesses, the second more of food; it is a great accommodation to both, if they can perform an exchange of a part of the food of the one for a part of the cloth of the other; and so in other cases.

In performing exchanges, there are two sets of persons, the intervention of whom is of great advantage: the first are Carriers, the second Merchants.

When the division and distribution of labour has been carried to any considerable extent, goods are produced at some, often at a very considerable, distance from the place where they are wanted for consumption. It is necessary that they should be conveyed from the one place to the other. Carriers are of two sorts: Carriers by Land, and Carriers by Water. For the business of carriage, both capital and labour are required. In carriage by land, the wagons or carts, the horses or other cattle, and the maintenance both of them and of the necessary number of men; in carriage by water, the ships, and the

maintenance of the men who navigate them, constitute the capital required.

To procure articles, as men have occasion to consume them, it would be very inconvenient to repair, in each instance, to the respective manufacturers and producers, who may often live at a very considerable distance from one another. Great trouble is saved to consumers, when they find assembled in one place the whole, or any considerable portion, of the articles which they use. This convenience gives rise to the class of merchants, who buy from the manufacturers, and keep ready for use, all those articles for which they expect a profitable sale.

In small towns, where one or a few merchants can supply the wants of all the population, the shop or store of one merchant contains articles of all, or most of the kinds, in general demand. In places where the population is large, instead of a great number of shops, each dealing in almost all kinds of articles, it is found more convenient to divide the articles into classes, and that each shop should confine itself to a particular class: one, for example, to hats, another to hosiery; one to glass, another to iron; and so on.

SECTION II

WHAT DETERMINES THE QUANTITY IN WHICH COMMODITIES EXCHANGE FOR ONE ANOTHER

When a certain quantity of one commodity is exchanged for a certain quantity of another commodity; a certain quantity of cloth, for example, for a certain quantity of corn; there is something which determines the owner of the cloth to accept for it such and such a quantity of corn; and, in like manner, the owner of the corn to accept such and such a quantity of cloth.

This is, evidently, the principle of demand and supply, in the first instance. If a great quantity of corn comes to market to be exchanged for cloth, and only a small quantity of cloth to be exchanged for corn, a great quantity of corn will be given for a small quantity of cloth. If the quantity of cloth, which thus comes to market, is increased, without any increase in the quantity of corn, the quantity of corn which is exchanged for a given quantity of cloth will be proportionally diminished.

This answer, however, does not resolve the whole of the question. The quantity in which commodities exchange for one another depends upon the proportion of supply to demand. It is evidently therefore necessary to ascertain upon what that proportion depends. What are the laws according to which supply is furnished to demand, is one of the most important inquiries in Political Economy.

Demand creates, and the loss of demand annihilates, supply. When an increased demand arises for any commodity, an increase of supply, if the supply is capable of increase, follows, as a regular effect. If the demand for any commodity altogether ceases, the commodity is no longer produced.

The connexion here, of causes and effects, is easily explained. If corn is brought to market, the cost of bringing it has been so much. If cloth is brought to market, the cost of bringing it has been so much. For the benefit of simplicity, the number of commodities in the market is here supposed to be two: it is of no consequence, with regard to the result, whether they are understood to be few or many.

The cost of bringing the corn to market has been either equal to that of bringing the cloth, or unequal. If it has been equal, there is no motive, to those who bring the cloth or the corn, for altering the quantity of either. They cannot obtain more of the commodity which they receive in exchange, by transferring their labour to its production. If the cost has been unequal, there immediately arises a motive for altering the proportions. Suppose that the cost of bringing the whole of the corn has been greater than that of bringing the whole of the cloth; and that the whole of the one is exchanged against the whole of the other, either at once, or in parts: the persons who brought the cloth have in that case possessed themselves of a quantity of corn at less cost, than that at which it was brought to market, by those who produced it; those, on the other hand, who brought the corn have possessed themselves of a quantity of cloth, at a greater cost than that at which it can be made and brought to market.

Here motives arise, to diminish the quantity of corn, and increase the quantity of cloth; because the men who have been producing corn, and purchasing cloth, can obtain more cloth, by transferring their means of production from the one to the other. As soon, again, as no more cloth can be obtained by applying the same amount of means to the production of cloth, then by applying them to corn, and exchanging it for cloth, all motive to alter the quantity of the one as compared

with that of the other is at an end. Nothing is to be gained by producing corn rather than cloth, or cloth rather than corn. The cost of production on both sides is equal.

It thus appears that the relative value of commodities, or in other words, the quantity of one which exchanges for a given quantity of another, depends upon demand and supply, in the first instance; but upon cost of production, ultimately; and hence, in accurate language, upon cost of production, entirely. An increase or diminution of demand or supply, may temporarily increase or diminish, beyond the point of productive cost, the quantity of one commodity which exchanges for a given quantity of another; but the law of competition, wherever it is not obstructed, tends invariably to bring it to that point, and to keep it there.

Cost of production, then, regulates the exchangeable value of commodities. But cost of production is itself involved in some obscurity.

Two instruments are commonly combined in production; Labour and Capital.

It follows, either that cost of production consists in labour and capital combined; or that one of these may be resolved into the other. If one of them can be resolved into the other, it follows that cost of production does not consist in both combined.

The opinion, which is suggested by first appearances, undoubtedly is, that cost of production consists in capital alone. The capitalist pays the wages of his labourer, buys the raw material, and expects that what he has expended shall be returned to him, in the price, with the ordinary profits upon the whole of the capital employed. From this view of the subject, it would appear, that cost of production consists exclusively in the portion of capital expended, together with the profits upon the whole of the capital employed in effecting the production.

It is easy, however, to see, that in the term capital, thus understood, an ambiguity, and hence a fallacy, is involved. When we say that capital and labour, the two instruments of production, belong to two classes of persons; we mean that the labourers have contributed so much to the production, and the capitalists so much; and that the commodity, when produced, belongs in certain proportions to both. It may so happen, however, that one of these parties has purchased the share of the other, before the production is completed. In that case, the whole of the commodity belongs to the party who has purchased the share of the other. In point of fact, it does happen, that the capita-

list, as often as he employs labourers, by the payment of wages, purchases the share of the labourers. When the labourers receive wages for their labour, without waiting to be paid by a share of the commodity produced, it is evident that they sell their title to that share. The capitalist is then the owner, not of the capital only, but of the labour also. If what is paid as wages is included, as it commonly is, in the term capital, it is absurd to talk of labour separately from capital. The word capital, as thus employed, includes labour and capital both. To say, therefore, that the exchangeable value of commodities is determined by capital, understood in this sense, is to say that it is determined by labour and capital combined. This, however, is returning to the point from which we set out. It is nugatory to include labour in the definition of the word capital, and then to say that, capital without labour, determines exchangeable value. If capital is understood in a sense which does not include the purchase money of labour, and hence the labour itself, it is obvious that capital does not regulate the exchangeable value of commodities.²⁰

If labour were the sole instrument of production, and capital not required, the produce of one day's labour in one commodity would exchange against the produce of one day's labour in another commodity. In the rude state of society, if the hunter and the fisherman desired to vary their food, the one by a portion of game, the other by a portion of fish, the average quantity which they took in a day would form the standard of exchange. If it did not, one of the two would be placed in a more unfavourable situation than his neighbour, with perfect power, which he would of course employ, to pass from the one situation to the other.

In estimating equal quantities of labour, an allowance would, of course, be included for different degrees of hardness and skill. If the products of each of two days' labour of equal hardness and skill exchanged for one another, the product of a day's labour, which was either harder, or required a greater degree of skill, would exchange for something more.

²⁰ [This paragraph was intended to refute the capital theory of value which had been advanced by Torrens. A reply by Torrens to Mill's dismissal of his theory appeared in *The Traveller*, 2 Dec. 1822. John Stuart Mill defended his father's position in the same journal on 6 and 13 Dec. On the whole episode see L. Robbins, *Robert Torrens and the Evolution of Classical Economics*, Macmillan, London, 1958, pp. 60-72.]

All capital consists really in commodities. The capital of the farmer is not the money which he may be worth, because that he cannot apply to production. His capital consists in his implements and stock.

As all capital consists in commodities, it follows, of course, that the first capital must have been the result of pure labour. The first commodities could not be made by any commodities existing before them.

But if the first commodities, and of course the first capital, were the result of pure labour, the value of this capital, the quantity of other commodities for which it would exchange, must have been estimated by labour. This is an immediate consequence of the proposition which we have just established, that where labour was the sole instrument of production, exchangeable value was determined by the quantity of labour which the production of the commodity required.

If this be established, it is a necessary consequence, that the exchangeable value of all commodities is determined by quantity of labour.

The first capital, as has just been seen, being the result of pure labour, bears a value in proportion to that labour. This capital concurs in production. And it is contended that as soon as capital concurs in production, the value of the commodity produced is determined by the value of the capital. But the value of that capital itself, we have just observed, is determined by labour. To say, therefore, that the value of a product is determined by the value of the capital, is of no use, when you have to go beyond the value of the capital, and ask, what it is by which that value is itself determined. To say that the value of the product is determined by the value of the capital, but the value of the capital is determined by the quantity of labour, is to say that the value of the product is determined by the quantity of labour.

It thus undeniably appears, that not only the value of the first capital, but, by equal necessity, that of the commodities which are produced by the first capital, is determined by quantity of labour. Capital of the second stage must consist in the commodities which are produced by that of the first stage. It must, therefore, be estimated by the quantity of labour. The same reasoning applies to it in every subsequent stage. The value of the first capital was regulated by quantity of labour: the value of that which was produced by the first capital was regulated by the value of the first: that, however, was valued by labour: the last, therefore, is valued by labour; and so on, without end, as often as successive productions may be supposed to be made. But, if the

value of all capital must be determined by labour, it follows, upon all suppositions, that the value of all commodities must be determined by labour.

To say, indeed, that the value of commodities depends upon capital, implies one of the most obvious of all absurdities. Capital is commodities. If the value of commodities, then, depends upon the value of capital, it depends upon the value of commodities; value in short depends upon value. This is not an exposition of value. It is an attempt clearly and completely abortive.

It thus appears, that quantity of labour, in the last resort, determines the proportion in which commodities exchange for one another.²¹

There is one phenomenon which is brought to controvert these conclusions, and which it is, therefore, necessary to explain.

It is said that the exchangeable value of commodities is affected by time, without the intervention of labour; because, when profits of stock must be included, so much must be added for every portion of time which the production of one commodity required beyond that of another. For example, if the same quantity of labour has produced in the same season a cask of wine, and 20 sacks of flour, they will exchange against one another at the end of the season: but if the owner of the wine places the wine in his cellar, and keeps it for a couple of years, it will be worth more than the 20 sacks of flour, because the profits of stock for the two years must be added to the original price. Here is an addition of value, but here it is affirmed, there has been no new application of labour; quantity of labour, therefore, is not the principle by which exchangeable value is regulated.

This objection is founded upon a misapprehension with respect to the nature of profits. Profits are, in reality, the measure of quantity of labour; and the only measure of quantity of labour to which, in the case of capital, we can resort. This can be established by rigid analysis.

If two commodities are produced, a bale of silk, for example, for immediate consumption, and a machine, which is an article of fixed capital; it is certain, that if the bale of silk and the machine were pro-

²¹ [In the 1st edition the section ended here and Ricardo's comment was: 'I see the same difficulty, in this section, that I have seen in my own, on the same subject, of laying down a general and positive rule with respect to quantity of labour realised in commodities being the rule and measure of their exchangeable value. The exceptions will be opposed to you as they have been to me.' *Works*, vol. IX, p. 127. See also the related comment cited below, p. 264n.]

duced by the same quantity of labour, and in the same time, they would exactly exchange for one another, quantity of labour would clearly be the regulator of their value.

But suppose that the owner of the machine, instead of selling it, is disposed to use it, for the sake of the profits which it brings; what is the real character and nature of his action? Instead of receiving the price of his machine all at once, he takes a deferred payment, so much per annum: he receives, in fact, an annuity, in lieu of the capital sum; an annuity, fixed by the competition of the market, and which is therefore an exact equivalent for the capital sum. Whatever the proportion which the capital sum bears to the annuity, whether it be ten years' purchase, or twenty years' purchase, such a proportion is each year's annuity of the original value of the machine. The conclusion, therefore, is incontrovertible: as the exchangeable value of the machine, had it been sold as soon as made, would have been the practical measure of the quantity of labour employed in making it, one-tenth or one-twentieth of that value measures also a tenth or a twentieth of the quantity of labour.

If a piece of machinery, which has cost 100 days' labour, is applied in making a commodity, and is worn out in the making of it; and if 100 days' pure labour are employed in making another commodity; the produce of the machine, and the produce of the labour, supposing no adjustment necessary for difference of time, will exchange against one another.

Make now a different supposition: that the machine is an article of fixed capital, and not worn out, and let us trace the consequences. It was correctly supposed, in the former case, that 100 days' labour were expended by wearing out the machine; but 100 days' labour have not been expended in the second, because the machine is not worn out. Some labour, however, has been expended, because 100 days' labour in a mass has been applied. How much of it shall we say has been expended? We have an exact measure of it in the equivalent which is paid. If the equivalent which was obtained when the machine was worn out, was a measure of 100 days' labour, whatever proportion of such equivalent is received as a year's use of the machine when not worn out, must represent a corresponding proportion of the labour expended upon the machine.

Capital is allowed to be correctly described under the title of hoarded labour. A portion of capital produced by 100 days' labour, is

100 days' hoarded labour. But the whole of the 100 days' hoarded labour is not expended, when the article constituting the capital is not worn out. A part is expended, and what part? Of this we have no direct, we have only an indirect measure. If capital, paid for by an annuity, is paid for at the rate of 10 per cent, one-tenth of the hoarded labour may be correctly considered as expended in one year.

The instance which is commonly adduced as exemplifying the supposed fact of an increase of value without increase of labour, is that of wine. Wine acquires a greater value by being merely deposited in the cellars of the merchant.

But they who would advance this, as an answer to the antecedent reasoning, do not perceive the force of their own objection. Their doctrine is, that exchangeable value is regulated by cost of production. Cost of production is the outlay necessary for completing the product. When the wine was put into the cellar, it was worth so much, according to the capital expended in its production. When it is placed in the cellar, no more capital is employed upon it, nor any more labour; and yet it acquires an additional value. The question, why it acquires more value, when there is not more capital, is just as difficult, as why it acquires more value, when there is not more labour.

It is no solution to say, that profits must be paid; because this only brings us to the question, why must profits be paid? To this there is no answer but one, that they are the remuneration for labour; labour not applied immediately to the commodity in question, but applied to it through the medium of other commodities, the produce of labour. Thus a man has a machine, the produce of 100 days' labour. In applying it, the owner undoubtedly applies labour, though in a secondary sense, by applying that which could not have been had but through the medium of labour. This machine, let us suppose, is calculated to last exactly 10 years. One tenth of the fruits of 100 days' labour is thus expended every year; which is the same thing in the view of cost and value, as saying that 10 days' labour have been expended. The owner is to be paid for the 100 days' labour which the machine costs him, at the rate of so much per annum, that is, by an annuity for ten years, equivalent to the original value of the machine. It thus appears that profits are simply remuneration for labour. They may, indeed, without doing any violence to language, hardly even by a metaphor, be denominated wages: the wages of that labour which is applied, not immediately by the hand, but mediately, by the instruments which the hand has pro-

duced. And if you may measure the amount of immediate labour by the amount of wages, you may measure the amount of secondary labour by that of the return to the capitalist. We surely have not occasion to add, that if this be the general account of profits, which seems undeniable, it is applicable to all particular cases, to that of wine in the cellar, as well as to every other. Suppose that 100 men make a machine in one day, that another 100 men employ this machine the next day, and wear it out; the first 100 men, and the second 100 men, will divide the produce equally between them. The share of the first 100 men is payment for capital, no doubt, but it is also, most obviously, payment for labour too; and in whatever degree labour is productive, that is, yields more than is consumed in effecting the product, to that degree an advantage is afforded beyond the replacing of the capital consumed, and constitutes profit.

The return which is made to capital employed upon the land, is that which determines the rate of annual profit from all other employments of capital; and, of course, for that which is employed in meliorating wine in a wine-cellar. The case of the wine in the cellar coincides exactly with that of a machine worn out in a year, which works by itself without additional labour. The new wine, which is one machine, is replaced by its produce, the old wine, with that addition of value which corresponds with the return to capital employed upon the land; and the account which is to be rendered of the one return, is also the true account of the other.²²

SECTION III

EFFECT UPON EXCHANGEABLE VALUES OF A FLUCTUATION IN WAGES AND PROFITS

In stating that commodities are produced by two instruments, Labour and Capital, of which the last is the result of labour, we, in effect, mean, that commodities are produced by two quantities of labour, differently circumstanced; the one, immediate, or primary labour, that which is applied at once by the hand of the labourer; the other, hoarded, or

²² [The idea of treating profits simply as the wages of 'stored-up' labour derives from McCulloch, who put forward this solution in his article 'Political Economy' for the *Supplement to the Encyclopaedia Britannica*, 1824, vol. VI, pp. 313-19. The solution was not accepted by Ricardo himself, see *Works*, vol. IX, p. 377.]

secondary labour, that which is the result of former labour, and either is applied in aid of the immediate labour, or is the subject matter upon which it is bestowed.

Of these two species of labour, two things are to be observed: First, that they are not always paid according to the same rate; that is, the payment of the one does not rise when that of the other rises, or fall when that of the other falls: And, secondly, that they do not always contribute to the production of all commodities in equal proportions.

If there were any two species of labour, the wages of which did not rise and fall in the same proportion, and which, contributing to the production of all commodities, did not contribute to them all in equal degrees, this circumstance, of their not contributing in equal degrees, would create a difference in exchangeable values, as often as any fluctuation took place in the rate of wages.

If all commodities were produced by a portion of skilled, and a portion of unskilled labour, but the ratio which these portions bore to one another were different in different commodities; and if, as often as the wages of skilled labour rose, the wages of unskilled labour rose twice as much; it is very obvious, that, upon a rise of wages, those commodities, to the production of which a greater proportion of unskilled labour was applied, would rise in value as compared with those to which a less proportion was applied. It is also obvious, that, though this difference in the ratios according to which the wages of the two kinds of labour had altered, and in the proportions in which they were applied to the production of different commodities, would, upon a rise or fall in wages, alter the relative value of the commodities, it would do so, without in the least degree affecting the truth of the proposition, that quantity of labour determined exchangeable values.²³

The case is precisely the same when we consider that it is the two species of labour, called primary and secondary, which are applied in different proportions.

Three cases will conveniently exemplify the different degrees in which labour and capital respectively contribute to production. These

²³ [Ricardo commented: 'If a watch and a common Jack altered in relative value without any more or less labour being required for the production of either of them, could we say that the proposition "that quantity of labour determines exchangeable value" was universally true? What I call exceptions and modifications of the general rule you appear to me to say come under the general rule itself.' *Works*, vol. IX, p. 127.]

are the two extreme cases, and the medium. The first is that of commodities which are produced by immediate labour alone without capital; the second, that of commodities produced, one half by capital, one half by immediate labour; the third, that of commodities produced by capital alone without immediate labour. There are perhaps no actual cases which perfectly coincide with either of the extremes. There are, however, cases which approximate to both; and when the most simple are illustrated as examples, allowance can easily and correctly be made for the differences of the rest.

If two species of labour are employed in the production of commodities; and if, when the payment of the one species of labour rises, that of the other falls; a commodity, in the production of which a greater proportion of the first species of labour is employed, will, upon a rise in the payment of that species of labour, rise in exchangeable value, as compared with a commodity in which less is employed. The degree however, in which it will rise, will depend upon two circumstances: first, upon the degree in which the payment of the one species of labour falls when the other rises; and, secondly, upon the degree in which the proportion of the labour of the first kind, employed in its production, exceeds the proportion of it which is employed in the production of the other commodity.

The first question then, is, what degree, when wages rise, do profits fall? And this is the only general question; for the degree in which the two species of labour combine in the production of different commodities, depends upon the circumstances of each particular case.

If all commodities corresponded with the first of the cases, assumed above as examples, and which we may, for the sake of abbreviation, designate, as No. 1, No. 2, No. 3; in other words, if all commodities were produced wholly by labour, capital being solely employed in the payment of wages; in that case, just as much as wages of labour rose, profits of stock would fall.

Suppose a capital of 100*l.* to be thus employed, and profits to be 10 per cent., the value of the commodity would be 110*l.*, for that would replace the capital with its profits. The commodity may be regarded as consisting of 1100 parts, of which 1000 would belong to the labourers and 100 to the capitalist. Let wages, upon this, be supposed to rise 5 per cent.; in that case, it is evident, that instead of 100 parts of the 1100, the capitalist would receive only 50; his profits, therefore, instead of 10 would be only 5 per cent. Instead of 100*l.* he would have to pay

1050*l.* in wages. The commodity would not rise in value to indemnify him, because we have supposed that all commodities are in the same situation; it would, therefore, be of the value of 1100*l.*, as before, of which 50*l.* alone would remain for himself.

If all commodities corresponded with the case No. 2, profits would fall only half as much as wages rose. If we suppose that 1000*l.* were paid in wages, and 1000*l.* employed in fixed capital; that profits, as before, were 10 per cent., and this the whole expenditure; the value of the commodity would be 1200*l.* because that is the sum which would replace the capital expended and pay the profits of the whole. In this case the commodity might be considered as divided into 1200 parts, of which 200 would belong to the capitalist. If wages rose 5 per cent., and instead of 1000*l.* as wages, he paid 1050*l.* he would still retain 150*l.* as profits; in other words, he would sustain a reduction of only 2½ per cent.

The case would be precisely the same, if we supposed the 1000*l.* of capital, which is not employed in the payment of wages, to be employed in any proportion, in the shape of circulating capital consumed in the course of the productive process, and requiring to be replaced. Thus, while 1000*l.* were employed in the payment of wages, 500*l.* might be employed as fixed capital in durable machinery, 500*l.* in raw material and other expenses. If this were the state of the expenditure, the value of the article would be 1700*l.*; being the amount of the capital to be replaced, and 10 per cent. profits upon the whole. Of these 1700 parts, 1000 would be the share of the labourers, though paid in advance, and 700 the share of the capitalist, 200 being profits. If, now, wages were to rise 5 per cent., 1050 of the above 1700 parts would be the share of the labourers, and 650 only would remain to the capitalist, of which, after replacing his 500*l.* of circulating capital, 150 would remain as profits; a reduction of 2½ per cent. as before.

If all commodities corresponded with the third case, as no wages would be paid, profits could not be affected by the rise of them: and it is obvious, that, in proportion as commodities may be supposed to approach that extreme, profits would be less and less affected by such a rise.

If we suppose, what is most probable, that, in the actual state of things, as many cases are on the one side of the medium as on the other, the result would be, in consequence of the mutual compensations that would take place, that profits would be reduced exactly half as much as wages rose.

The steps may be traced as follows:

When wages rise, and profits fall, it is evident that all commodities, made with a less proportion of labour to capital, will fall in value, as compared with those which are made with a greater. Thus, if No. 1 is taken as the standard, that in which commodities are produced wholly by labour; all commodities belonging to that case will be said to remain of the same value; all belonging to any of the other cases will be said to fall in value. If No. 2 is taken as the standard, all commodities appertaining to that case will be said to remain of the same value; all, belonging to any case nearer the first extreme, will be said to rise in value; all, to any nearer the last extreme, to fall.

Those capitalists, who produce articles of case No. 1, sustain, when wages have risen 5 per cent., an additional cost of 5 per cent.; but they exchange their commodity against other commodities. If they exchange them against those of case No. 2, where the capitalists have sustained an additional cost of only $2\frac{1}{2}$ per cent., they will receive $2\frac{1}{2}$ per cent. additional quantity. Thus, in obtaining goods, produced under the circumstances of case No. 2, they obtain a certain degree of compensation, and sustain, by the rise of wages, a disadvantage of only $2\frac{1}{2}$ per cent. In this exchange, however, the result, with respect to the capitalists who produce goods under the circumstances of case No. 2, is reversed. They have already sustained a disadvantage of $2\frac{1}{2}$ per cent., in the production of their goods, and are made to sustain another disadvantage of $2\frac{1}{2}$ per cent. in obtaining, by exchange the goods produced under the circumstances of case No. 1.

The result, then, upon the whole, is, that all producers, who possess themselves, either by production or exchange, of goods produced under the circumstances of case No. 2, sustain a disadvantage of $2\frac{1}{2}$ per cent.; those who possess themselves of goods in cases approaching the first extreme, sustain a greater; those in cases approaching the last, a less disadvantage: that, if the cases on the one side are equal to those on the other, a loss of $2\frac{1}{2}$ per cent. is sustained upon the whole; that this, accordingly, is the extent to which, in practice, it may be supposed that profits are reduced.

From these elements it is easy to compute the effect of a rise of wages upon price. All commodities are compared with money, or the precious metals. If money be supposed to correspond with case No. 2, or to be produced, which is probably not far from the fact, by equal proportions of labour and capital; then all commodities, pro-

duced under these medium circumstances, are not altered in price by a rise of wages; those commodities which approach nearer the first extreme, or admit a greater proportion of labour than capital in their formation, rise in price: those which approach the second, that is, have a greater portion of capital than labour, fall: and, upon the aggregate of commodities or all taken together, there is neither fall nor rise.

²⁴From the explanations, here afforded, it will be easy to see what is meant by the term 'measure of value,' and wherein it differs from that which we have already endeavoured to explain, the 'regulator of value.'

Money, that is, the precious metals in coin, serves practically as a measure of value, as is evident from what has immediately been said. A certain quantity of the precious metal is taken as a known value, and the value of other things is measured by that value; one commodity is twice, another thrice the value of such a portion of the metal, and so on.

It is evident, however, that this can remain an accurate measure of value, only if it remains of the same value itself. If a commodity, which was twice the value of an ounce of silver, becomes three times its value, we can only know what change has taken place in the value of this commodity, if we know that our measure is unchanged.

But there is no commodity to be taken as a measure of value, which is not itself liable to alterations in value, or in its power of purchasing, from a change in the quantity of labour and capital required both for its own production, and that of other commodities, and also from a change in wages and profits.

The alteration of value, arising from a change in the quantity of labour required for production, is the most important; for if we could be sure, that the commodity chosen for our measure of value was itself always produced under the same circumstances, that is, by the same quantity of immediate, and the same quantity of hoarded, labour, it would always answer the following purposes: 1st, it would show, by every alteration in its power of purchasing a commodity produced by the same proportion of labour and capital, the alteration which had taken place in the cost of production of that commodity, or in that by which its value is regulated: and 2dly, it might be accommodated by calculation to the changes in value, produced by the alteration of wages and profits, in the case of commodities not produced by the same proportions of labour and capital.

²⁴ [The rest of this section was added in the 2nd edition.]

Thus, if gold were produced under the circumstances of case No. 1, by mere labour, picked up, for example, by the hand, from the beds of rivers, and always in equal quantity, in return for an equal quantity of labour, it would always be a measure, exactly and immediately, of all commodities produced by pure labour. In the case, however, of a rise of wages, and a fall in the profits of stock, gold would in these circumstances rise as compared with commodities produced under the circumstances of case No. 2, though no alteration should have taken place in the amount of the labour and capital required for their production. It is evident, therefore, that in these circumstances, gold, fluctuating in value with every fluctuation in the wages of labour, would very imperfectly serve the purposes of a measure of value. If a contract, for example, were made, to pay an annuity of so much gold for twenty years, it might be 10 per cent. more, or 10 per cent. less, at the end of that period, than it was at the beginning. Of labour it would all the time command exactly the same quantity, but of all commodities produced by aid of capital it would command a different quantity, and that, in proportion to the degree in which capital, not labour, was the instrument of their production.

Though we can by strict analysis discover, that exchangeable value is proportioned to quantity of labour expended in production, there are three circumstances which prevent its application as the measure of value.

In the first place, there are two kinds of labour employed in production, and the degree in which the produce is shared between them often varies, and occasions, as we have seen, a corresponding variation in the exchangeable values of commodities produced by different proportions of these two kinds of labour. In the next place, we have no practical means of ascertaining before hand the exact quantity of hoarded labour which goes to production, since the only measure we have of its quantity is the price which it brings. In the third place, labour is not constant in its productive powers. If one day's labour produced always the same quantity of gold, but not the same quantity of corn, or of cloth, the exchangeable value of gold would alter in respect of corn and cloth.

From these explanations it also appears, that nothing else can be applied as an accurate measure of value.

Every commodity may be considered as produced under one of the three sets of circumstances specified above. If we take as our measure a

commodity, produced under the circumstances No. 1, the gold, for example, picked up by the hand, this will always purchase the same quantity of pure labour, and of such commodities as are produced by the same quantity of that labour; but it will not purchase the same quantity of commodities which come to need more or less of labour, nor the same quantity of the produce of hoarded labour, but less of it in proportion as wages rise, more as wages fall. Could we take as our measure a commodity produced under the circumstances No. 3, that is, by hoarded labour alone, it would always purchase the same quantity of the produce of hoarded labour, when no alteration had taken place in its productive powers, but less or more of the produce of immediate labour, according as profits, the wages of hoarded labour, rose or fell. A commodity, produced under the medium circumstances, answers the purpose best; because by far the greater number of commodities are produced under circumstances more nearly approaching to the medium than any of the extremes. Gold, therefore, which is produced in these circumstances, and with less variation in the quantity of the two kinds of labour applied to its production, than almost any other commodity, has this recommendation among others, to be the medium of exchange, that it is less imperfect as a measure of value than almost any other commodity, which could be taken. Such aberrations as are obvious, and capable of being in some degree foreseen, practical sagacity corrects by the proper allowances. This cannot be done when great and unexpected changes take place; and much disorder is the consequence.

SECTION IV

OCCASIONS ON WHICH IT IS THE INTEREST OF NATIONS TO EXCHANGE COMMODITIES WITH ONE ANOTHER

We have already seen, that the benefits, derived from the division and skilful distribution of labour, form part of the motives which give rise to the exchange of commodities. Men will not confine themselves to the production of one only of the various articles which contribute to the well-being of the individual, unless they can, by its means, provide themselves with others.

There is another circumstance, which very obviously affords a motive to exchange commodities. Some can be produced only in

particular places. Metals, coals, and various other commodities of the greatest importance, are the product of certain spots. The same is the case with some vegetable productions, to which every soil and climate are not adapted. Certain commodities, though not confined to particular spots, can yet be more conveniently and cheaply produced in some places than in others; commodities, for example, which require a great consumption of fuel, in a coal country; commodities, the manufacture of which requires a strong moving power, where a sufficient fall of water can be obtained; commodities which require an extraordinary proportion of manual labour, where provisions, and consequently labour, are cheap.

These are all obvious causes. There is another cause, which requires rather more explanation. If two countries can both of them produce two commodities, corn, for example, and cloth, but not both commodities, with the same comparative facility, the two countries will find their advantage in confining themselves, each to one of the commodities, bartering for the other. If one of the countries can produce one of the commodities with peculiar advantages, and the other the other with peculiar advantages, the motive is immediately apparent which should induce each to confine itself to the commodity which it has peculiar advantages for producing. But the motive may no less exist, where one of the two countries has facilities superior to the other in producing both commodities.

By superior facilities, I mean, the power of producing the same effect with less labour. The conclusion, too, will be the same, whether we suppose the labour to be more or less highly paid. Suppose that Poland can produce corn and cloth with less labour than England, it will not follow that it may not be the interest of Poland to import one of the commodities from England. If the degree, in which it can produce with less labour, is the same in both cases; if, for example, the same quantity of corn and cloth which Poland can produce, each with 100 days' labour, requires each 150 days' labour in England, Poland will have no motive to import either from England. But if, at the same time that the quantity of cloth, which, in Poland, is produced with 100 days' labour, can be produced in England with 150 days' labour; the corn, which is produced in Poland with 100 days' labour, requires 200 days' labour in England; in that case, it will be the interest of Poland to import her cloth from England. The evidence of these propositions may thus be traced.

If the cloth and the corn, each of which required 100 days' labour in Poland, required each 150 days' labour in England, it would follow, that the cloth of 150 days' labour in England, if sent to Poland, would be equal to the cloth of 100 days' labour in Poland: if exchanged for corn, therefore, it would exchange for the corn of only 100 days' labour. But the corn of 100 days' labour in Poland was supposed to be the same quantity with that of 150 days' labour in England. With 150 days' labour in cloth, therefore, England would only get as much corn in Poland as she could raise with 150 days' labour at home; and she would, on importing it, have the cost of carriage besides. In these circumstances no exchange would take place.

If, on the other hand, while the cloth produced with 100 days' labour in Poland was produced with 150 days' labour in England, the corn which was produced in Poland with 100 days' labour could not be produced in England with less than 200 days' labour; an adequate motive to exchange would immediately arise. With a quantity of cloth which England produced with 150 days' labour, she would be able to purchase as much corn in Poland as was there produced with 100 days' labour; but the quantity, which was there produced with 100 days' labour, would be as great as the quantity produced in England with 200 days' labour. If the exchange, however, was made in this manner, the whole of the advantage would be on the part of England; and Poland would gain nothing, paying as much for the cloth she received from England, as the cost of producing it for herself.²⁵

But the power of Poland would be reciprocal. With a quantity of corn which cost her 100 days' labour, equal to the quantity produced in England by 200 days' labour, she could in the supposed case purchase, in England, the produce of 200 days' labour in cloth. The produce of 150 days' labour in England in the article of cloth would be equal to the produce of 100 days' labour in Poland. If, with the produce of 100 days' labour, she could purchase, not the produce of 150, but the produce of 200,²⁶ she also would obtain the whole of the advantage,

²⁵ [This sentence was inserted in the 3rd edition and replaces the conclusion that: 'England, therefore, would obtain her corn with her labour, through the medium of her cloth'.]

²⁶ [In the 1st and 2nd editions this paragraph ended with the conclusion that Poland 'gains to the amount of 50 days' labour; in other words a third'. In the earlier edition Mill had spoken as though each country trades at the internal exchange ratio of the other, and had thereby imputed the whole of the gain due to differences of comparative costs to both countries simultaneously. The error was pointed out by

and England would purchase corn, which she could produce by 200 days' labour, with the product of as many days' labour in other commodities. The result of competition would be to divide the advantage equally between them.

Suppose the following case: That 10 yards of broad cloth purchase 15 yards of linen in England; and 20 yards in Germany. In exchanging 10 yards of English broad cloth for the equivalent of German linen, a saving, to the amount of 5 yards of linen, is the result of the bargain; and it is evident that the advantage will be shared upon the following principles. In England linen will fall, in relation to cloth, from the knowledge that 10 yards of cloth will purchase more than 15 yards of linen in Germany; and in Germany linen will rise as compared with cloth, from a knowledge that 20 yards of linen, if sent to England, will purchase more than 10 yards of cloth. It is the inevitable effect of such an interchange to bring the relative value of the two commodities to a level in the two countries; that is, to make the purchasing power of linen in respect to cloth, and of cloth in respect to linen, the same in both; bating the difference in the cost of carriage, each country paying the cost of the carriage of the commodity which it imports, and the value of that article being so much higher in the country which imports than in that which exports it.²⁷

To produce exchange, therefore, there must be two countries, and two commodities.

When both countries can produce both commodities, it is not greater absolute, but greater relative, facility, that induces one of them to confine itself to the production of one of the commodities, and to import the other.

When a country can either import a commodity or produce it at home, it compares the cost of producing at home with the cost of procuring from abroad; if the latter cost is less than the first, it imports.

The cost at which a country can import from abroad depends, not upon the cost at which the foreign country produces the commodity, but upon what the commodity costs which it sends in exchange, compared with the cost which it must be at to produce the commodity in question, if it did not import it.

John Stuart Mill and was discovered as a result of discussions of the *Elements* by the younger utilitarians; see J. S. Mill's *Autobiography*, pp. 84-85.]

²⁷ [This paragraph, a modified version of one which appeared in the 2nd edition, was inserted in the 3rd edition to correct the error mentioned in the previous note.]

If a quarter of corn is produced in England with 50 days' labour, it may be equally her interest to import corn from Poland, whether it requires, in Poland, 50 days' labour, or 60, or 40, or any other number. Her only consideration is, whether the commodity with which she can import a quarter costs her less than 50 days' labour.

Thus, if labour in Poland produce corn and cloth, in the ratio of eight yards to one quarter; but, in England, in the ratio of ten yards to one quarter, exchange will take place.

The practical conclusion may be commodiously and correctly stated thus:

Whenever the purchasing power of any commodity with respect to another is less, in one of two countries, than it is in the other, it is the interest of those countries to exchange these commodities with one another.

Unless the difference of purchasing power, which renders it the interest of nations to barter commodities with one another, be sufficiently great to cover the expense of carriage, and something more, no advantage is obtained.

SECTION V

THE COMMODITIES IMPORTED ARE THE CAUSE OF THE BENEFITS DERIVED FROM A FOREIGN TRADE

From what is stated in the preceding chapter, one general, or rather universal, proposition may be deduced. The benefit which is derived from exchanging one commodity for another, arises, in all cases, from the commodity *received*, not from the commodity given.²⁸ When one country exchanges, in other words, when one country traffics with another, the whole of its advantage consists in the commodities *imported*. It benefits by the importation, and by nothing else.

²⁸ [Ricardo commented: 'I cannot agree in the distinction here taken, that the advantage in commerce is derived to all countries from what they receive, and not from what they send out. They in fact never receive any thing without sending something to pay for it, and it is the exchange which is beneficial. It is no exchange unless a commodity be given as well as received. I do not see how such a transaction can be separated into two parts and how it can be justly said that one part only is beneficial. What we get in exchange for our commodity really constitutes the price or value for which we sell it.' *Works*, vol. IX, pp. 127-8. Mill made no attempt to alter the statement in subsequent editions.]

This seems to be so very nearly a self-evident proposition, as to be hardly capable of being rendered more clear by illustration; and yet it is so little in harmony with current and vulgar opinions, that it may not be easy by any illustration, to gain it admission into certain minds.

When a man possesses a certain commodity, he cannot benefit himself by giving it away. It seems to be implied, therefore, in the very fact of his parting with it for another commodity, that he is benefited by what he receives. His own commodity he might have kept, if it had been valued by him more than that for which he exchanges it. The fact of his choosing to have the other commodity rather than his own, is a proof that the other is to him more valuable than his own.

The corresponding facts are evidence equally conclusive in the case of nations. When one nation exchanges a part of its commodities for a part of the commodities of another nation, the nation can gain nothing by parting with its commodities; all the gain must consist in what it receives. If it be said that the gain consists in receiving money, it will presently appear, from the doctrine of money, that a nation derives no advantage, but the contrary, from possessing more than its due proportion of the precious metals.

In importing commodities which the country itself is competent to produce, as in the case, supposed above, of trade with Poland, we saw that England would import her corn from Poland, if she thus obtained, with the produce of so many days' labour in cloth, as much corn as it would have required a greater number of days' labour to produce in England. If it so happened, that she could procure in Poland with the cloth, only as much corn as she could produce with the same quantity of labour at home, she would have had no advantage in the transaction. Her advantage would arise, not from what she should export, but wholly from what she should import.

The case in which a country imports commodities, which she herself is incompetent to produce, is of still more simple investigation. That country, or, more properly speaking, the people of that country, have certain commodities of their own, but these they are willing to give for certain commodities of other countries. They prefer having those other commodities. They are benefited, therefore, not by what they give away; that it would be absurd to say; but by what they receive.

SECTION VI

CONVENIENCE OF A PARTICULAR COMMODITY, AS A MEDIUM OF EXCHANGE

In exchanging commodities for one another directly, or in the way of barter, the wants of individuals could not be easily supplied. If a man had only sheep to dispose of; and wanted bread, or a coat; he might find himself subject to either of two difficulties: first, the man possessing the article which he wished to obtain, might be unwilling to accept of a sheep; or, secondly, the sheep might be of more value than the article which he wished to obtain, and could not be divided.

To obviate these difficulties, it would be fortunate if a commodity could be found, which every man, who had goods to dispose of, would be willing to receive, and which could be divided into such quantities, as would adapt themselves to the value of the articles which he wished to obtain. In this case, the man who had the sheep, and wanted bread or a coat, instead of offering his sheep to obtain them, would first exchange it for the equivalent quantity of this other commodity, and with that he would purchase the bread and other things for which he had occasion.

This, then, is the true idea of a medium of exchange. It is some one commodity, which, in order to effect an exchange between two other commodities, is first received in exchange for the one, and then given in exchange for the other.

Certain metals, gold, for example, and silver, were found to unite, in a superior degree, all the qualities desired in a medium of exchange. They were commodities which every man, who had goods to dispose of, was willing to receive in exchange. They could be divided into such portions as suited any quantity of other commodities which the purchaser desired to obtain. They possessed the further recommendation, by including a great value in a small bulk, of being very portable. They were also very indestructible; and less than almost any other commodities liable to fluctuations of value. From these causes, gold and silver have formed the principle medium of exchange in all parts of the globe.

The precious metals were liable to be mixed with baser metals in a manner which it was not easy to detect; and thus a less value was apt to be received than that which was understood to be so. It was also found inconvenient to perform the act of weighing every time that a

purchase was to be made. An obvious expedient was calculated to remedy both inconveniences. Metal might be prepared to a determined fineness; it might be divided into portions adapted to all sorts of purchases; and a stamp might be put upon it, denoting both its weight and its fineness. It is obvious, that the putting of this stamp could only be entrusted to an authority in which the people had confidence. The business has generally been undertaken by governments, and kept exclusively in their own hands. The business of putting the precious metals in the most convenient shape, for serving as the medium of exchange, has been denominated coining; and the pieces into which they are divided have obtained the appellation of money.

SECTION VII

WHAT REGULATES THE VALUE OF MONEY

By value of money, is here to be understood the proportion in which it exchanges for other commodities, or the quantity of it which exchanges for a certain quantity of other things.

It is not difficult to perceive, that it is the total quantity of the money in any country, which determines what portion of that quantity shall exchange for a certain portion of the goods or commodities of that country.

If we suppose that all the goods of the country are on one side, all the money on the other, and that they are exchanged at once against one another, it is obvious that one-tenth, or one-hundredth, or any other part of the goods, will exchange against one-tenth, or any part of the whole of the money; and that this tenth, &c. will be a great quantity or small, exactly in proportion as the whole quantity of the money in the country is great or small. If this were the state of the facts, therefore, it is evident that the value of money would depend wholly upon the quantity of it.

It will appear that the case is precisely the same in the actual state of the facts. The whole of the goods of a country are not exchanged at once against the whole of the money; the goods are exchanged in portions, often in very small portions, and at different times, during the course of the whole year. The same piece of money which is paid in one exchange to-day, may be paid in another exchange to-morrow. Some of the pieces will be employed in a great many exchanges, some

in very few, and some, which happen to be hoarded, in none at all. There will, amid all these varieties, be a certain average number of exchanges, the same which, if all the pieces had performed an equal number, would have been performed by each; that average we may suppose to be any number we please; say, for example, ten. If each of the pieces of the money in the country perform ten purchases, that is exactly the same thing as if all the pieces were multiplied by ten, and performed only one purchase each. As each piece of the money is equal in value to that which it exchanges for, if each performs ten different exchanges to effect one exchange of all the goods, the value of all the goods in the country is equal to ten times the value of all the money.

If the quantity of money, instead of performing ten exchanges to exchange all the goods once, were ten times as great, and performed only one exchange, it is evident that whatever addition were made to the whole quantity, would produce a proportional diminution of value, in each of the minor quantities taken separately. As the quantity of goods, against which the money is all exchanged at once, is supposed to be the same, the value of all the money is no more, after the quantity is augmented, than before it was augmented. If it is supposed to be augmented one-tenth, the value of every part, that of an ounce for example, must be diminished one-tenth. Suppose the whole quantity 1,000,000 ounces, and augmented by one-tenth; the loss of value to the whole must be communicated proportionally to every part; but what one-tenth of a million is to a million, one-tenth of an ounce is to an ounce.

If the whole of the money is only one-tenth of the above supposed sum, and performs ten purchases in exchanging all the goods once, it of course exchanges each time against one-tenth of the goods. But if the tenth which exchanges against a tenth is increased in any proportion, it is the same thing as if the whole which exchanges against the whole were increased in that proportion. In whatever degree, therefore, the quantity of money is increased or diminished, other things remaining the same, in that same proportion, the value of the whole, and of every part, is reciprocally diminished or increased. This, it is evident, is a proposition universally true. Whenever the value of money has either risen or fallen, (the quantity of goods, against which it is exchanged, and the rapidity of circulation, remaining the same,) the change must be owing to a corresponding diminution or increase of the quantity;

and can be owing to nothing else. If the quantity of goods diminish, while the quantity of money remains unaltered, it is the same thing as if the quantity of money had been increased; and if the quantity of goods be increased, while the quantity of money remains unaltered, it is the same thing as if the quantity of money had been diminished.

Similar changes are produced by any alteration in the rapidity of circulation. By rapidity of circulation is meant, of course, the number of times the money must change hands to effect one sale of all the commodities.

The whole of the goods, which fall to be exchanged in the course of the year, is the amount contemplated in the above propositions. If there is any portion of the annual produce, which is not exchanged at all, as what is consumed by the producer; or which is not exchanged for money; any such portion is not taken into account, because what is not exchanged for money is in the same state, with respect to the money, as if it did not exist. If there is any part of what falls to be exchanged in the course of the year, which is exchanged two, or three, or more times, that also is not taken into account, because the effect is the same, with respect to the money, as if the goods had been increased to the amount of these multiplications, and exchanged only once.

SECTION VIII

WHAT REGULATES THE QUANTITY OF MONEY

When we have ascertained, that quantity determines the value of money, we still have to inquire what it is that regulates quantity.

The quantity of money may seem, at first sight, to depend upon the will of the governments, which assume to themselves the privilege of making it, and may fabricate any quantity they please.

Money is made under two sets of circumstances; either when government leaves the increase or diminution of it free; or when it endeavours to control the quantity, making it great or small as it pleases.

When the increase or diminution of money is left free, government opens the mint to the public at large, making bullion into coins for as many as require it.

It is evident that individuals, possessed of bullion, will desire to

convert it into coins, only when it is their interest to do so; that is, when their bullion, converted into coins, will be more valuable to them than in the shape of bullion.

As the value of the coins depends upon the quantity of them, it is only when the quantity is to a certain degree limited, that they have this value. It is the interest of individuals, when coins are thus high in value, to carry bullion, to be coined; but by every addition to the number of the coins, the value of them is diminished; and at last the value of the metal in the coins, above the bullion, becomes too small to afford a motive for carrying bullion to be coined. If the quantity of money, therefore, should at any time be so small as to increase its value above that of the metal of which it is made, the interest of individuals operates immediately, in a state of freedom, to augment the quantity.

It is also possible for the quantity of money to be so large as to reduce the value of the metal in the coin, below its value in the state of bullion; in that case, the interest of individuals operates immediately to reduce the quantity. If a man has possessed himself of a quantity of the coins, containing, we shall say, an ounce of the metal, and if these coins are of less value than the metal in bullion, he has direct motive to melt the coins, and convert them into bullion: and this motive continues to operate till by the reduction of the quantity of money, the value of the metal in that state is so nearly the same with its value in bullion, as not to afford a motive for melting.

Whenever the coining of money, therefore, is free, its quantity is regulated by the value of the metal, it being the interest of individuals to increase or diminish the quantity, in proportion as the value of the metal in coins is greater or less than its value in bullion.

But if the quantity of money is determined by the value of the metal, it is still necessary to inquire what it is which determines the value of the metal. That is a question, however, which may be considered as already solved. Gold and silver are in reality commodities. They are commodities, for the attaining of which labour and capital must be employed. It is cost of production, therefore, which determines the value of these, as of other ordinary productions.

We have next to examine the effects which take place by the attempts of government to control the increase or diminution of money and to fix the quantity as it pleases. When it endeavours to keep the quantity of money less than it would be, if things were left in freedom, it raises the value of the metal in the coin, and renders it the interest of

every body, who can, to convert his bullion into money. By supposition, the government will not so convert it. He must, therefore, have recourse to private coining. This the government must, if it perseveres, prevent by punishment. On the other hand, were it the object of government to keep the quantity of money greater than it would be, if left in freedom, it would reduce the value of the metal in money, below its value in bullion, and make it the interest of every body to melt the coins. This, also, the government would have only one expedient for preventing, namely, punishment.

But the prospect of punishment will prevail over the prospect of profit, only if the profit is small. It is well known, that, where the temptation is considerable, private coinage goes on, in spite of the endeavours of government. As melting is a more easy process than coining, and can be performed more secretly, it will take place by a less temptation than coinage.

It thus appears, that the quantity of money is naturally regulated, in every country, by the value, in other words, by the productive cost, in that country, of the metals of which it is made; that the government may, by forcible methods, reduce the actual quantity of money to a certain, but an inconsiderable extent, below that natural quantity; that it can also, but to a still less extent, raise it above that quantity.

When it diminishes the quantity below what it would be in a state of freedom, in other words, raises the value of the metal in the coins, above its value in bullion, it in reality imposes a seignorage. In practice, a seignorage is commonly imposed by issuing coins which contain rather less of the metal than they profess to contain, or less than that quantity to which they are intended to be an equivalent. By coining upon this principle, government makes a profit of the difference between the value of the metal in the coins, and that in bullion. Suppose the difference to be five per cent., the government obtains bullion at the market price, and makes it into coins which are worth five per cent. more than the bullion. Coins, however, will retain this value, only, if, as we have shown in the preceding section, they are limited in amount. To be able to limit them in amount, it is necessary that seignorage should not be so high as to compensate for the risk of counterfeiting; in short, that it should not greatly exceed the expense of coining.

SECTION IX²⁹

THE EFFECT OF EMPLOYING TWO METALS BOTH AS STANDARD MONEY, AND OF USING SUBSIDIARY COINS, AT LESS THAN THE METALLIC VALUE

Some nations have made use of two metals, gold and silver, both, as standard money, or legal tender to any amount.

For this purpose it was necessary to fix a certain relative value between them. A certain weight of the one was taken to be equal in value to a certain weight of the other.

If the proportion thus fixed for the coins were accurately the proportion which obtained in the market, and continued so invariably, there would be no inconvenience in the two standards. The value of any sum would always be the same in either set of coins.

The relative value, however, of the two metals in the market is fluctuating.

Suppose that the value fixed for the coins is that of 15 to 1; in other words, that one piece of gold is equal to 15 pieces of silver of the same weight. A change takes place in the market, and this value becomes as 16 to 1. What follows?

A man who had a debt to pay, equal, let us say, to 100 of the gold pieces, or 1500 of the silver, finds it his interest to pay his debt not with gold. With his 100 pieces of gold he can go into the market and purchase as much silver as may be coined into 1600 pieces, with 1500 of which he may pay his debt, and retain 100 to himself. In this manner silver coins would be multiplied; and the quantity of the currency would be increased; its value would, therefore, be diminished; the gold in coins would thus become of less value than in bullion; hence the gold coins would be melted and would disappear.

After a fluctuation in one direction, it may take place in another. Silver may rise, instead of falling, as compared with gold. The relative value may become as 14 to 1. In this case it would be the interest of every man to pay in gold, rather than silver; and in this case it would be the silver coins which would disappear.

Two inconveniences are therefore incurred by the double standard. First, the value of the currency, instead of being rendered as steady in value as possible, is subjected to a particular cause of variation. And, secondly, the country is put to the expense of a new coinage, as often as a change takes place in the relative value of the metals.

²⁹ [This section was added in the 2nd edition.]

The case would be exactly the same, if a seignorage existed. Suppose that 10 per cent. were imposed as seignorage; it would be equally true, that the 100 pieces of gold; were the proportion changed, from 15 to 1, to 16 to 1; would purchase as much silver as would be exchanged at the mint for 1600 pieces of silver. While the market value of the two metals was the same as the mint value, one piece of gold purchased not only as much silver as was contained in 15 pieces of silver, but one-tenth more; after the change which we have just supposed, it purchases in the proportion of 16 to 15, that is, as much as will be contained in 16 pieces, and a tenth more.

The use of silver coins, for the purpose of small payments, or change, as it is called, of the more valuable coins, if they are legal tender only to a small amount, is not liable to the objections which apply to a double standard.

It has, indeed, been affirmed, that if they are issued, at a higher value than that of the metal contained in them, they will occasion the exportation of the gold coins. But it is easy to see that this is a mistake.

Suppose that our silver coins in this country are 10 per cent. above the value of the metal, but legal tender only to the extent of 40 shillings; every man, it is affirmed, has hence an interest in sending gold to Paris to buy silver.

The relative value of gold to silver in Paris and England is naturally pretty nearly the same; let us say as 15 to 1. An ounce of gold, therefore, will in Paris purchase 15 oz. of silver. But so it will in England. Where then is the advantage in going to France to purchase it?

You propose to coin it because it is 10 per cent. more valuable as coin.

But 10 per cent. of it is taken from you, and hence to you the advantage of the high value is lost.

Your silver coin with 10 per cent. added to them, would make the coins of full weight.

Suppose the price of silver to have sunk below the mint proportion, it would then be your interest to pay in silver if you could; but you can only pay to the extent of 40 shillings it is therefore worth nobody's to surcharge the market.

Besides, government reserves to itself the right of refusing to coin silver, when it pleases; it can therefore retain it of a high value.

Subsidiary coins cannot send the standard coins out of the country, unless the increased amount of them sink the value of the currency.

The standard coins will not go in preference to bullion, unless they can be purchased cheaper than bullion.

SECTION X

SUBSTITUTES FOR MONEY

The only substitute for money, of sufficient importance to require explanation, in this epitome of the science, is that species of written obligation to pay a sum of money, which has obtained the appellation of paper money.

The use of this species of obligation, as a substitute for money, seems to have originated in the invention of bills of exchange, ascribed to the Jews, in the feudal and barbarous ages.

When two countries, as England and Holland, traded with one another; when England, for example, imported Dutch goods, and Holland imported English goods, the question immediately arose, how payment was to be made for them. If England was under the necessity of sending gold and silver for the goods which she had brought from Holland, the expense was considerable. If Holland was under the necessity of sending gold and silver to England, the expense was also considerable. It was very obvious, however, that if there were two individuals, one of whom owed to the other 100*l.*, and the other to him 100*l.*, instead of the first man's taking the trouble to count down 100*l.* to the second, and the second man's taking the same trouble to count down 100*l.* to the first, all they had to do was to exchange their mutual obligations. The case was the same between England and Holland. If England had to pay a million of money to Holland, and had an equal sum to receive from Holland, instead of sending the money from England to Holland, it would save expense and trouble to consign to her creditors, in Holland, the money due to her in Holland; and those merchants in Holland, who owed money to England, and must have been at the expense of sending it would be well pleased to be saved from that expense, by obeying an order to pay, in Holland, what they owed to a merchant in England. A bill of exchange was, literally, such an order. The merchant in England wrote to the merchant in Holland, who owed him a sum of money, 'Pay to such and such a person, such and such a sum;' and this was called drawing a bill upon that person. The merchants in Holland

acted in the same manner, with respect to the persons in England, from whom they had money to receive, and to whom they had money to pay. When it so happened, that the money which the two countries owed to one another, was equal, the payments balanced one another, and each country paid for the goods, which it had received, free, altogether, from the expense of transmitting money. Even when it happened that one of the two owed more than it had to receive, it had only the balance to discharge, and was relieved from all the rest of the expense.

The advantage, therefore, derived from the invention and use of bills of exchange, was very considerable. The use of them was recommended by a still stronger necessity, at the period of the invention, because the coarse policy of those times prohibited the exportation of the precious metals, and punished with the greatest severity any infringement of that barbarous law.

Bills of exchange not only served the purpose of discharging debts between country and country, but very often acted as a substitute for money, in the country to which they were sent. When a bill was drawn, payable after a certain time, the merchant to whom it was sent, if he had a debt to pay, or purchase to make, without having money ready for the purpose, paid with the bill, instead of money. One of these bills would often pass through several hands, and be the medium of payment in a number of transactions, before it was finally discharged by the person on whom it was drawn. To this extent, it performed the precise functions of paper money, and led the way to the further use of that important substitute.

As soon as it was discovered, that the obligation of a merchant of credit, to pay a sum of money, was, from the assurance that it would be paid as soon as demanded, considered of equal value with the money itself, and was without difficulty received in exchanges, as the money itself would have been received, there was motive sufficient to extend the use of the substitute. Those persons who had been accustomed to perform the functions of bankers in keeping the money of individuals, and exchanging against one another the coins of different countries, were the first who issued promises to pay certain sums of money, in the expectation that they would operate, as substitutes for money, in the business of purchase and sale. As soon as the use of such a substitute for money has begun, nothing is wanting but freedom, and the confidence of the public in the written promises, to enable the paper to

supersede the use of the metal, and operate, almost exclusively, as the medium of exchange.

It remains to inquire what are the advantages derived from the use of this substitute; and what are the inconveniences to which it is liable.

SECTION XI

ADVANTAGES DERIVED FROM THE USE OF PAPER MONEY

The precious metals which are necessary to perform the functions of a medium of exchange, are bought with the commodities of the country. Manufactures, and the produce of the land, are exported; and instead of other commodities, to be turned to use, gold and silver, to be employed as the medium of exchange, are imported for them. The value of the gold and silver, when they alone perform the business of exchange, always bears a considerable proportion, – in countries but little advanced in the arts of exchange, a large proportion, to the whole of the annual produce of the country. If each piece performs a hundred purchases in once exchanging the goods which fall to be exchanged in a year, the value of the money required is equal to a hundredth part of the whole of such goods, which, though not exactly corresponding with the annual produce, correspond with it so nearly, that we need not scruple to speak of them under that name. In countries in which money does not pass rapidly from hand to hand, it may be equal to a tenth of the whole of the annual produce.

It is evident that whatsoever part of the national property goes to provide the medium of exchange, is wholly inoperative with regard to production. Nothing produces, but the immediate instruments of production; the food of the labourer, the tools or machinery with which he labours, and the raw material, which he fabricates. If the whole, therefore, of the national property, which goes in this manner to provide a medium of exchange, equal to one-tenth, or one-hundredth part of the annual produce, could be taken from that employment, and converted into food, tools, and the materials of production, the productive powers of the country would receive a corresponding increase.

If it be considered, that the annual produce is equal, not only to the whole of the net revenue of the country, but, along with this, to the whole of the capital, excepting the part which is fixed in durable

machinery,³⁰ it may be easily understood how vast an accession is made to the means of production, by providing a substitute for the precious metals, as a medium of exchange.

Paper is also far more convenient, as a medium of exchange. A large sum in the shape of gold or silver is a cumbrous commodity. In performing exchanges of considerable value, the very counting of gold and silver is a tedious operation. By means of a bank note, the largest sum is paid as quickly as the smallest.

SECTION XII

INCONVENIENCES TO WHICH THE USE OF PAPER MONEY IS LIABLE

The inconveniences to which paper money is liable, seem all to be comprehended under three heads.

First, – The failure of the parties, by whom the notes are issued, to fulfil their engagements.

Secondly, – Forgery.

Thirdly, – The alteration of the value of the currency.

1. The failure of the parties, by whom notes are issued, is an evil against which, under good institutions, the most powerful securities are spontaneously provided.

If competition were allowed to operate freely, and if no restriction were imposed on the number of the partners, who might be engaged in a bank, the business of banking, and of issuing notes, would naturally place itself on a footing, which would render paper currency very secure.

The number of banks would of course be multiplied; and no one bank would be able to fill with its circulation more than a certain district.

As little risk, where the partners were numerous, would be incurred by each of them, as the profits would be very sure, and the importance of having a good currency would be sensibly felt; there would be motive sufficient, to all the principal noblemen and gentle-

³⁰ [In the 1st edition this qualification read: 'excepting only that part, comparatively small, which is fixed in durable machinery'. It was altered to meet Ricardo's comment: 'Can this part be called justly comparatively small? It consists not only of durable machinery but of ships, canals, roads, bridges, workshops etc. etc.' *Works*, vol. IX, p. 128.]

men of the county, or other district, to hold shares in the local bank, and add to the security of the public.

In competition with such an establishment, any bank, of doubtful credit, would vainly endeavour to introduce its notes into circulation. The sense of interest keeps the attention sufficiently awake, and where education and knowledge are tolerably advanced, and the press is free, intellect is not wanting to guide the most ignorant to the proper conclusions. The people may be trusted to reject the notes of a suspected party, when they may have those of a party in whom they confide.

Another great advantage is gained, by the scheme of numerous banks, each supplying, under the safeguard of freedom and competition, a limited district; that if one of them fails, the evil is limited, and produces inconvenience to but a small portion of the community.

The interest, also, which banks, where numerous, have in supplanting one another, places them on the watch to discover any symptom of deficiency on the part of a rival; and each of them, knowing that it is vigilantly watched, is careful to avoid any fault, which can lead to a diminution of its credit.

In Scotland, where banking is nearly placed upon this desirable footing, and where paper money spontaneously filled the channels of circulation, long before the suspension of cash payments at the Bank of England, there have been few failures in the numerous banks which issued paper, notwithstanding all the fluctuations in the value of money, produced by that suspension, and all the convulsions of credit of which those fluctuations were the cause.

Such are the securities which the interest and intelligence of the parties would provide, without the intervention of the legislature. Of the securities which might be provided by the legislature, the following are among those which most obviously present themselves.

It might be rendered imperative upon every bank to transmit to some organ of government two monthly statements, one of the amount of its notes, another of the securities with which it was provided to meet the demands to which it was liable; while appropriate powers might be granted, for taking the necessary steps to protect the public where proper securities might appear to be wanting.

As a great profit attends the issuing of notes in favourable circumstances, it is desirable that the benefit, if unattended with preponderant evil, should accrue to the public. The profit, it is observable, arising from the interest upon the notes as they are lent, is altogether

distinct from the other benefit, arising from the conversion of a costly medium of exchange into instruments of production.

The issuing of notes is one of that small number of business, which it suits a government to conduct; a business which may be reduced to a strict routine, and falls within the compass of a small number of clear and definite rules. If the public were its own banker, as it could not fail in payments to itself, the evils, liable to arise from the failure of the parties who issue notes to fulfil their engagements, could not possibly have place. The people, in this case, would provide the funds to fulfill the engagements, and the people would receive them.³¹ Political Economy does not contemplate the misapplication of the funds provided by the people. The cases of national bankruptcy, and of the non-payment of a government paper, by which the people of various countries have suffered, have all been cases in which the Many have been plundered for the benefit of the Few. When the people, as a body, are to receive the payment, which the people, as a body, provide the funds to make, it would be absurd to speak of their loss by a failure.

The chance of evil, then, from a failure in discharging the obligations contracted by the issue of paper money, is capable of being so much reduced, as to constitute no valid objection against an expedient, the benefits of which are great and indisputable. There are persons, however, who say, that if the benefits derived from paper money did surpass the chance of evil in quiet and orderly times, the case is very different in those of civil war or foreign invasion.

Civil war, and foreign invasion, are words which raise up vague conceptions of danger; and vague conceptions of danger are too apt to exert undue influence on the understanding.

In the first place, there is, in the present state of the civilised world, so little chance of civil war, or foreign invasion, in any country having a good government, and a considerable population, that, in contriving the means of national felicity, small allowance can be rationally required for it. To adopt a course of action, disadvantageous at all but times of civil war and foreign invasions, only because it were good on

³¹ [This proposal for a national bank derives from Ricardo (see his *Principles, Works*, vol. I, pp. 361-3); the augmented political overtones belong to Mill. The idea may have originated with Ricardo, but there is little doubt that Mill encouraged him in this line of thought. The first hints of this proposal appear in Ricardo's *Economical and Secure Currency* (1816), *Works*, vol. IV, p. 114; and it has been suggested by Mr Sraffa (*ibid.*, p. 46n) that the passage concerned shows evidence of Mill's hand.]

those occasions, would be as absurd, as it would be, in medicine, to confine all men continually to that species of regimen which suits a violent disease. If the advantages, which arise from the use of paper money, are enjoyed, without any considerable abatement, at all times, excepting those of civil war and foreign invasion, the utility of paper money is sufficiently proved.

To save ourselves from the delusion which vague conceptions of danger are apt to create, it is proper to inquire, what are the precise evils which may arise from paper money, during those rare and extraordinary times.

A civil war, or a foreign invasion, is attended with a great derangement of the circulating medium, when it is composed of gold and silver. At such a period there is a general disposition to hoard: a considerable proportion, therefore, of the medium of exchange is withdrawn from circulation, and the evils of a scarcity of money are immediately felt; the prices of commodities fall; the value of money rises; those who have goods to sell, and those who have debts to pay, are subject to losses; and calamity is widely diffused.

From the evils of hoarding, the community would be, in a great measure, secured, by the prevalence of paper money. And there are many reasons which may draw us to conclude, that those arising from the diminution of credit would be very little to be feared.

If the paper were issued by a government, which deserved the confidence of the people, a foreign invasion, which would concentrate the affections of the people towards the government, would not destroy the credit of its notes.

It would not be the interest of the invaders to destroy their credit, even in that part of the country, of which they might be in possession; because it would not be their interest to impair its productive powers.

Nobody would lose, ultimately; because, even if the circulation of the notes were prevented in the districts possessed by the enemy, they would recover their value the moment the enemy were expelled.

The effects would not be very different, if the circulation were provided by a well-conducted system of private banking. It would be the interest of all parties to preserve the circulating medium in credit. It would be the interest of the enemy to preserve it in the districts which he possessed. At most, he could only prevent the circulation for a time; for, after his expulsion, the notes would be redeemed; either by the responsible parties who had issued them; or, if they had lost

their property through the operations of the enemy, out of the compensation money which the government would allow.

It is not probable, that, even in a civil war, any considerable discredit should attend a well-established paper currency. The country is, of course, divided between the hostile parties, in portions more or less nearly equal. It is evidently not the interest of the government, in that part of the country which it commands, to discredit the paper currency, whether it had been issued by itself, or by private bankers. As little is it the interest of the opposite party, to do any thing which shall disorder the regularity of transactions, in that part of the country, where it governs, and from which all its means of prevailing over its opponents must be drawn. If the circulating medium consists of the notes of private bankers, situated within that part of the country, it is the interest, on a double account, of the party to protect them. It is its interest to protect them, even if they are paper of the government. For whom would it injure, as the holders of them, but its own people? Whose business would it disturb by the want of a circulating medium, but the people upon whose means and affections it wholly depends? By protecting the paper of the government, it makes it, in reality, its own.

Experience is in favour of all these conclusions; since it has been repeatedly found, that the presence of hostile armies, and even internal commotions, have occasioned little disturbance to a paper currency, the value of which was but tolerably secured.

2. Forgery, to which bank notes are exposed, is an evil of the same sort as counterfeiting. This, though an evil of great magnitude, under so imperfect a system of banking as that, which is created by the existence of a great monopolizing establishment, like the Bank of England, would, under such a system of banking, as that which we have been just contemplating, be inconsiderable. Where one great bank supplied the circulation of a great part of the country, there is opportunity for the circulation of a great amount of forged notes, and motive to incur both a great risk and a great expense. But if every bank supplied only a small district, a small amount of the forged notes of such a bank could find their way into the circulation. Banks, too, which are subject to the useful principle of competition, are afraid to discredit their own notes and render the people shy of taking them, by refusing payment of such as are forged; they rather choose to pay them in silence, to detect as well as they can the authors of the forgery, and

circumscribe its amount. In this manner individuals severally are exempted from loss; and if a loss is willingly sustained by the banks, it is only because they find compensation.

3. The last of the three inconveniences, liable to arise from the use of paper money, is an alteration in the value of the currency.

This alteration is always an act of the government; and is not peculiar to paper money.

We have already seen, that the value of a metallic currency is determined by the value of the metal which it contains. That of a paper currency, therefore, exchangeable at pleasure, either for coins or for bullion, is also determined by the value of the metal which can be obtained for it. The reason is obvious. If the paper should at any time be reduced below the value of the metal, every person who held a bank note, the less valuable commodity, would demand for it the more valuable commodity, the metal. If the promise were, as in England, to pay an ounce of gold for 3*l.* 17*s.* 10½*d.* of paper, it would be the interest of the holders of the notes to demand gold in exchange, the moment 3*l.* 17*s.* 10½*d.* in paper became of less value than an ounce of gold; that is, the moment gold rose above the mint price.

But in these circumstances, it would be the interest of those who issued the notes to raise their value by reducing their quantity. If they endeavoured to maintain the high quantity, they would be condemned perpetually to issue and perpetually to withdraw; because every man who became possessed of any of their notes would have an interest in bringing them back again for gold; and on each of these occasions the issuers would sustain a loss. They would issue the notes at the rate of 3*l.* 17*s.* 10½*d.*; that is they would receive a value of 3*l.* 17*s.* 10½*d.* when they issued them; but when they received them back, they would be obliged to pay an ounce of gold, for 3*l.* 17*s.* 10½*d.* of their notes; and that ounce might cost them 4*l.*, or any greater sum.

If the currency were supplied by paper, without coins, the issuers of the paper could, by lessening its quantity, and thereby enhancing its value, reduce the price of gold. Suppose, by this means, they were to reduce it to 3*l.* per ounce. They might fill their coffers with gold at this price; and having done so, they might raise its price by increasing their issues till it became the interest of the holders of their notes to demand it of them at 3*l.* 17*s.* 10½*d.* They would make a profit of 17*s.* 10½*d.* on every ounce of gold thus trafficked; and they might continually repeat the operation. A simple expedient, however, would be

an effectual security against this danger. As the obligation to sell gold at a fixed price renders it the interest of those who issue paper not to increase their notes in such a manner as to raise gold above that price, so an obligation on them to buy gold at a fixed price would render it their interest not to reduce the amount of their notes in such a manner as to sink below that price. The value of the notes might thus be kept very steadily conformable to that of the metallic standard.³²

In the case of a metallic currency, government can reduce the value of the coins, only by lessening the quantity of the precious metal contained in them; otherwise, as soon as it reduced the value of the coins sufficiently to afford a motive for melting them, they would, as fast as issued, disappear.³³ In the case of a paper currency, it is only necessary for government to withdraw the obligation to pay metal for it on demand, when the quantity may be increased, and thereby the value diminished, to any amount.

Paper currency is issued without obligation to pay for it, in two ways: either, when government is the issuer, and renders its paper legal tender, without obligation to give metal for it in exchange; or when the paper currency is regulated by one great establishment, as the Bank of England, and government suspends its obligation to pay for its notes.

The effects of an increase of the quantity, and consequent diminution of the value of the currency in any particular country, are two: first, a rise of prices; secondly, a loss to all those persons who had a right to receive a certain sum of money of the old and undiminished value.

By the term *price*, I always understand the quantity of money which is given in exchange. An alteration in the value of money, it is obvious, alters the relative value of nothing else. All things – bread, cloth, shoes, &c. rise in value as compared with money; but not one of them rises in value as compared with any other.

This difference of price is, in itself, of no consequence to any body.

³² [The whole of this paragraph and the ending of the preceding one was modified in the 2nd edition to remove a minor obscurity pointed out by Ricardo, *Works*, vol. IX, p. 128 (comment on pp. 119-20 of 1st edition).]

³³ [Ricardo commented: "There is a little ambiguity in this passage. Government could not diminish the value of the currency taken as a whole, they could diminish the value of each particular coin of which that currency was composed." *Works*, vol. IX, p. 128. No alteration was made by Mill.]

The man who has goods to sell gets more money for them, indeed; but this money will purchase him just the same quantity of commodities as he was enabled to purchase with the price he obtained before. The man who has goods to purchase has more money to give for them; but he is enabled to do so, by getting just as much more for the commodities he has to sell.

With respect to the second effect of a degradation in the value of money, it is to be observed, that there exists at all times, in civilized countries, a number of obligations to pay certain sums of money to individuals: either all at once, as debts; or in succession, as annuities. It is very obvious, that the individual who has contracted with a man to receive 100*l.* sustains a loss when the currency is reduced in value and he receives no more than 100*l.* It is equally obvious that the party who has to pay the sum, is benefitted to the same amount. These circumstances are reversed when the alteration which has taken place is an increase of the value. In that case the man who has to pay sustains the loss; the man who receives payment makes the gain. These losses are evils of great magnitude, as far as men's feelings and happiness are concerned; and they imply a gross violation of those rules for the guardianship of that happiness, which are comprehended under the term justice. It is, however, no destruction, and consequently no loss, of property.

Hume has supposed that certain other effects are produced by the increase of the quantity of money. When an augmentation of money commences, individuals, more or fewer, go into the market with greater sums. The consequence is, that they offer better prices; and Hume affirms, that the increased prices give encouragement to producers, who are incited to greater activity and industry, and that an increase of production is the consequence.³⁴

This doctrine implies a want of clear ideas respecting production. The agents of production are the commodities themselves, not the price of them. They are the food of the labourer, the tools and machinery with which he works, and the raw materials which he works upon. These are not increased by the increase of money: how then can there be more production? This is a demonstration that the conclusion of Hume is erroneous. It may be satisfactory also to unravel the fallacy of his argument.

³⁴ [See David Hume's essay 'Of Money' in his *Economic Writings* (ed. E. Rotwein), Nelson, 1955, p. 38.]

The man who goes first to market with the augmented quantity of money, either raises the price of the commodities which he purchases, or he does not.

If not, he gives no additional encouragement to production. The supposition, therefore, must be, that he does raise prices. But exactly in proportion as he raises prices, he sinks the value of money. He therefore gives no additional encouragement to production.

It will perhaps be said, by a persevering objector, that the man who first goes to market with the additional quantity of money, raises the price of the commodities which he immediately purchases: that the producers of those commodities are therefore encouraged to greater industry, because the price of other commodities, namely, of all those which they have occasion to purchase, has not risen. But this he is not allowed to say. The first man who came with an additional quantity of money into the market to purchase the commodities of those producers, raised the price of those commodities. And why? Because he came with an additional quantity of money. They go into the market to purchase another set of commodities, and go with an additional quantity of money. They raise, therefore, the price of those commodities. And in this manner the succession goes on. Of all those commodities with which no additional quantity of money has yet come in contact the price remains unaltered. The moment an additional quantity of money comes in contact with them, the price is proportionally raised.

The whole of the business of any country may be considered as practically divided into a great number of little markets, some in one place, some in another, some of one sort of commodity, some of another: the money, of course, distributed proportionally among them. Into each of these markets, in the ordinary state of things, there comes, on the one side, a certain quantity of commodities; on the other side a certain quantity of money; and the one is exchanged against the other. Wherever any addition takes place in the quantity of goods, without any addition to the quantity of money, the price falls, and of necessity in the exact proportion of the addition which has been made. If this is not clear to every apprehension already, it may be rendered palpable by adducing a simple case. Suppose the market to be a very narrow one; of bread solely, on the one side; and money on the other. Suppose that the ordinary state of the market is 100 loaves on the one side, and 100 shillings on the other; the price of bread, accordingly, a

shilling a loaf. Suppose, in these circumstances, that the quantity of loaves is increased to 200, while the money remains the same: it is obvious that the price of the bread must fall one half, or to sixpence per loaf. It would not be argument to say, that part of the bread would not be sold, but taken away unsold. If it is taken away unsold, it is the same thing, with respect to the market, as if it had never been brought. These conclusions, with respect to an increase in the quantity of commodities, no man disputes. Is it not obvious that the same conclusions are true with respect to an increase in the quantity of the opposite commodity – the money?

All the consequences, therefore, of altering the value of money, whether by raising or depressing it, are injurious.³⁵ There is no security, however, against it, as it is a deed of government, but that which is the sole security against the misdeeds of government; its dependence upon the people. The obligation of paying the notes in the metal is a necessary security, where they are issued at pleasure by private bankers. If they were issued by a government strictly responsible to the people, it would not be indispensable; for in that case the utility of keeping gold at the mint price, or, in other words, the currency of the same value as if it was metallic, might be so distinctly understood, that it would not be the interest of those intrusted with the powers of government to allow it to vary.

We have already seen, in treating of the properties which recommend the precious metals for the instrument of exchange, that they are less than almost any other commodity subject to fluctuation of value. They are not, however, exempt from changes, partly temporary and partly permanent. The permanent changes take place, chiefly in consequence of a change in the cost of procuring them. The greatest change of this kind, recorded in history, is that which took place on the discovery of the mines of America, from which, with the same quantity of labour a greater quantity of metals was obtained. The tem-

³⁵ [Mill was always anxious to suppress 'unorthodox' popular views on the subject of money, particularly those based on the idea that production and employment could be stimulated by an increase in the quantity of money. He considered such views to be thoroughly subversive; they could only lead to 'robbery' by depreciation. See e.g. his letter to Brougham 3 Sep. 1831 (Bain, *op. cit.*, pp. 364-5) in which he says that 'hanging, a thousand times repeated, would be too small a punishment' for those advocating depreciation. John Stuart Mill took up this theme more temperately in his *Principles*; see pp. 550-1 (Ashley edition) where he criticises the Birmingham currency school for advocating an increase of paper currency.]

porary changes take place, like the temporary changes in the value of other commodities, by a derangement of the balance of demand and supply. For the payment of troops in a foreign country, or subsidies to foreign governments and other operations, a great quantity of gold or silver is sometimes bought up, and sent out of the country. This enhances the price, till the balance is restored by importation. The profit which may be acquired operates immediately as a motive to restore it. In the interval, however, an advantage may be derived from a paper money not convertible immediately into the metals. If convertible, gold will be demanded, paper will be diminished, and the value of the currency will be raised. If not convertible, the currency may be retained of the same, or nearly the same value as it was before. This, indeed, can scarcely be done, and the remedy applied with safety, unless where the whole is paper, and government has the supply in its own hands. In that case the sameness in the quantity of the currency, as it would be perfectly known, would be a sufficient index and security.³⁶ If the price of gold rose suddenly above the mint price, or, in other words, above the rate of the bank notes, without any alteration in the quantity of the currency, the sameness in the quantity of currency would be a sufficient index that the rise was owing to a sudden absorption of the gold; which, after a time, would return. If in such circumstances the obligation of keeping up the value of the paper to that of the gold were suspended for a short time, a sufficient security against any considerable alteration in the value of the currency would be found in the obligation of keeping the quantity of it the same; because, during any short period of time, there can be no such diminution or increase of the quantity of business to be done by it, as to require any material alteration. That in the hands of an irresponsible government such power of suspension would be dangerous, is true. But an irresponsible government involves all kinds of danger, and this among the rest.

³⁶ [Ricardo commented: 'I should be very unwilling to allow government to keep the same quantity of paper in circulation under the circumstances supposed. By what criterion should we be able to distinguish a real demand for gold, from a diminished capital and circulation from improvements in the art of economising the use of money etc. etc?' *Works*, vol. IX, p. 128.]

SECTION XIII

THE VALUE OF THE PRECIOUS METALS IN EACH COUNTRY DETERMINES WHETHER IT SHALL EXPORT OR IMPORT

Metallic money, or more generally speaking, the precious metals, are nothing more, considered strictly, and in their essence, than that commodity which is the most generally bought and sold, whether by individuals, or by nations.

In ordinary language, it is immediately acknowledged, that those commodities alone can be exported, which are cheaper in the country from which, than in the country to which, they are sent; and that those commodities alone can be imported, which are dearer in the country to which, than in the country from which, they are sent.

According to this proposition, if gold is cheaper in any one country, as in England, for example, it will be exported from England. Again, if gold is dearer in England than in other countries, it will be imported into England. But, by the very force of the terms, it is implied, that in any country where gold is cheap, other commodities are dear. Gold is cheap, when a greater quantity of it is required to purchase commodities; and commodities are dear, for the same reason; namely, when a greater quantity of gold is required to purchase them. When the value of gold, therefore, in England, is low, gold will be exported from England, on the principle that all commodities which are free to seek a market, go from the place where they are cheap to the place where they are dear. But as, in the fact that gold is cheap, is implied the correlative and inseparable fact, that other commodities, at the same time are dear, it follows, that, when gold is exported, less of other commodities can be exported, if the value of gold is so low as to raise the price of all of them above the price in other countries; and that a diminished quantity alone can be exported, if the value of gold is only reduced so far as to raise the price of some of them above the price in other countries.

It is evident, therefore, that a country will export commodities, other than the precious metals, only when the value of the precious metals is high. It is equally evident, that she will import, only when the value of the precious metals is low. The increase, therefore, of the quantity of the precious metals, which diminishes the value of them, gradually diminishes and tends to destroy the power of exporting other commodities; the diminution of the quantity of the precious

metals which increases their value, increases, by a similar process, the motive to exportation of other commodities, and, of course, in a state of freedom, the quantity exported.

SECTION XIV

THE VALUE OF THE PRECIOUS METAL, OR MEDIUM OF EXCHANGE, WHICH DETERMINES EXPORTATION, IS NOT THE SAME IN ALL COUNTRIES

When we speak of the value of the precious metal, we mean the quantity of other things for which it will exchange.

But it is well known that money is more valuable, that is, goes farther in the purchase of commodities, not only in one country than another, but in one part than another of the same country.

In some of the more distant places of Wales, for example, money is more valuable than in London; in common language, we say, that living is more cheap; in other words, commodities may be purchased with a smaller quantity of money: and this state of things is habitual, money having no tendency to go from London where its value is low, to increase its quantity in Wales where its value is high. This phenomenon requires explanation.

The fact is, that the whole of such difference as is habitual, and has no tendency to produce a transit of the metals, resolves itself into cost of carriage. Corn, butchers'-meat, and other commodities, which are produced in Wales, are cheaper than in London, because the supply of London comes from a distance, and the original price is enhanced by cost of carriage. But as there are certain commodities which thus are cheaper in Wales than in London, so there are others which are cheaper in London than in Wales. Such are all the commodities which are either manufactured in London, or imported into London from abroad. Just as the corn and other commodities, which come from Wales to London, are enhanced by the cost of carriage; so those commodities which are sent from London to Wales, are dearer in Wales than in London, by the whole of the cost which is incurred in transporting them. The fact, therefore, is, that in Wales some commodities are cheaper, and some are dearer, than in London; but those which are cheaper are the articles of principal importance; they are the necessaries of life, the articles the consumption of which constitutes the principal part of almost every man's expenditure. What is more, they

are the articles the money-value of which determines the money-value of labour; every thing which a man has done for him, therefore, is done cheaper than it is in London. And, lastly, the gross commodities, which are the produce of Wales, cost much more carriage, in proportion to their value, than the fine commodities which are received from London: the cost of the gross commodities in London is much more raised above the price of them in Wales, than the price of the fine commodities in Wales is raised above the price of them in London. The cost of living, therefore, is greater in London than in Wales, for this reason, solely, because people in London pay more for carriage. If the value of the metal in Wales rose ever so little above that limit, a profit equal to that rise would immediately operate as a motive for sending it to Wales.

From two places in the same country, let us transfer the consideration to two different countries. The cost of living is higher; in other words, the value of the precious metals is lower in England, than in Poland. The difference here, also, resolves itself wholly into the cost of carriage. Let us suppose that England receives a considerable portion of her supply of corn from Poland, and sends her the whole, or the greater part, of her fine manufactures: corn, it is evident, will be dearer in England; but fine manufactures will be dearer in Poland. For the same reasons that money, as we have shown, goes farther in Wales, than in London, it is easy to see that it will, in this case, go farther in Poland than in England; in other words, the value of gold in Poland will be greater than in England, just so much as to compensate for the greater cost of carriage which England sustains. The moment it rises above that value, a profit may be made by sending it to England.

SECTION XV

MODE IN WHICH THE PRECIOUS METAL, OR MEDIUM OF EXCHANGE, DISTRIBUTES ITSELF AMONG THE NATIONS OF THE GLOBE

In the country of the mines, whence gold distributes itself to the rest of the world, gold is in relative plenty. As an addition is constantly making to the quantity already possessed, there is a constant tendency in the gold of that country to fall in relative value; in other words, a constant tendency in the price of other things to rise. As soon as any

commodities have risen sufficiently high to enable them to be imported, they will come in from that country, be it what it may, from which, prime cost and cost of carriage taken together, they come the cheapest; and gold will go out in exchange.

By this importation of gold into that second country, it becomes relatively plentiful there, and prices rise. Some commodity, or commodities, become there at last so dear, that they can be imported, with profit, from another country: commodities, as in the previous instance, come in, and gold goes out. It is unnecessary to trace the operation farther. In this manner gold proceeds from country to country, through the whole connected chain of the commercial world.

In a preceding section we found, that it is the interest of two nations to exchange with one another two sorts of commodities, as often as the relative cost of producing them is different in the two countries. If four quarters of corn, for example, and 20 yards of cloth, cost, each, the same quantity of labour in England, but not the same quantity in Poland, it would be the interest of the two countries, the one to produce corn, the other to produce cloth, and to exchange them with one another.

Suppose, while four quarters of corn and 20 yards of cloth required the same quantity of labour in England; that in Poland 20 yards of cloth required twice as much labour as four quarters of corn. In these circumstances, cloth, as compared with corn, would be twice as dear in Poland as in England; in other words, four quarters of corn, which in England would be of equal value with 20 yards of cloth, would in Poland be equal to no more than 10 yards. In a traffic of these commodities, between England and Poland, there would be a value of 5 yards of cloth to be gained by each upon every repetition of the transaction.³⁷

Supposing, as we have done, that in Poland, if she produced corn and cloth herself, four quarters of corn would have the same value as 10 yards of cloth, it follows, that if she had the use of money, the price of four quarters of corn, and 10 yards of cloth, would be the same. In England, according to the supposition, the price of four quarters of corn and that of 20 yards of cloth would be the same.

There are two supposeable cases. The price of one of the two

³⁷ [In the 1st edition Mill committed the same error here of imputing the whole gain to both countries as he had earlier when dealing with the gains from trade. (See p. 272 above.) The passage was suitably modified in the 3rd edition.]

commodities, corn, for example, is either – 1. equal in the two countries, or – 2. it is not equal. The illustration of any one of these cases will suffice for both.

Let us suppose that, in the two countries, the price of corn is equal. If it is, the price of a yard of cloth must in Poland be twice as great as it is in England. In these circumstances, what will happen is obvious: the cloth, which is cheap in England, will go to Poland, where it is dear; and there it will be sold for gold, because there can be no counter importation of corn, which, by supposition, is already as cheap in England as in Poland.

By the importation, in this manner, of English cloth into Poland, gold goes out of Poland, and comes into England. The consequence is, that gold becomes more plentiful in England, less plentiful in Poland. From this first consequence, a second ensues; that prices gradually rise in England, fall in Poland: the price of corn, for example, and, along with it, the price of cloth, rise in England, fall in Poland. If when we suppose the traffic to begin, the price of corn in each country is 1*l.* per quarter, the price of cloth being, by consequence, in Poland 8*s.*, in England 4*s.* per yard; the supposed exchange of cloth for gold will gradually, in England, raise the price of corn above, in Poland sink it below, 1*l.* per quarter; raise the price of cloth in England above 4*s.* per yard, sink it below 8*s.* per yard in Poland. In this manner, the price of corn in the two countries gradually recedes from equality, the price of cloth gradually approaches it. At a certain point in this progress, corn becomes so dear in England, and cheap in Poland, that the difference of price will pay for the cost of carriage. At that moment a motive arises for the importation of corn into England; and prices regulate themselves in such a manner, that in England corn is dearer than in Poland, by the expense of carrying corn; cloth is dearer in Poland than in England, by the expense of carrying cloth, from the one country to the other. At this point, the value of the cloth imported into the one country, and that of the corn imported into the other, balance one another. The exchange is then at par, and gold ceases to pass.

From the consideration of the same circumstances, it will farther be seen, that no alteration can take place in the interchange of commodities between the two countries, without a new distribution of the precious metal; that is, a change in the relative quantities which they previously possessed.

Let us suppose that, in England, some new commodity is produced,

which Poland desires to obtain. A quantity of this commodity is imported into Poland; and it can be paid for only in gold, because we have supposed that at this time, the corn and cloth, respectively imported, pay for one another. In this case, as in that which I have previously explained, the price of commodities soon begins to rise in England, fall in Poland. In proportion as prices rise in England, and fall in Poland, a motive is produced to import a greater quantity of Polish goods into England, a less quantity of English goods into Poland. And again the balance is restored.

SECTION XVI

MONEY TRANSACTIONS BETWEEN NATIONS – BILLS OF EXCHANGE

The moneys of different countries are different; that is to say, they consist of different portions of the precious metals, and go by different names. The pound sterling, for example, is the money of England, the dollar is the money of certain other countries; the pound sterling contains one quantity of the precious metal, the dollar contains a less quantity; and so of other varieties.

The purchases which are made by one country in another country, are, like other purchases, made by money. If the Dutch merchant, for example, purchase goods in England, he buys them at so many pounds sterling. If the English merchant buys goods in Holland, he buys them at so many guilders. To pay the pound sterling, the Dutch merchant must either send the English money, or an equivalent. The direct equivalent is a quantity of the precious metal equal to what is contained in the pounds sterling due. If the Dutch merchant has no other medium but guilders, he must send as many guilders as contain an equal quantity of the precious metals.

When the language now used by the merchants of Europe was established, a computation was made of the quantity of one currency which contained the same quantity of the precious metal, as a certain given quantity of another. This was called the par of exchange. The guilder contained not quite so much of the metal as two shillings English; but to simplify our language, let us suppose that it contained just as much. The par of exchange was then, 10 guilders to 1*l.*; or, in the abridged language of the merchants, 10.

The business of exchange, however, between country and country,

is carried on, not by transmitting currency, or the metals, but, in a much greater degree, by the instrumentality of bills. The language, which the merchants have adopted for carrying on the traffic of bills, is very elliptical and abridged; and being, in several respects, not well chosen, is a source of obscurity and misapprehension.

The simple transaction is this. The merchant in London, to whom a merchant in Amsterdam owes a sum of money, writes a line to the merchant in Amsterdam, directing him to pay the money. The writing of this line is called drawing; the line itself is called a bill; and the person whom the line is written *to*, is said to be drawn *upon*. If the merchant in London, at the same time that he has money to receive from Amsterdam, has money to pay in Amsterdam, he draws his bill upon his debtor in Amsterdam, to the order of his creditor; or, in other words, his line written to the person who owes him money in Amsterdam, is a line directing him to pay the amount to that other person to whom he is indebted. If the sum to be received is equal to the sum to be paid, the bill discharges the debt; if it is less, it pays as far as it goes, and the difference constitutes a balance.

It so happens, in the course of business, that the individuals who import goods from Holland, for example, are not the same individuals who export goods to Holland. The merchants who import corn, or butter, or tallow, from Holland, are one set of merchants; the merchants who export cottons and hardware to Holland, are merchants of another description; the individuals, therefore, who have money to receive from Holland, have nothing to do with any payments in Holland; they make a demand for their money, and expect it shall be paid. There are other individuals, however, who have money to pay in Holland, and who, to save themselves the expense of sending money, are desirous of obtaining from the individuals, who have money to receive from Holland, orders upon their debtors, that is, bills drawn upon them for the sum. The English exporters, who have money to receive from Holland, therefore, draw bills, upon their correspondents in Holland, and, without needing to wait for the return from Holland, receive the money in England from the English importers.

There are thus two sets of persons in England: one, who have money to receive from Holland; another, who have money to send to Holland. They who have money to send, are desirous of meeting with the persons who have money to receive, and bills to draw; the persons, again, who have bills to draw, and money to receive, are desirous of

meeting with the persons who have money to pay, and who would give it them immediately, and save them the delay of waiting the return from Holland. But these two sets of men do not always know how to find one another. This gives rise to a set of middle men, who, under the name of bill-brokers and exchange-brokers, perform the function of bringing them together, or rather act as the medium between them.

When it so happens that the amount, for which bills are drawn, is the same with that, for which bills are wanted; in other words, when those, who have money to receive abroad, are equal to those, who have money to pay; the amount of bills to be bought, and the amount to be sold, will be exactly the same. For each man desirous to purchase a bill on Holland, there will be another man, equally desirous to sell one. There will be neither premium, therefore, on the one side, nor discount on the other; the bills, or in the language of the merchants, the exchange, will be at par.

When it happens, however, that the debts and credits are not equal; that England, for example, has more money to pay, than she has to receive; in other words, has imported to a greater amount than she has exported, there are more persons who want to purchase bills on Holland, than there are persons to sell them. Those who cannot obtain bills to discharge their debts in Holland must send the metals. That, however, is an operation, attended with a considerable cost. There is, therefore, a competition for bills; and the merchants give for them rather more than they are worth. A bill, for example, drawn on Holland, for 10,000 guilders, (the 10,000 guilders being, by supposition, equal to 1,000*l.*) will be willingly purchased for something more than 1,000*l.* In this case, the exchange is said to be in favour of Holland, and against England. It is against England, because in Holland, when bills are drawn upon England, there are more people who have bills to sell, than people who have any occasion to buy. There is a competition, therefore among the people who wish to sell, and the price falls. A bill on England for 1,000*l.*, instead of selling for 10,000 guilders, will sell for something less. This, it is evident, is a discouragement to the Dutch merchant who exports goods to England. It is also a discouragement to the English merchant who imports goods from Holland, and who, in addition to the 10,000 guilders, which his goods have cost, must pay something more than 1000*l.*, or 10,000 guilders, for a bill to pay them. On the other hand, there is an encouragement to the English merchant, who exports goods to Holland, inasmuch as he

receives for his bill of 10,000 guilders on Holland, rather more than 1,000*l.*, which is the value of his goods; he is, therefore, stimulated, by this increase of profit, to increase the quantity of his trade.

It is very easy to see, what is the limit to this variation in the price of bills, called in the language of merchants, the exchange. The motive to the purchase of a bill is the obligation of paying a debt. The merchant, however, on whom it is incumbent to pay a debt in Holland, can pay it without a bill, by sending the metal. To send the metal is attended with a certain cost. If he can obtain the bill without paying beyond this cost, he will purchase the bill. This cost, therefore, is the utmost amount of the premium which he will pay for a bill, and the limit to the rise of its price. As the cost of sending the metal, which is a great value in a small bulk, is never considerable, the exchange can never vary from par to a considerable amount.

It is well known in commerce, how a balance is transferred from one country to another, by means of bills of exchange.

If a balance is due by England to Holland, and by Hamburgh to England, the holder of a bill at Amsterdam for 1,000*l.* upon England, will not send his bill to England, where it will fetch him only 1,000.; if by sending it to Hamburgh, it will fetch him something more; (i.e.) if he has a debt to pay at Hamburgh, when bills upon England are there at a premium, or if the premium will exceed the cost of transporting the gold from Hamburgh to Amsterdam.³⁸ A debt, which owed to Holland, is thus paid by a credit which it had at Hamburgh. In England, the merchants who have imported from Holland, pay for the goods which they have imported, by paying the merchants, who have exported to Hamburgh, for the goods which they have exported.

Such are the transactions between country and country, by means of bills of exchange; and such is the language in which they are expressed. There are two states of things, in which these operations take place: The First, when the currency of both countries remains the same as at the time when the par of exchange was originally computed; when 10 guilders of Holland, for example, contained as much of the precious metal as 1*l.* sterling; and the par of exchange, of course, was said to be 10: The Second, when the relative value of the two currencies does not remain the same; as, for example, when 1*l.*, instead of being equal to 10 guilders, becomes equal to 12, or to no more than 8.

³⁸ [The wording of this sentence was slightly modified to meet a technical point raised by Ricardo, *Works*, vol. IX, p. 129 (comment on p. 145 of 1st edition).]

If we suppose the quantity of the precious metal in the pound sterling to be diminished in such a degree, that it contains no greater quantity than that which is contained in 8 guilders, the par of exchange, in this case, would really be 8, instead of 10. The merchants, however, from the time at which the par of exchange appears to have been originally computed, never altered their language. If the par of exchange between the guilder and the pound sterling was 10, it continued to be called 10, though the relative value of the currencies might be changed; though the pound sterling, for example, might become equal to 8 guilders only, instead of 10. Notwithstanding this the value of the bills was regulated according to the real value of the currencies; a bill for so many pounds sterling was not when such a change took place equal to a bill for as many times 10 guilders, but for as many times 8. As the par of exchange, however, still was called 10, though really 8, the exchange was said to be against England, in the proportion of 10 to 8, or 20 per cent. This 20 per cent. of unfavourable exchange was altogether nominal; for when there was this 20 per cent. of discount on the English bill, the exchange was really at par. The language, therefore, was improper and deceptive; but if, in such case, it is born in mind, that 20 per cent. against England means the same as par, it will then be easy to see that everything which we demonstrated, in the preceding pages, as true with respect to the par, will, in this case, be true with respect to the 20 per cent. Every thing which raises the exchange above par, according to the proper language, makes it as much less than 20, according to the improper; every thing which reduces it below par, according to the proper, makes it as much more than 20, according to the improper. All the effects which follow from what is called the rise above, or fall below par, in the one case, follow from the same things, but called by different names, in the other. On this, therefore, I have no occasion to enlarge.

When the currencies of two countries are metallic, a change in their relative value beyond the fluctuations which are limited by the expense of transmitting the metals, and continually corrected by their transmission³⁹ can only happen by a change in the relative quantity of

³⁹ [This phrase was inserted in the 2nd edition at the suggestion of Ricardo who had said: "This should be qualified a little, for without any alteration in the quantity of metal in either, the relative value of their currencies may undergo a change, within the range of the expences of sending the metal from one to the other. If 10000 guilder were of the same intrinsic value as £1000, and the expence of sending money 2 pct.,

the metal they contain; there being checks, as we have already seen, which prevent any considerable difference between the value of a metallic currency and that of the metal which it contains. There is, however, another case, namely, that of paper money, not convertible into the metallic. This requires to be considered by itself.

Let us resume the former supposition, that the pound sterling contains as much of the precious metal as 10 guilders; and let us suppose that a paper money, not payable in the metals, is issued in England, in such quantity, that a pound in that money is reduced 20 per cent. below the value of the metal contained in a pound sterling; it is easy to see that a bill for 100*l.* sterling, in this case, is of the same value exactly as a bill for 100*l.* sterling when the currency was degraded by losing 20 per cent. of its metal. A bill for 100*l.* in both cases, is equal not to 100 times 10 guilders, but 100 times 8 guilders. The reason is, that the bill will in England buy only as much of the metal as is contained in 100 times 8 guilders. It will exchange, therefore, of course, only for a bill of 800 guilders.

The facts may be expressed in the form of a general rule. The value of a bill drawn upon any country is equal, when it arrives, to all the precious metal which the money for which it is drawn can purchase in the market: a bill for 100*l.*, for example, is equal to all the metal which it can purchase, whether it is the same quantity which would be purchased by 100*l.* sterling, or less. To whatever amount the portion which it can purchase is less than what could be purchased by 100*l.* of the coins, the paper money is degraded below what would be the value of the coins, if they circulated in its stead. The exchange, therefore, against any country, can never exceed the amount of two sums; First, the difference between the value of the degraded and the undegraded currency, or that between the nominal amount of the currency, and the quantity of the precious metal which it can purchase; secondly, the expense of sending the metal, when purchased. It thus appears, how perfectly unfounded is the opinion of those (and some political economists of great eminence are included in the number) who conceive that the real, not merely the nominal, exchange, may exceed the expense of transmitting the precious metals. They say, that when, by some particular cause, a great absorption of the precious metals has taken

£1000 might for a considerable length of time purchase a bill for 10200 guilders at one period, and at another, for a considerable length of time also, it might only purchase a bill for about 9800.' *Works*, vol. IX, p. 129.]

place, creating a scarcity in consequence of which goods must be sent from the country where it is scarce, to bring it back from the countries where it abounds, bills, ⁴⁰drawn by the country in which it is scarce, upon the countries where it abounds, may bear a premium, equal to the cost of sending goods which may fetch in the foreign market the value of the bill; and this, in certain cases, may greatly exceed the cost of sending the precious metals.

If the facts are traced, the answer will be seen to be conclusive.

When the exchange between two countries (call them A and B) is at par, it is implied, that the exports and imports of both are equal: that each receives from the other as much as it sends. In this case the goods which A sends to B must be so much cheaper in A than they can be made in B, that they can there be sold with all the addition required on account of the cost of carriage: in like manner the goods which B sends to A must be so much cheaper in B, that the cost of carriage is covered by the price which they fetch in A. This cost of carriage, it is obvious, does not affect the exchange, any more than an item in the cost of production.

Next, let us observe what happens, when the state of the exchange is disturbed. Let us suppose that a demand is suddenly created in A, for the means of making payments in B, greatly beyond the value of the former exportations. The demand for bills on B is consequently increased beyond the supply, and the price rises. The question is, what is the limit to that rise in the price of bills? At first it is evident the rise of price is limited to the cost of sending the precious metal. As the metal, however, departs, the value of it rises. If the currency is paper, and its value stationary, the gold will rise, and rise equally, both in currency and commodities. The final question, then, is, what is the limit to the rise in the value of gold?

Before the premium on the bills commenced, goods in A were so cheap, that a portion of them could be sent to B, and sold, with all the addition of the cost of carriage, and of course with the ordinary profits of stock. The whole of the premium on the bills, therefore, is an addition to the ordinary profits of stock.

If A be taken for England, and B for the continent of Europe, the case will be, that English goods, when the interchange is at par, go abroad, and are sold at a price which includes both profits and cost of

⁴⁰ [The rest of the section, from this point to the end, was rewritten for the 2nd edition. See the Preface to 2nd edition reprinted above.]

carriage; when the premium on bills rises only so high as to equal the cost of sending bullion, it is to that extent an additional profit on the sending of goods.

It is evident that, in proportion as this premium should rise, it would not only enhance the motive to increase the exportation of the goods which could be exported with a profit before the rise of the bills, but that it would render many other kinds of goods exportable, which before could not be exported. Thus, when the exchange was at par, there were certain kinds of goods in England, which, after paying cost of carriage, could be sold abroad with a profit; there were certain other kinds which, on account of their high price in England, could not be thus exported; some might thus be 1 per cent. too high to be exported, others 2 per cent. too high, others 3 per cent., and so on. It is obvious that a premium of 1 per cent. on bills would enable the first kind to be exported; a premium of 2 per cent. would enable the second; and a premium of 10 per cent. would enable two or three kinds to be exported, which could not have been exported before. As the counter operation would be of the same kind and the same power, viz. to prevent the importation of foreign goods into England, exportation would be exceedingly increased, importation nearly prevented. The two operations together would be so powerful, that any great deviation from the real par of exchange could never be of long duration. A deviation equal to the cost of sending the precious metal, permanent circumstances might render permanent. If England, for example, sent every year a large amount of the precious metal to India, and received it from Hamburgh, the exchange would be to the extent of the cost of sending the metals, permanently favourable with Hamburgh, unfavourable with India.

If bills of exchange were always drawn for so much weight of gold, the case would be simple. Suppose a bill in London drawn upon Paris for 100 ounces of gold, no man would pay for that bill more gold beyond the 100 ounces than the cost of sending the 100 ounces. He might purchase the 100 ounces at one time with 390*l.* of currency, at another with 410*l.* of currency, but that would be entirely owing to changes in the relative value of the currency and the gold. These changes, it is said, may in certain circumstances, take place from a rise in the value of the gold, the currency remaining of the same value. This implies that gold can become more valuable in one country than in the neighbouring countries; in England, for example, than on the

Continent. But this it cannot do without increasing the exports in England, and diminishing, almost to nothing, the imports. Suppose the rise in the value of gold to be 1 per cent., 2 per cent., or to amount to 10 per cent.; at this last rate the goods which could be sent abroad with the ordinary profit, could be now sent abroad with 10 per cent. more than the ordinary profit, which all the other kinds of goods, those 1 per cent., those 2 per cent., those 3 per cent., 4 per cent. 5 per cent., and so on, too dear to have been sent before, would now all be sent; at the same time that the counter operation would be equally strong to prevent foreign goods from being imported. These are the necessary effects of a high value of gold in one country as compared with other countries; and they are evidently such as to render it impossible that a high value of the precious metal in one country, compared with the neighbouring countries, can ever in a state of freedom be of long duration.

SECTION XVII

BOUNTIES AND PROHIBITIONS

Under this title I include all encouragements and discouragements, of whatsoever sort, the object of which is, to make more or less of production or exchange to flow in certain channels, than would go into them of its own accord.

The argument, on this subject, I trust, will be clear and conclusive, without a multiplicity of words.

If it should appear, that production and exchange fall into the most profitable channels, when they are left free to themselves; it will necessarily follow that, as often as they are diverted from those channels, by external interpositions of any sort, so often the industry of the country is made to employ itself less advantageously.

That production and exchange do, when left to themselves, fall into the most profitable channels, is clear by a very short demonstration.

The cases of production and of exchange require to be considered separately; for, in the case of production, there is hardly any difference of opinion. If a country had no commercial intercourse with other countries, and employed the whole of its productive powers exclusively for the supply of its own consumption, nothing could be more obviously absurd, than to give premiums for the production of one set of

commodities, and oppose obstructions of any sort to the production of another; I mean, in the view of Political Economy, or, on account of production: for if any country opposes obstructions to certain commodities, as spirituous liquors, because the use of them is hurtful; this regards morality, and has, for its end, to regulate not production, but consumption. Wherever it is not intended to limit consumption, it seems admitted, even in practice, that the demand will always regulate the supply, in the manner in which the benefit of the community is best consulted. The most stupid governments have not thought of giving a premium for the making of shoes, or imposing a preventive tax upon the production of stockings, in order to enrich the country by making a greater quantity of shoes, and a less quantity of stockings. With a view to the internal supply, it seems to be understood that just as many shoes, and just as many stockings, should be made, as there is a demand for. If a different policy were pursued; if a premium were bestowed upon the production of shoes, a tax or other burthen imposed upon the production of stockings, the effect would only be, that shoes would be afforded to the people cheaper, and stockings dearer, than they otherwise would be: that the people would be better supplied with shoes, worse supplied with stockings, than they would have been if things had been left to their natural course, that is, if the people had been left to consult freely their own convenience; in other words, if the greatest quantity of benefit, from their labour, had been allowed to be obtained.

All that regulation of industry, therefore, the object of which has been, to increase the quantity of one sort of commodities, lessen the quantity of another, has been directed to the purpose of regulating the exchange of commodities with foreign countries; of increasing, or diminishing, most commonly diminishing, the quantity of certain commodities, which would be received from abroad.

Now it is certain, as has been already abundantly proved, that no commodity, which can be made at home, will ever be imported from a foreign country, unless it can be obtained by importation with a smaller quantity of labour, that is, cost, than it could be produced with at home. That it is desirable to have commodities produced with as small a cost of labour as possible seems to be not only certain, but admitted. This is the object of all the improvements that are aimed at in production, by the division and distribution of labour, by refined methods of culture applied to the land, by the invention of more

potent and skilful machines. It seems, indeed, to be a self-evident proposition, that whatever the quantity, which a nation possesses of the means of production, the more productive they can possibly be rendered, so much the better; for this is neither more nor less than saying, that to have all the objects we desire, and to have them with little trouble, is good for mankind.

Not only is it certain, that in a state of freedom no commodity, which can be made at home, will ever be imported, unless it can be imported with a less quantity, or cost, of labour than it could be produced with at home; but, whatever is the country from which it can be obtained with the smallest cost of labour, to that recourse will be had for obtaining it; and whatever the commodity, by the exportation of which, it can be obtained with the smallest quantity of home labour, that is the commodity, which will be exported in exchange. This results, so obviously, from the laws of trade, as not to require explanation. It is no more than saying, that the merchants, if left to themselves, will always buy in the cheapest market, and sell in the dearest.

It seems, therefore, to be fully established, that the business of production and exchange, if left to choose its own channels, is sure to choose those, which are most advantageous to the community. It is sure to choose those channels, in which the commodities, which the community desires to obtain, are obtained with the smallest cost. To obtain the commodities, which man desires, and to obtain them with the smallest cost, is the whole of the good which the business of production and exchange, considered simply as such, is calculated to yield. In whatever degree, therefore, the business of production and exchange is forced out of the channels into which it would go of its own accord, to that degree the advantages arising from production and exchange are sacrificed; or, at any rate, postponed to something else. If there is any case, in which they ought to be postponed to something else, that is a question of politics, and not of political economy.

There is no subject, upon which the policy of the restrictive and prohibitive system has been maintained with greater obstinacy, and with a greater quantity of sophistry, than that of the trade in corn. There can, however, be no doubt, that corn never will be imported, unless when it can be obtained from abroad with a smaller quantity of labour than it can be produced with at home. All the good, therefore, which is obtained from the importation of any commodity, capable of being produced at home, is obtained from the importation of corn.

Why should that advantage which, in the case of corn, owing to the diversities of soil and extent of population, is liable to be much greater than in the case of any other commodity, be denied to the community?

The reasons, upon which the advocates for a restriction of the corn trade chiefly support themselves, are two; neither is of any value.

The first is, That unless the nation derive its corn from its own soil, it may, by the enmity of its neighbours, be deprived of its foreign supply, and reduced to the greatest distress. This argument implies an ignorance both of history, and of principle: Of history, because, in point of fact, those countries which have depended the most upon foreign countries for their supply of corn, have enjoyed beyond all other countries, the advantage of a steady and invariable market for grain: Of principle, because it follows unavoidably, if what, in one country is a favourable, is in other countries an unfavourable season, that obtaining a great part of its supply from various countries is the best security a nation can have against the extensive and distressing fluctuations which the variety of seasons is calculated to produce. Nor is the policy involved in this argument better than the political economy. It sacrifices a real good, to escape the chance of a chimerical evil: an evil so much the less to be apprehended, that the country, from which another derives its supply of corn, is scarcely less dependent upon that other country for a vent to its produce, than the purchasing country is for its supply. It will not be pretended, that a glut of corn, in any country, from the loss of a great market, with that declension of price, that ruin of the farmers, and that depression of rents, which are its unavoidable consequences, is an immaterial evil.

The second reason, upon which the advocates of the corn monopoly support themselves, is, That, if the merchants and manufacturers enjoy in certain cases the monopoly of the home supply, the farmers and landlords are subject to injustice, when a similar monopoly is not bestowed upon them. In the first place, it may be observed, that, if this argument is good for the growers of corn, it is good for every other species of producers whatsoever; if, because a tax is imposed upon the importation of woollens, a tax ought to be imposed upon the importation of corn, a tax ought also to be imposed upon the importation of every thing, which the country can produce; the country ought, in short, to have no foreign commerce, except in those articles alone, which it has not the means of producing.

The argument moreover supposes, that an extraordinary gain is

obtained by the manufacturer, in consequence of his supposed protection; and that a correspondent evil is sustained by the corn grower, unless he is favoured by a similar tax. The ignorance of principle is peculiarly visible in those suppositions, in neither of which is there a shadow of truth.

The man who embarks his capital in the woollen, or any other manufacture, with the produce of which that of the foreign manufacturer is not allowed to come into competition, does not, on that account, derive a greater profit from his capital. His profit is no greater than that of the man whose capital is embarked in trades open to the competition of all the world. All that happens is, that a greater number of capitalists find employment in that branch of manufacture; that a portion, in short, of the capitalists of the country employ themselves in producing that particular species of manufacture, who would otherwise be employed in producing some other species, probably in producing something for the foreign market, with which that commodity, if imported from the foreign manufacturer, might be bought.

As the man who has embarked his capital in the trade, which is called protected, derives no additional profit from the protection: so the grower of corn sustains not any peculiar loss or inconvenience.⁴¹ Nothing, therefore, can be conceived more groundless than his demand of a compensation on that account. The market for corn is not diminished because a tax is laid upon the importation of woollens; nor would that market be enlarged if the tax were taken off. His business, therefore, is not in the least degree affected by it.

It would be inconsistent with the plan of work, confined to the exposition of general principles, to lay open all the fallacies, which lurk in the arguments for restraining the trade in corn.⁴² One or two, however, of the sources of deception, cannot be left altogether unnoticed.

The landlord endeavours to represent his own case, and that of the manufacturer, as perfectly similar; though, in the circumstances which concern this argument, they are not only different, but opposite. The landlord also endeavours to mix up his own case with that of the farmer;

⁴¹ [Ricardo commented: 'Should not this be qualified by saying that he sustains only the general loss sustained by all other consumers in being forced to pay more for the protected commodity?' *Works*, vol. IX, p. 130.]

⁴² [For a fuller exposition of Mill's views on this topic see *Eclectic Review*, Jul. 1814, vol. II, n.s., pp. 1-17.]

and upon the success of that endeavour almost all the plausibility of his pretensions depends. That no pretensions are more unfounded, may be seen by a very short process of reasoning. The farmer, as a producer, requires, like every other producer, that all his outgoings be returned to him, with the due profit upon the capital which he employs. The surplus, which the land yields, over and above this return and profit, is what he pays to his landlord; and his interest is not affected by the quantity of that surplus, whether it be great or small. His interest, however, is very much affected by wages; because, in proportion as wages are low, his profits, like all other profits, are high. Wages cannot be low, if corn is dear. The interest, therefore, the permanent interest, of the class of farmers, consists, in having corn cheap. This or that individual in the class may, that is, during the currency of a lease, have an interest in high prices; and the reason of the exception shows the truth of the general rule. The individual, who, during the currency of a lease, has an interest in high prices, is, by his lease, converted, to a certain extent, into a receiver of rent. During the continuance of his lease, if prices rise, he gets, not only his due return of profits as a farmer, but something more, namely, a portion of what is truly rent, and which, but for his lease, would have gone to the landlord.

This, then, is the grand distinction. The receivers of rent are benefited by a high price of corn; the producers of corn, as such are not benefited by it, but the reverse. The case of the farmer corresponds with that of the manufacturer, not with that of the landlord. The farmer is a producer and capitalist; the manufacturer is a producer and capitalist; and they both received all that belongs to them, when their capital is replaced with its profits. The landlord is not a producer, nor a capitalist. He is the owner of certain productive powers in the soil; and all which the soil produces belongs to him, after paying capital which is necessary to put those productive powers in operation. It thus appears that the case of the landlord is peculiar; that a high price of corn is profitable to him, because, the higher the price, the smaller a portion of the produce will suffice to replace, with its profits, the capital of the farmer, and all the rest belongs to himself. To the farmer, however, and to all the rest of the community, it is an evil, both as it tends to diminish profits, and as it enhances the charge to consumers.

SECTION XVIII

COLONIES

Among the expedients which have been made use of, to force into particular channels a greater quantity of the means of production, than would have flowed into them of their own accord; colonies are a subject of sufficient importance to require a particular consideration.

The only point of colonial policy, which it is here necessary to consider, is that of trade with the colonies. And the question is, whether any peculiar advantage may be derived from it.

With respect to colonies, as with respect to foreign countries, the proposition will, doubtless, be admitted, that whatever advantage is derived from trading with them, consists in what is received from them, not in what is sent; because that, if not followed by a return, would be altogether loss.⁴³

The return from them is either money or commodities. The reader is by this time fully aware that a country derives no advantage from receiving money, more than from receiving any other species of commodity. It is also plain that where the colony has not mines of the precious metal, it cannot, under the monopoly of the mother country, have money, or anything else, beside its own productions, to send.

It is needless to consider the case of free trade with a colony, because that falls under the case of trade with any foreign country.

The monopoly, which a mother country may reserve to herself, of the trade with her colonies, is of two sorts.

First of all, she may trade with her colonies, by means of an exclusive company. In this case, the colony has no purchaser, to whom she is allowed to sell any thing, but the exclusive company; and no other seller, from whom she is allowed to buy any thing. The company, therefore, can make her buy, as dear as it pleases, the goods which the mother country sends to her, and sell, as cheap as it pleases, the goods which she sends to the mother country. In other words, the colony may, in these circumstances, be obliged to give for the produce of a certain quantity of the labour of the mother country, a much greater quantity of goods than the mother country could obtain, with

⁴³ [Ricardo commented: 'I object again to the doctrine that all advantage in trade is derived from the commodities received and not by those which are sent.' *Works*, vol. IX, p. 130.]

the same quantity, from any other country, or from the colony in a state of freedom.

The cases of a trade in these circumstances are two: the first, where the colony receives from the mother country, luxuries, comforts: the other, where she receives necessaries; either the necessaries of life, or the necessaries of industry, as iron, &c.

In that case, in which the colony receives luxuries and comforts only from the mother country, there is a limit to the degree in which the mother country is enabled to profit by the labour of the colony. The colony may decline receiving such luxuries or comforts, if obliged to sacrifice for them too great a quantity of the produce of her labour, and may think it better to employ that great proportion of her labour, in providing such luxuries and comforts as she herself is capable of producing.

If, however, the colony is dependent for necessaries upon the mother country, the exclusive company exercises over the colony a power altogether despotic. It may compel her to give the whole produce of her labour, for no more of the necessaries in question, than what is just sufficient to enable the population of the colony to live. If it is the necessaries of life, which the colony receives, the conclusion is obvious. If it is commodities, such as iron, and instruments of iron, without which her labour cannot be productively employed, the result is precisely the same. She may be made to pay for these articles so much of the whole produce of her labour, that nothing but what is necessary to keep the population alive may remain. It would be the interest of the mother country, not to lessen the population; because, with the population, the produce would be lessened, and hence the quantity of commodities which the mother country could receive.

Instead, however, of trading with her colonies by means of an exclusive company, the mother country may leave the trade open to all her own merchants, only prohibiting the colony from trading with the merchants of any other country. In this case, the competition of the merchants in the mother country reduces the price of all the articles received by the colony, as low as they can be afforded – in other words, as low as in the mother country itself, allowance being made for the expense of carrying them. If it be said that the colonies afford a market; I reply, that the capital, which supplies commodities for that market, would still prepare commodities, if the colonies were annihilated; and those commodities would still find consumers. The labour and capital

of a country cannot prepare more than the country will be willing to consume. Every individual has a desire to consume, either productively or unproductively, whatever he receives. Every country, therefore, contains within itself a market for all that it can produce. This will be made still more evident, when the subject of consumption, the cause and measure of markets, comes under consideration. There is, therefore, no advantage whatsoever derived, under freedom of competition, from that part of the trade with a colony which consists in supplying it with goods, since no more is gained by it, than such ordinary profits of stock as would have been gained if no such trade had existed. It is nevertheless true that the colony may lose by such a traffic, if the goods, which she is thus compelled to purchase of the mother country, might have been purchased cheaper in other countries.⁴⁴

If there be any peculiar advantage, therefore, to the mother country, it must be derived from the cheapness of the goods, with which the colony supplies her. It is evident, that if the quantity of goods, sugar, for example, which the colony sends to the mother country, is so great as to glut the mother country; that is to supply its demand beyond the measure of other countries, and make the price of them in the mother country lower than it is in other countries, the mother country profits by compelling the colony to bring its goods exclusively to her market, since she would have to pay for them as high as other countries, if the people of the colony were at liberty to sell wherever they could obtain the greatest price.

This advantage, if drawn by the mother country, would be drawn at the expense of the colony. In free trade, both parties gain. In the advantage produced by forcing, whatever is gained by the one party is lost by the other. The mother country, in compelling the colony to sell goods cheaper to her than she might sell them to other countries,

⁴⁴ [This sentence was added in the 2nd edition to meet the following criticism made by Ricardo: 'Is not a colony more injured by being obliged to buy of the mother country than by being obliged to sell to it? The produce of the colony though sent to the mother country, and therefore liable to more charges than if sent to the country where it is finally to be sold, is nevertheless diffused generally to all places where it is in demand, and therefore finally obtains the best price, deduction being always made for the increased charges. But the colony is obliged to obtain its commodities from one single market, and is obliged to buy in that market altho' she might possibly buy the same goods much cheaper elsewhere. It is evident, I think, that she not only bears the increased charges, but also the increased cost, on the commodities she purchases.' *Works*, vol. IX, pp. 130-1.]

merely imposes upon her a tribute; not direct, indeed, but not the less real because it is disguised.

If any advantage is derived from restraining, any otherwise than by an exclusive company, the trade with the colonies, it must consist in forcing the colonies to sell to none but the mother country, not in forcing them to buy from none but the mother country. A great improvement, therefore, in colonial policy would be, to throw open the supply of the colonies, permitting them to purchase the goods which they want, wherever they could find the most favourable market, only restraining them in the sale of their goods: allowing them to buy wherever they pleased, permitting them to sell to none but the mother country.

It is at the same time to be observed, that if the merchants of the mother country have freedom to export the goods which are derived from the colonies, the price of these goods will be raised in their own country to the level of the price in other countries. The competition of the merchants will, also, raise the price of the goods to a correspondent height in the colonies; and thus the benefit to the mother country is lost.

Treaties of commerce are sometimes concluded, for the purpose of limiting the freedom of trade. One country can be limited to another in but two ways; either in its purchases, or its sales. Suppose that Great Britain binds some other country to purchase certain commodities exclusively from her; Great Britain can derive no advantage from such a treaty. The competition of her merchants will make them sell those commodities as cheap to the merchants of that country, as to their own countrymen. Their stock is not more profitably employed than it would be if no such trade existed. There are cases in which a country may gain by binding another country to *sell* to none but itself. If one country is bound to sell no commodities whatsoever, except to another particular country; this is the same case, exactly, with that of a colony bound to sell to none but the mother country. As no free country, however, is likely to bind itself to sell none of its commodities except to one other, this is not a case which we need to regard as practicable or real.

One country may bind itself to sell exclusively to another particular country, not all the articles it has for foreign sale, but only some of them.

These may be articles which yield nothing, even in a state of free-

dom, but the ordinary profits of stock; as cloth, hardware, hats, &c.: or they may be articles which yield something over and above the ordinary profits of stock; as corn, wine, minerals, &c. which are the source of rent.

One country can derive no advantage from compelling another to sell to it, exclusively, articles of the first sort. If the price which the favoured country pays for the goods is not sufficient to afford the ordinary profits of stock, they will not be produced. If the price which it pays is sufficient to afford the ordinary profits of stock, it would at that price obtain the goods, without any treaty of restriction.

The case is different, where the goods yield something, as rent, or the profits of a monopoly, over and above the profits of stock. The quantity which may be sent in this case to the favoured country, may sink there the price of the restricted commodity lower than it is in the neighbouring countries; and lower than the restricted country would, if not under restriction, be enabled to sell it in those countries. To this extent, and to this only, can one country benefit, by confining the trade of another to itself. The restriction may operate to a diminution of the profits of a monopolized commodity, or a diminution of rent.

There is one mode of presenting this subject, which is apt to puzzle a mind not accustomed to trace the intricacies of this science.

Suppose two countries, A and B, of which A is bound by treaty, or otherwise, to receive all its shoes from B, and to sell to B all its sugars: Suppose, also, that A could, if left at liberty, obtain its shoes 50 per cent. cheaper from some other country; in that case, it may for a moment appear, that B obtains the sugars which it buys of A, with 50 per cent. less of its own labour, than it would if A were allowed to purchase where it pleased.

If B paid for the supposed sugars in shoes, it would, no doubt, pay 50 per cent. more in the case of a free trade.

But if there were any other article with which it could purchase those sugars, and which it could afford as cheap as any other country, it would lose nothing in the case of a free trade; it would purchase the same quantity of sugar with the produce of the same quantity of labour as before; only, that produce would be, not shoes, but some other article.

That there would be articles which B could afford as cheap as any other country, is certain, because otherwise it could have no foreign trade.

It may be said, however, that though B might have articles which it could sell as cheap as other countries, they might not be in demand in the country which produced the sugars. But if shoes only were in demand in the colonies, those other articles could purchase shoes where they were cheapest; and thus obtain the same quantity of sugar, in the free, as in the restricted state of the trade.

CHAPTER IV

CONSUMPTION

Of the four sets of operations, Production, Distribution, Exchange, and Consumption, which constitute the subject of Political Economy, the first three are means. No man produces for the sake of producing, and nothing farther. Distribution, in the same manner, is not performed for the sake of distribution. Things are distributed, as also exchanged, to some end.

The end is Consumption. Things are produced that they may be consumed; and distribution and exchange are only the intermediate operations for bringing the things, which have been produced, into the hands of those who are to consume them.

SECTION I

OF PRODUCTIVE AND UNPRODUCTIVE CONSUMPTION

Of Consumption, there are two species; the distinctive properties of which it is of great importance to comprehend.

These are, 1st, Productive Consumption; 2dly, Unproductive Consumption.

1. That production may take place, a certain expenditure is required. It is necessary, that the labourer should be maintained; that he should be provided with the proper instruments of his labour, and with the materials of the commodity which it is his business to produce.

What is thus expended, for the sake of something to be produced, is said to be consumed productively.

In productive consumption, three classes of things are included. The first is, the necessaries of the labourer, under which term are included all that his wages enable him to consume, whether these confine him to what is required for the preservation of existence, or afford him something for enjoyment. The second class of things consumed for production is machinery; including tools of all sorts, the buildings necessary for the productive operations, and even the cattle. The third is the materials of which the commodity to be produced must be formed, or from which it must be derived. Such is the seed from which the corn must be produced, the flax or wool of which the linen or woollen cloth must be formed, the drugs with which it must be dyed, or the coals which must be consumed in any of the necessary operations.

Of these three classes of things, it is only the second, the consumption of which is not completed in the course of the productive operations. The machinery and buildings, employed in production, may last for several years; the necessaries, however, of the labourer, and the materials, either primary or secondary, of the commodity to be produced, are all completely consumed. Even of the durable machinery, the wear and tear amount to a partial consumption.

2. Thus it is, that men consume for the sake of production. They also consume, however, without producing, and without any view to production. The wages which a man affords to a ploughman, are given for the sake of production; the wages which he gives to his footman and his groom, are not given for the sake of production. The flax which the manufacturer purchases, and converts into linen, he consumes productively; the wine which he purchases, and uses at his table, he consumes unproductively. These instances are sufficient to illustrate what is meant, when we speak of unproductive consumption. All consumption, which does not take place to the end that an income or revenue may be derived from it, is unproductive consumption.

From this explanation, it follows, that productive consumption is itself a means; it is a means to production. Unproductive consumption, on the other hand, is not a means. This species of consumption is the end. This, or the enjoyment which is involved in it, is the good which constituted the motive to all the operations by which it was preceded.

From this explanation, it also follows, that, by productive consumption, nothing is lost: no diminution is made of the property, either of the individual, or of the community; for if one thing is

destroyed, another is by that means produced. The case is totally different with unproductive consumption. Whatever is unproductively consumed, is lost. Whatever is consumed in this manner, is a diminution of the property, both of the individual and of the community; because, in consequence of this consumption, nothing whatever is produced. The commodity perishes in the using, and all that is derived is the good, the pleasure, the satisfaction, which the using of it yields.

That which is productively consumed is always capital. This is a property of productive consumption, which deserves to be particularly remarked. A man commences the manufacture of cloth with a certain capital. Part of this capital he allots for the payment of wages; another part he lays out in machinery; and with what remains he purchases the raw material of his cloth, and the other articles, the use of which is required, in preparing it for the market. It thus appears, that the whole of every capital undergoes the productive consumption. It is equally obvious that whatever is consumed productively becomes capital; for if the manufacturer of cloth, whose capital we have seen to be productively consumed, should save a portion of his profits, and employ it in the different kinds of productive consumption required in his business, it would perform exactly the functions performed by his capital, and would, in truth, be an addition to that capital.⁴⁵

The whole of what the productive powers of the country have brought into existence, in the course of a year, is called the gross annual produce. Of this the greater part is required to replace the capital which has been consumed; to restore to the capitalist what he has laid out in the wages of his labourers and the purchase of his materials, and to remunerate him for the wear and tear of his machinery. What remains of the gross produce, after replacing the capital which has been consumed, is called the net produce; and is always distributed, either as profits of stock, or as rent.

This net produce is the fund, from which all addition to the national capital is commonly made. If the net produce is all consumed unproductively, the national capital remains unaltered. It is neither diminished nor increased. If more than the net produce is consumed unproductively, it is taken from the capital; and so far the capital of

⁴⁵ [Ricardo commented: 'Whether the producer of cloth can add to his capital, from that part of his cloth which belongs to him as profits, depends upon the ability he may have of exchanging this portion of his cloth for food, raw materials, tools and labour.' *Works*, vol. IX, p. 131.]

the nation is reduced. If less than the net produce is unproductively consumed, the surplus is devoted to productive consumption; and the national capital is increased.

Though a very accurate conception may thus be formed of the two species of consumption; and the two species of labour; productive, and unproductive; it is not easy to draw the line precisely between them. Almost all our classifications are liable to this inconvenience. Between things, which differ the most widely, there are almost always orders of things, which approach by insensible gradations. We divide animals into two classes, the rational and irrational: and no two ideas can be more clearly distinguished. Yet beings may be found, of which it would be difficult to say, to which of the two classes they belonged. In like manner, there are consumers, and labourers, who may seem, with some propriety, to be capable of being ranked, either in the productive, or the unproductive class. Notwithstanding this difficulty, it is absolutely necessary, for the purposes of human discourse, that classification should be performed, and the line drawn somewhere. This may be done, with sufficient accuracy both for science and for practice. It is chiefly necessary that the more important properties of the objects classified should be distinctly marked in the definition of the class. It is not difficult, after this, to make allowance, in practice, for those things which lie, as it were, upon the confines of two classes; and partake, in some degree of the properties of both.

SECTION II

THAT WHICH IS ANNUALLY PRODUCED IS ANNUALLY CONSUMED

From what we have now ascertained of the nature of production and consumption, it will easily be seen, that the whole of what is annually produced is annually consumed; or, that what is produced in one year, is consumed in the next.

Every thing, which is produced, belongs to somebody, and is destined by the owners to some use. There are however, but two sorts of use: that for immediate enjoyment, and that for ultimate profit. To use for ultimate profit, is to consume productively. To use for immediate enjoyment, is to consume unproductively.

We have just observed, that what is used for ultimate profit, is laid out, as expeditiously as possible, in wages of labour, machinery, and

raw material. This is a fact of primary importance; and many errors of those who reason loosely in Political Economy, arise from the neglect of it. Whatever is saved from the annual produce, in order to be converted into capital, is necessarily consumed; because to make it answer the purpose of capital, it must be employed in the payment of wages, in the purchase of raw material to be worked into a finished commodity, or, lastly, in the making of machines, effected in like manner by the payment of wages, and the working up of raw materials. With respect to that part of the annual produce, which is destined for unproductive consumption, there is less frequently any mistake. As it would be attended with a loss to lay in a greater stock of articles of this class than is required, for immediate use, all of them, except a few, of which the quality is improved by their age, are always expeditiously consumed, or put in a course of consumption.

A year is assumed, in political economy, as the period which includes a revolving circle of production and consumption. No period does so exactly. Some articles are produced and consumed in a period much less than a year. In others, the circle is greater than a year. It is necessary, for the ends of discourse, that some period should be assumed as including this circle. The period of a year is the most convenient. It corresponds with one great class of productions, those derived from the cultivation of the ground. And it is easy, when we have obtained forms of expression, which correspond accurately to this assumption, to modify them in practice to the case of those commodities, the circle of whose production and consumption is either greater or less than the standard to which our general propositions are conformed.

SECTION III

THAT CONSUMPTION IS CO-EXTENSIVE WITH PRODUCTION

It requires only a few explanations to show, that this is a direct corollary from the proposition established in the preceding section.

A man produces, only because he wishes to possess. If the commodity, which he produces, is the commodity which he desires to possess, he stops when he has produced as much as he desires; and his supply is exactly proportioned to his demand. The savage, who makes

his own bow and arrows, does not make bows and arrows beyond what he wishes to possess.

When a man produces a greater quantity of any commodity than he desires for himself, it can only be on account; namely, that he desires some other commodity which he can obtain in exchange for the surplus of what he himself has produced. It seems hardly necessary to offer any thing in support of so necessary a proposition; it would be inconsistent with the known laws of human nature to suppose, that a man would take the trouble to produce any thing without desiring to have any thing. If he desires one thing, and produces another, it is only because the thing which he desires can be obtained by means of the thing which he produces, and better obtained, than if he had endeavoured to produce it himself.

After labour has been divided and distributed, to any considerable extent, and each producer confines himself to some one commodity or part of a commodity, a small portion only of what he produces is used for his own consumption. The remainder he destines for the purpose of supplying him with all the other commodities which he desires; and when each man confines himself to one commodity and exchanges what he produces for what is produced by other people, it is found that each obtains more of the several things, which he desires, than he would have obtained, had he endeavoured to produce them all for himself.

So far as a man consumes that which he produces, there is, properly speaking, neither supply nor demand. Demand and supply, it is evident, are terms which have reference to exchange; to a buyer and a seller. But in the case of the man who produces for himself, there is no exchange. He neither offers to buy anything, nor to sell any thing. He has the property; he has produced it; and does not mean to part with it. If we apply, by a sort of metaphor, the terms demand and supply to this case, it is implied, in the very terms of the supposition, that the demand and supply are exactly proportioned to one another. As far then as regards the demand and supply of the market, we may leave that portion of the annual produce, which each of the owners, consumed in the shape in which he produces or receives it, altogether out of the question.

In speaking here of demand and supply, it is evident that we speak of aggregates. When we say of any particular nation, at any particular time, that its supply is equal to its demand, we do not mean in any one

commodity, or any two commodities. We mean, that the amount of its demand, in all commodities taken together, is equal to the amount of its supply in all commodities taken together. It may very well happen, notwithstanding this equality in the general sum of demands and supplies, that some one commodity or commodities may have been produced in a quantity either above or below the demand for those particular commodities.

Two things are necessary to constitute a demand. There are, 1st, a wish for the commodity; 2dly, an equivalent to give for it. A demand means the will to purchase, and the means of purchasing. If either is wanting, the purchase does not take place. An equivalent is the necessary foundation of all demand. It is in vain that a man wishes for commodities, if he has nothing to give for them. The equivalent which a man brings is the instrument of demand. The extent of his demand is measured by the extent of his equivalent. The demand and the equivalent are convertible terms, and the one may be substituted for the other. The equivalent may be called the demand, and the demand the equivalent.

We have already seen, that every man, who produces, has a wish for other commodities, than those which he has produced, to the extent of all that he brings to market. And it is evident, that whatever a man has produced, and does not wish to keep for his own consumption, is a stock which he may give in exchange for other commodities. His will, therefore, to purchase, and his means of purchasing, in other words, his demand, is exactly equal to the amount of what he has produced and does not mean to consume.

But each man contributes to the general supply the whole of what he has produced and does not mean to consume. In whatever shape any part of the annual produce has come into his hands, if he proposes to consume no part of it himself, he wishes to dispose of the whole; and the whole, therefore, becomes matter of supply: if he consumes a part, he wishes to dispose of all the rest, and all the rest becomes matter of supply.

As every man's demand, therefore, is equal to that part of the annual produce, or of the property generally, which he has to dispose of, and each man's supply is exactly the same thing, the supply and demand of every individual are of necessity equal.

Demand and supply are terms related in a peculiar manner. A commodity which is supplied, is always, at the same time, a commodity

which is the instrument of demand. A commodity which is the instrument of demand, is always, at the same time, a commodity added to the stock of supply. Every commodity is always, at one and the same time, matter of demand, and matter of supply. Of two men who perform an exchange, the one does not come with only a supply, the other with only a demand; each of them comes with both a demand and a supply. The supply, which he brings, is the instrument of his demand; and his demand and supply are of course exactly equal to one another.

But if the demand and supply of every individual are always equal to one another, the demand and supply of all the individuals in the nation, taken aggregately, must be equal. Whatever, therefore, be the amount of the annual produce, it never can exceed the amount of the annual demand. The whole of the annual produce is divided into a number of shares, equal to that of the people to whom it is distributed. The whole of the demand is equal to as much of the whole of the shares as the owners do not keep for their own consumption. But the whole of the shares is equal to the whole of the produce. The demonstration, therefore, is complete.

How complete soever the demonstration may appear to be, that the demand of a nation must always be equal to its supply, and that it never can be without a market sufficiently enlarged for the whole of its produce, this proposition is seldom well understood, and is sometimes expressly contradicted.

The objection is raised upon this foundation, that commodities are often found to be too abundant for demand.

The matter of fact is not disputed. It will easily, however, be seen, that it affects not the certainty of the proposition which it is brought to oppugn.

Though it be undeniable, that the demand, which every man brings, is equal to the supply, which he brings, he may not find in the market the sort of purchaser, which he wants. No man may have come desiring that sort of commodity, of which he has to dispose. It is not the less necessarily true, that he came with a demand equal to his supply; for he wanted something in return for the goods which he brought. It makes no difference to say, that perhaps he only wanted money; for money is itself goods; and, besides, no man wants money but in order to lay it out, either in articles of productive, or articles of unproductive consumption.

Every man having a demand and a supply, both equal; if any commodity be in greater quantity than the demand, some other commodity must be in less.

If every man has a demand and supply both equal, the demand and supply in the aggregate are always equal. Suppose, that of these two equal quantities, demand and supply, the one is divided into a certain number of parts, and the other into as many parts, all equal; and that these parts correspond exactly with one another; that as many parts of the demand as are for corn, just so many parts of the supply are of corn; as many of the one as are for cloth, so many of the other are of cloth, and so on: it is evident, in this case, that there will be no glut of any thing whether the amount of the annual produce be great or small. Let us next suppose, that this exact adaption to one another of the parts of demand and supply is disturbed; let us suppose that, the demand for cloth remaining the same, the supply of it is considerably increased: there will of course be a glut of cloth, because there has been no increase of demand. But to the very same amount there must of necessity be a deficiency of other things⁴⁶; for the additional quantity of cloth, which has been made, could be made by one means only, by withdrawing capital from the production of other commodities, and thereby lessening the quantity produced. But if the quantity of any commodity is diminished, a demand equal to the greater quantity remaining, the quantity of that commodity is defective. It is, therefore impossible, that there should ever be in any country a commodity or commodities in quantity greater than the demand, without there being, to an equal amount, some other commodity or commodities in quantity less than the demand.

The effects, which are produced, in practice, by the want of adaption in the parts of demand and supply, are familiar. The commodity which happens to be in superabundance, declines in price; the commodity, which is defective in quantity, rises. This is the fluctuation of

⁴⁶ [Ricardo commented: 'I cannot agree with this, for the additional quantity of cloth might be made by an additional capital saved from last year's revenue, and not from a capital withdrawn from other employments. I agree with the conclusion, but not with the statement. The clothier who produces the cloth with his saved capital, as I have supposed, and for which there is not an adequate demand, did it as a means to an end, he wished to sell his cloth and purchase some other thing. It is that other thing which he ought to have produced, and then there would not have been a glut of any commodity. There cannot be a glut of any thing but from an accident, almost always from miscalculation.' *Works*, vol. IX, p. 132.]

the market, which every body sufficiently understands. The lowness of the price, in the article which is superabundant, soon removes by the diminution of profits, a portion of capital from that line of production: The highness of price, in the article which is scarce, invites a quantity of capital to that branch of production, till profits are equalized, that is, till the demand and supply are adapted to one another.

The strongest case, which could be put, in favour of the supposition that produce may increase faster than consumption, would undoubtedly be that, in which, every man consuming nothing but necessaries, all the rest of the annual produce should be saved. This is, indeed, an impossible case, because it is inconsistent with the laws of human nature. The consequences of it, however, are capable of being traced; and they serve to throw light upon the argument, by which the constant equality has been demonstrated of produce and demand.

In such a case, what came to every man's share of the annual produce, bating his own consumption of necessaries, would be devoted to production.⁴⁷ All production would of course be directed to raw produce and a few of the coarser manufactures; because these are the articles for which alone there would be any demand. As every man's share of the annual produce, bating his own consumption would be laid out for the sake of production, it would be laid out in the articles subservient to the production of raw produce and the coarser manufactures. But these articles are precisely raw produce and a few of the coarser manufactures themselves. Every man's demand, therefore, would consist wholly in these articles; but the whole of the supply would consist also in the same articles. And it has been proved, that

⁴⁷ [Ricardo commented: "This does not answer the objection usually made. If every man was intent on saving, more food and necessaries, (the materials which are chiefly employed in procuring labour), would be produced than could be consumed. The supply above the demand would produce such a glut, that with the increased quantity you could command no more labour than before. All motive to save would cease, for it could not be accomplished, but the precise reason of this is, that capital increases faster than population, and consequently that the labourers would be in a condition to command a very great quantity of the net produce. This could only last till the population was increased when labour would again fall, and the net produce be more advantageously distributed for the capitalist. During the period of very high wages, food and necessaries would not be produced in such quantities as to occasion a glut, for it would be the interest of the producer to produce such things as were in demand, and suited to the tastes of those who had high wages to expend." *Works*, vol. IX, p. 131.]

the aggregate demand and aggregate supply are equal of necessity; because the whole of the annual produce, bating the portion consumed by the shareholders, is brought as the annual produce, with the same abatement, is brought as supply.

It appears, therefore, by accumulated proof, that production can never be too rapid for demand. Production is the cause, and the sole cause, of demand. It never furnishes supply, without furnishing demand, both at the same time, and both to an equal extent.

⁴⁸It has been objected,⁴⁹ that, for the validity of the argument it is necessary to suppose, 'that new tastes and new wants spring up with the new capital.' A single reflection will, I think, make it clear that the taste and wants, in question, are essentially and necessarily implied in the very existence of the capital.

The new capital is all to be laid out in the purchase of something, according to the plans of the owner. It is of infinite importance to observe, that every creation of capital is the creation of a demand. It is surprising that this material point is so frequently overlooked. It seems to be little less than self evident, and if admitted, it carries in itself an answer to every argument that has been, or that can be adduced, in favour of the glut.

What is it that we mean, when we say the demand of a nation, speaking of the aggregate, and including a definite circle of production and consumption, such as that of a year? Do we, or can we, mean any thing but its power of purchasing? And what is its power of purchasing? Of course, the goods which come to market. What, on the other hand, is it we mean, when, speaking in like manner aggregately, and including the same circle, we say the supply of the nation? Do we, or can we mean any thing, but the goods which come to market? The conclusion is too obvious to need to be drawn.

What produces the confusion of ideas, which so often occurs in the consideration of this subject, is the glut, which may, and does take place, of particular commodities. Does it follow from this, that there can be a glut of commodities in the aggregate, when it is necessarily

⁴⁸ [The rest of this section was added in the 2nd edition.]

⁴⁹ [In the 2nd edition William Blake was mentioned as the source of the objection and the following footnote appended: 'Observations on the Effects produced by the Expenditure of Government, during the Restriction of Cash Payments, by W. Blake, Esq. F.R.S. (p. 59); a pamphlet in which Mr Blake has very ably illustrated his own view of several important topics.']

true that there cannot be an aggregate supply without an equal aggregate demand, equal both in quantity and in value?

To the argument, which shows that to the same degree, in which one or more commodities may be in such abundance as exceeds the demand, some other commodities must fall short of the demand, it has been replied, that the commodities which are supplied in superabundance fall in value, that this involves all the evil of the glut, and is therefore a reply to the whole of the argument which denies its existence.

This is a reply in words only. What is maintained in my argument is, that there can be no glut of commodities in the aggregate, though there may be in particular instances. The answer made to me is, that there may be a glut in particular instances.

In the very words of the pretended reply, the certainty of the disputed fact is admitted. The value, it is said, of the goods, which are in the state of superabundance, falls. If this is not a play upon the word, it implies the very thing which it is brought to dispute, that whenever one set of goods is supplied above the demand, another is supplied below the demand.

What is it that is necessarily meant, when we say that the supply and the demand are accommodated to one another? It is this: that goods which have been produced by a certain quantity of labour, exchange for goods which have been produced by an equal quantity of labour. Let this proposition be duly attended to, and all the rest is clear.

Thus, if a pair of shoes is produced with an equal quantity of labour, as a hat, so long as a hat exchanges for a pair of shoes, so long the supply and demand are accommodated to one another. If it should so happen that shoes fell in value, as compared with hats, which is the same thing as hats rising in value compared with shoes, this would imply that more shoes had been brought to market, as compared with hats. Shoes would then be in more than the due abundance. Why? Because in them the produce of a certain quantity of labour would not exchange for the produce of an equal quantity. But for the very same reason hats would be in less than the due abundance, because the produce of a certain quantity of labour in them would exchange for the produce of more than an equal quantity in shoes.

What is true of any one instance is true of any number of instances. It is therefore universally true, that, as the aggregate demand and

aggregate supply of a nation never can be unequal to one another, so there never can be a superabundant supply in particular instances, and hence a fall in exchangeable value below the cost of production, without a corresponding deficiency of supply, and hence a rise in exchangeable value, beyond cost of production, in other instances. The doctrine of the glut, therefore, seems to be disproved by reasoning perfectly conclusive.

Let us recapitulate the points. A glut, as it is supposed in this doctrine, namely an excess of production in the aggregate, can take place only by a continued increase of production. Let us imagine that we have just come to the supposed point, when, the supply being full, any additional production will be so much of glut. The additional production takes place, and comes to market. What is the consequence? This new product seeks an equivalent. That is to say, it is a new demand. How then is it possible to say that every new supply is a glut, when a new demand is created equal to it? It is obviously nugatory to say, that this new supply may not find purchasers, or the new demand may not find the commodities to which it is directed; for this is only to say that in particular instances there may, from miscalculation, be superabundance or defect. The natural effects, in such a case, may be easily traced, and they afford decisive evidence. The commodities, of which the additional production consists, may be naturally supposed to consist of some of the sorts which are previously in the market. By supposition, the goods previously in the market were accommodated to one another, no species being either in defective, or superabundant supply. The addition which is made to some sorts of these goods, by the new production, would render them superabundant, if there was not a new demand created. These goods would fall in exchangeable value as compared with others, others would rise in exchangeable value as compared with them. But there is a new demand created; for the owner of the new produce, as he has come into the market to sell goods of some kinds, so he has come to buy goods of some other kinds. As the supply, which he brought, of certain kinds of goods tended to reduce their value, so the demand, which he brings, for other kinds tends to increase their value. The result is, that now there are certain kinds of goods, which it is less profitable than usual to produce; others, which it is more profitable than usual to produce: and this is an inequality, which tends immediately to correct itself. This is the mode, in which every addition is made to the productions of a country, and

it is a mode, which is evidently the same at every stage of the progress, from the greatest defect, to the greatest excess, of national riches. It commonly, of course, happens, that the man, who brings into the market an addition of produce, endeavours to bring it in goods that are in defective supply, and to purchase goods that are in superabundant supply; and the state of the market generally enables him to do so: so that an addition of produce brought into the market may just as often remedy a glut as be in any degree the cause of it.

The doctrine of Mr Malthus, on the subject of the glut, seems, at last, to amount to this: that if saving were to go on at a certain rate, capital would increase faster than population; and that if capital did so increase, wages would become very high, and profits would sustain a corresponding depression. But this, if it were all allowed, does not prove the existence of a glut; it only proves another thing, namely, that there would be high wages and low profits. Whether such an increase of capital, scarcely coming within the range even of a rational supposition, would be a good thing or an evil thing, it would infallibly produce its own remedy, as the power of capital to increase is diminished with the diminution of profits.

Mr Malthus further says, that the high wages thus produced would generate idleness in the class of labourers. The prediction may be disputed; but, allowed to be correct, what is its import? If, wages continuing the same, less work is done, this is higher pay for an equal quantity of labour; it is therefore the same thing as a rise of wages. It would merely accelerate that diminution of profits, which must in time retard and finally stop the increase of capital, in consequence of which wages would naturally fall. This, therefore, is not a different objection from the former; it is precisely the same objection, only in a different form.

Mr Malthus, thus, totally failing to prove a glut, even from a continued increase of capital greater than the greatest increase of population, substitutes, for arguments to prove that effect, arguments to prove certain other effects.

He says, that were the annual produce thus to go on increasing, its *value* would be diminished. But this is merely a play upon the word. He says, I call the value of a commodity the number of days' wages it is equal to. If then wages are more than doubled, though you double the amount of your commodities, and have twice as much of every thing, yet you will have less value. An arbitrary change, however, in the

meaning of a word proves nothing. The facts, and their relations, remain the same, whatever Mr Malthus, or I, may choose to call them. The facts still are merely these, that society would have the supposed amount of commodities, and all its benefits, and that wages would be very high.

Mr Malthus further says, that this rapid increase of capital would tend to diminish production. That on which the increase of production depends, is the increase of its two instruments, capital and labourers. By the very supposition which Mr Malthus himself has made, and on which he is reasoning, both of these instruments are increasing at their most rapid possible rate. It seems therefore a most extraordinary supposition, that production should not be increasing at its most rapid possible rate.

If it be true, as Mr Malthus supposes, that the high wages supposed would diminish labour, it will be true that less work will be done, and less production effected, than if every man worked more. Let us suppose that the diminution of labour goes on gradually, as wages increase, till at last each man does only half as much work as before, what then is the consequence? Merely this, that if population is going on at its greatest possible rate, doubling itself in twenty years, there will not be a greater increase of production from labour, than there would be if it doubled itself only in forty years, and each man performed twice as much work. This would still be a more rapid rate than that at which capital increases, except in some very rare and extraordinary circumstances. But, if labour were so very dear, and capital so abundant, the consequence would be, that as little as possible of production would be performed by man's labour, as much as possible by machinery and cattle. Ingenuity would be racked to find the means of superseding the most costly instrument. Machines would be multiplied and improved without end; and a much greater proportion of the annual produce would be the result of capital, a much less the result of immediate labour. The diminution of production would not therefore be nearly in proportion to the diminution of each man's labour.

The supposed effects therefore are really of no importance, otherwise it might still be questioned how far the inference is warranted, that high wages tend to diminish industry. Experience seems to be very full on the opposite side. Where wages are excessively low, as in Ireland, there is no industry; where excessively high, as in the American United States, there is the greatest. What does Mr Malthus himself

mean by the stimulus which he says is given to industry by an enlargement of the market?

SECTION IV

IN WHAT MANNER GOVERNMENT CONSUMES

All consumption is either by individuals, or by the government. Having treated of the consumption of individuals, it only remains that we treat of that which has government for its cause.

Although the consumption by government, as far as really necessary,⁵⁰ is of the highest importance, it is not, unless very indirectly, subservient to production. That which is consumed by government, instead of being consumed as capital, and replaced by a produce is consumed, and produces nothing. This consumption is, indeed, the cause of that protection, under which all production has taken place; but if other things were not consumed in a way different from that in which things are consumed by government, there would be no produce. There are reasons for placing the expenditure of government under the head of unproductive consumption.

The revenue of government must be derived from rent, from profits of stock, or from wages of labour.

It is, indeed, possible for government to consume part of the capital of the country. This, however, it can only do for one year, or for a few years. Each year in which it consumes any portion of the capital, it so far reduces the annual produce; and, if it continues, it must desolate the country. This, therefore, cannot be regarded as a permanent source of revenue.

If the revenue of government must always be derived from one or more of three sources; rent, profits, wages; the only questions requiring an answer, are; in what manner, and in what proportion, should it be taken from each?

The direct method is that which most obviously suggests itself. It shall, therefore, first, consider what seems to be most important in the direct mode of deriving a revenue to government from rent, profits, and wages; and, secondly, I shall consider the more remarkable of the

⁵⁰ [To get some idea of the moral fervour which Mill could inject into his discussion of 'unnecessary' government expenditure the reader should consult his 'State of the Nation', *Westminster Review*, Oct. 1826, vol. VI, pp. 254-5.]

expedients which have been employed for deriving it from them indirectly.

SECTION V

TAXES ON RENT

It is sufficiently obvious, that the share of the rent of land, which may be taken to defray the expenses of the government, does not affect the industry of the country. The cultivation of the land depends upon the capitalist; to whom the appropriate motive is furnished, when he receives the ordinary profits of stock. To him it is a matter of perfect indifference; whether he pays the surplus, in the shape of rent, to an individual proprietor; or, in that of revenue, to a government collector.

In Europe, at one period, the greater part of, at least, the ordinary expenses of the sovereign was defrayed by land, which he held as a proprietor; while the expense of his military operations was chiefly defrayed by his barons, to whom a property in certain portions of the land had been granted on that express condition. In those times, the whole expense of the government, with some trifling exception, was therefore, defrayed from the rent of land.

In the principal monarchies of Asia, almost the whole expenses of the state have in all ages been defrayed from the rent of land; but in a manner somewhat different. The land was held by the immediate cultivators, generally in small portions, with a perpetual and transferable title; but under an obligation of paying, annually, the government demand; which might be increased at the pleasure of the sovereign; and seldom amounted to less than a full rent.

If a body of people were to migrate into a new country, and land had not yet become private property, there would be this reason for considering the rent of land as a source peculiarly adapted to supply the exigencies of the government⁵¹; that industry would not, by that means, sustain the smallest repression; and that the expense of the government would be defrayed without imposing any burden upon any individual. The owners of capital would enjoy its profits; the class of labourers would enjoy their wages; without any deduction whatso-

⁵¹ [Ricardo commented: 'There would be a period, more or less long, in which there would be no rent, and consequently there could be no public revenue.' *Works*, vol. IX, p. 132.]

ever; and every man would employ his capital, in the way which was really most advantageous, without any inducement from the mischievous operation of a tax, to remove it from a channel in which it was more, to one in which it would be less productive to the nation. There is, therefore, a peculiar advantage in reserving the rent of land as a fund for supplying the exigencies of the state.

There would be this inconvenience, indeed, even in a state of things, in which land had not been made private property; that the rent of the land, in a country of a certain extent, and peopled up to a certain degree, would exceed the amount of what government would need to expend. The surplus ought undoubtedly to be distributed among the people, in the way likely to contribute the most to their happiness; and there is no way, perhaps, in which this end can be so well accomplished, as by rendering the land private property. As there is no difficulty, however, in rendering the land private property, with the rent liable for a part of the public burdens; so there seems no difficulty in rendering it private property, with the rent answerable for the whole of the public burdens. It would only in this case require a greater quantity of land to be a property of equal value. Practice would teach its value as accurately, under these, as under present circumstances; and the business of society would, it is evident, proceed without alteration in every respect.

Where land has, however, been converted into private property, without making rent in a peculiar manner answerable for the public expenses; where it has been bought and sold upon such terms, and the expectations of individuals have been adjusted to that order of things, rent of land could not be taken to supply exclusively the wants of the government, without injustice. It would be partial and unequal taxation; laying the burden of the state upon one set of individuals, and exempting the rest. It is a measure, therefore, never to be thought of by any government, which would regulate its proceedings by the principles of justice.

That rent, which is bought and sold, however, that rent, upon which the expectations of individuals are founded, and which, therefore, ought to be exempt from any peculiar tax, is the present rent; or at most the present, with the reasonable prospect of improvement. Beyond this, no man's speculations, either in making a purchase, or in making provision for a family, are entitled to extend. Suppose, now, that, in these circumstances, it were in the power of the legislature, by

an act of its own, all other things remaining the same, to double that portion of the produce of the land which is strictly and properly rent: there would be no reason, in point of justice, why the legislature should not, and great reason, in point of expediency, why it should, avail itself of this, its own power, in behalf of the state; should devote as much as might be requisite of this new fund to defray the expenses of the government, and exempt the people. No injury would be done to the original landowner. His rent, such as he had enjoyed it, and to a great degree such even as he had expected to enjoy it, would remain the same. A great advantage would at the same time accrue to every individual in the community, by exemption from those contributions for the expense of the government, to which he would otherwise have had to submit.⁵²

The legislature may, without any straining of language, be said to possess that power, which I have now spoken of only as a fiction. By all those measures which increase the amount of population and the demand for food, the legislature does as certainly increase the net produce of the land, as if it had the power of doing so by a miraculous act.⁵³ That it does so by a gradual progress in the real, would do so by an immediate operation in the imaginary case, makes no difference with regard to the result. The original rent, which belonged to the owner,

⁵² [Ricardo commented: 'An objection may be made against this tax that it would tend to arrest improvement or would finally in some cases fall on the consumer of raw produce; I mean in the case of a landlord expending a great deal of capital on his land for which he receives a return not under the name of profit, but under the name of rent. These expences would not be incurred, unless by a rise in the price of raw produce the capitalist should have reason to think that he should be repaid for the peculiar disadvantage to which he was exposed. Under such a system of taxation great encouragement would be given to gambling. On the approach of war land would fall in proportion to the expectation of the duration of the war, and with every battle or treaty people would speculate according as their hopes or fears predominated. Land would be so uncertain a property that no safe provision could be made for the possession of it be made for children. On the whole I should greatly prefer the present system of taxation. If land is to be peculiarly the subject of taxation it would be desirable to adopt the Asiatic mode, and consider the government at all times, both in war and peace, the sole possessor of the land, and entitled to all the rent.' *Works*, vol. IX, pp. 132-3.]

⁵³ [Ricardo commented: 'Is it true to say that the legislature *does* possess the power of increasing the productions of the state? By good laws it may take away all the impediments in the way of increasing them, – it may secure to industry all the fruits of its labour etc. etc., but the legislature does not by these laws actually increase productions.' *Works*, vol. IX, p. 133.]

that upon which he regulated his purchase, if he did purchase, and on which alone, if he had a family to provide for, his arrangements in their favour were to be framed, is easily distinguishable from any addition capable of being made to the net produce of the land, whether it be made by a slow or a sudden process. If an addition made by the sudden process might, without injustice to the owner, be appropriated to the purposes of the state, no reason can be assigned why an addition by the slow process might not be so appropriated.

It is certain, that, as population increased, and as capital is applied with less and less productive power to the land, a greater and a greater share of the whole of the net produce of the country accrues as rent, while the profits of stock proportionally decrease. This continual increase, arising from the circumstances of the community, and from nothing in which the landholders themselves have any peculiar share, does seem a fund no less peculiarly fitted for appropriation to the purposes of the state, than the whole of the rent in a country where land had never been appropriated. While the original rent of the landholder, that upon which alone all his arrangements, with respect both to himself, and his family, must be framed, is secured from any peculiar burden, he can have no reason to complain, should a new source of income, which cost him nothing, be appropriated to the service of the state; and if so, it evidently makes no difference to the merits of the case, whether this new source is found upon the land, or found any where else.

If we assume with Mr M'Culloch,⁵⁴ that the whole of what the land can ever yield, is conferred, in the case supposed, on the owner of the land by the previous legislation, there is an end of the question; for it is impossible for any one to express a more decided opinion, than I entertain, against partial taxation; against imposing burthens upon the property of any one class more than upon the property of another class. The real question is, whether any thing, beyond a certain amount of annual benefit, namely, what is at present derived, with such increase as can be rationally anticipated within the number of years' purchase for which the land would sell, can, in a really equitable, excluding a merely technical, mode of considering the subject, be regarded as the property of the land-owner. The considera-

⁵⁴ See a very masterly article on Taxation in the Supplement to the Encyclopaedia Britannica p. 617. [The rest of this section was added in the 2nd edition to meet McCulloch's criticism as published in the Supplement (1824).]

tions, which I have adduced, seem to me to establish, that no point of utility would be violated by such a restriction of the meaning of the term as I have proposed.

I utterly disallow the parallelism of the case of capital, which Mr M'Culloch has adduced; and if because increased profits of stock ought not to be exclusively taxed, therefore the rent, which accrues in the manner above supposed, could not be justly appropriated to the service of the state. Nobody is more aware of the fundamental differences between profits of stock and rent of land than Mr M'Culloch: it is, therefore, the more surprising that he should have founded his argument on an agreement between them, which does not exist.

Only a few lines before, in the same passage, he recognizes such a distinction between rent and profits, as in my opinion is fatal to his argument. 'The circumstance,' he says, 'of rent unavoidably rising in the progress of society, inclines us to think that it would be good policy for the governments of countries, such as the United States, which are possessed of large tracts of fertile and unappropriated land, to retain the property of this land in their own hands:' that is, in other words, to reserve the rent for the service of the state. The case of profits is not only different, but the reverse. Instead of rising, in the progress of society, they decrease. Land exists by the gift of nature; capital is the product of human industry. Land is originally not the property of any man; capital always is. The profits of stock must be secured to the owner to afford a motive for its preservation and augmentation. For the preservation of the land, or the augmentation of its produce, it is not of the least importance to whom the rent is consigned. Profits are in reality, the fund, out of which rent is always taken; and every increase of rent, in the progress of society, is a deduction from profits, in other words, may be regarded as a tax upon profits, not for the benefit of the state, but that of the landlords.

SECTION VI

A TAX ON PROFITS

A direct tax on profits of stock offers no question of any difficulty. It would fall entirely upon the owners of capital, and could not be shifted upon any other portion of the community.

As all capitalists would be affected equally, there would be no

motive to the man, engaged in any one species of production, to remove his capital to any other. If he paid a certain portion of his profits, derived from the business in which he was already engaged, he would pay an equal portion, derived from any other business to which he could resort. There would not, therefore, in consequence of such a tax, be any shifting of capital from one species of employment to another. The same quantity of every species of goods would be produced, if there was the same demand for them. That there would, on the whole, be the same aggregate of demand, is also immediately apparent. The same capital is supposed to be employed in the business of production; and if part of what accrued to the capitalist was taken from him, lessening to that extent his means of purchasing, it would be transferred to the government, whose power of purchasing would be thence to the same degree increased.

There would, therefore, be the same demand, and the same supply: there would also be the same quantity of money, and the same rapidity of circulation; and therefore the value of money would remain the same as before.

SECTION VII⁵⁵

A TAX ON WAGES

If wages are already at the lowest point, to which they can be reduced; that is, just sufficient to keep up the number of labourers, and no more; the state of wages which seems to have been contemplated, by Mr Ricardo, throughout his disquisitions on political economy, and which the tendency of population to increase faster than capital, undoubtedly leads us to regard as the natural state; no tax can fall upon the labourer; and if any tax is imposed upon wages, it is easy to trace in what way it must produce a corresponding rise of wages. If wages are as low as is consistent with the preservation of the number of labourers, take any thing away from those wages, and the number of labourers must be reduced. The reduction of the number of labourers must be followed by a rise of wages, and this process must continue till wages rise sufficiently high to be consistent with the preservation of the number of labourers; in other words, just as high as they were before the tax was imposed.

⁵⁵ [This section was completely rewritten for the 2nd edition.]

If wages are not at this lowest rate; if they are sufficiently high to afford the labourers something more than what is necessary to keep up their numbers, something which may be retrenched without a diminution of their numbers, they may, to this extent, be made subject to taxation.

Wages, like the price of any other commodity, rise or fall, in proportion as the demand for labour rises or falls, compared with the supply.

When wages are so low as barely to keep up the number of labourers, wages must rise to the amount of any tax imposed upon them, because there is a continued diminution of the supply of labourers till this rise is effected.

In the case of wages above this level, there is no necessary reduction of the number of labourers in consequence of a tax imposed upon wages. There is no alteration, therefore, in the state of supply. From this it follows, that if there is not an increase of demand for labourers, in consequence of such a tax, there can be no rise of wages; and if there be no rise of wages, the tax must fall upon the labourers. The solution, therefore, of the question, whether a tax upon wages falls upon the labourer, depends upon the inquiry, whether there is, or is not, such increase of demand.

An increase of demand for labour can arise from two causes only; either from an increase of capital, the fund destined for the employment of labour; or a difference in the proportions between the demand for the produce of fixed capital and that of immediate labour.

The first of these causes needs no illustration. The operation of the second we proceed to trace. As the demand of a nation consists of a great number of demands of a great number of individuals, the case of one individual will exemplify the whole.

Suppose a man with a certain income; to determine our ideas, let us call it 1000*l.* per annum; this is his demand. Let us suppose it divided into two portions, the one of which constitutes his demand for the produce of fixed capital; the other his demand for that of immediate labour: and let us suppose that these proportions are different at two different times. We have to examine what are the consequences.

Let us suppose that, first, he spends 500*l.* of this income on the produce of fixed capital; 500*l.* on that of immediate labour.

In the first case he purchases commodities only; in the second he purchases either commodities or services, but gives the same employ-

ment to labour whether he purchases the one or the other. If a man makes a basket in a day, for which you pay him a shilling, or weeds in your garden a day at a shilling's wages; in both cases the demand you furnish for labour is precisely the same. The 500*l.* expended in the produce of immediate labour, is a demand for that number of labourers, whose wages for a year amount to 500*l.*; say for 1000 labourers.

If the commodities, made with fixed capital, on which he spends the other 500*l.*, are made purely with fixed capital; an imaginary case, but which we may suppose, for the sake of illustration; this portion of his income presents no demand for labour at all. The price of the commodities which are thus purchased is wholly made up of profits. It is the result of labour formerly expended, and, with the portion of labour now in the market it has nothing to do.

Suppose that of this 500*l.* one half is turned, by a change in the taste of the owner, from the purchase of commodities, the produce of fixed capital, to the purchase of the produce of immediate labour. Two things happen: a demand is created for 250*l.* worth of mere labour: a demand is annihilated for 250*l.* worth of the produce of fixed capital; that is to say, as much of the capital of the country as yielded 250*l.* of profits, becomes useless. This is entirely distinct from a fall in the rate of profits. Such a fall may or may not accompany such a change in the two species of demand. This is a loss of capital. Capital, to this extent, ceasing to be employed, ceasing to be needed, is, to any useful purpose, destroyed. Along with it there is destroyed a productive power to the extent of 250*l.* per annum. This is not compensated by any new production; for by the supposition the number of labourers is not increased. Every labourer that is employed, under the new application of this 250*l.* of the supposed income, would have been employed if the new application had not taken place, if the capital had not been destroyed.

Under the new distribution of the 1000*l.* income, as much is awarded to the class of labourers, as is taken from the class of capitalists. 250*l.* were formerly awarded as profits, which are now awarded as wages. So far, there is no absolute loss, as much being gained by one, as lost by another. The loss arises from this, that, while no new labour is brought into employment, and no addition is made to the productive powers of labour, nor of course to its produce, a portion of capital is thrown out of employment, its productive powers are lost, and the annual produce of the country is diminished.

This case is reversed when machinery is invented which performs the work of immediate labour. Let us make the same supposition of the extreme cases as before; that the machine invented performs the functions of labour without the aid of labour, that the produce is purely the result of capital. Let us suppose a capital of 10,000*l.*; wholly, in the first instance, employed in the payment of wages. Let us suppose that this 10,000*l.* is afterwards expended in making a machine which produces the same commodity, and the same quantity of it. In this case the whole of the labourers who received the 10,000*l.* of wages, are deprived of their old employment. The consequence is, not that they are thrown out of employment, but that they increase the supply of labour in the market and reduce wages. The labourers, in this case, do not necessarily cease to produce; they produce just as much as before. The whole of the produce of the machine, therefore, is a new produce, an addition to the former amount of the annual produce.

Compare now the two cases; the case where the demand for the produce of fixed capital is diminished, and that for immediate labour is increased; and the case where the demand for the produce of fixed capital is increased, and that for immediate labour is diminished. In the first there is a rise of wages, and a diminution of profits, and so far there is compensation: but there is besides this a defalcation of production to the extent of the productive powers of all the capital superseded; and this is a dead loss. In the second case, there is a fall of wages, and a rise of profits, so far again there is compensation; but in this case there is an increase of production to the extent of the productive powers of the whole of the fixed capital created. This is a new fund for the employment of labour, and as far as it goes, prevents the fall of wages.

Having thus illustrated the only case in which an increase of demand for labour can take place, without an increase in the amount of capital, which in the case before us is not supposed, we are prepared to see where an increase of demand for labour, in consequence of a tax upon wages, can, and where it cannot, exempt the labourer from the tax.

The effect of a tax upon wages, when wages are so high as to be capable of being affected by a tax, is to transfer a certain power of commanding the produce of labour and capital from the class of labourers to the government. With the amount of the tax, before it was taken from the labourers, they presented a demand for so much of the operations of fixed capital, so much of those of immediate labour. Where the same amount is transferred to the government, the govern-

ment presents in like manner a demand for so much of the operations of fixed capital, so much of those of immediate labour. If the proportions of the demand for the produce of fixed capital and immediate labour were the same in both cases, there would be no alteration in the demand for labour, in consequence of the tax, and the whole of it would fall upon the labourers. If the government presented a greater demand for the produce of immediate labour, less for that of fixed capital, than was presented by the labourers, there would so far be an increase of demand for labour, and a rise of wages, which would so far be a compensation to the labourer for the tax, at the expense, however, of profits, and with an uncompensated loss to the extent of all the produce which the superseded capital would have yielded.

Properly speaking, however, this rise of wages is not an effect of the tax upon wages. It is the effect of a very different cause; of a supposed peculiarity in the nature of the government expenditure. When we are talking, therefore, of the effect of a tax upon wages, in increasing or diminishing the demand for labour, this extraneous circumstance, which may or may not be concomitant, ought to be left out of the account. The only essential effect of a tax upon wages is to take so much from the labourer, just as a tax upon profits takes so much from the capitalist, a tax upon rent takes so much from the landlord.

It is further essential to this question to observe, that the effect of the government expenditure in raising wages, by furnishing a greater demand for immediate labour, less for the produce of fixed capital, would take place equally if the tax were levied upon profits, or upon rent. If this is the effect of the expenditure of government, upon whatever source of income the tax is levied, to lay the tax upon wages is only to prevent the labourer from reaping the benefit of that rise of wages, the full benefit of which he would otherwise enjoy. In this sense, therefore, also, and, when this is included, all are included, it is evident that the tax really falls upon the labourer.

The argument may be shortly stated thus. Before the tax, a certain demand existed for labour; arising, in part from the funds of the landlord, in part from those of the capitalist, and in part from those of the labourer. After the tax the two former remain the same. But the demand arising from the funds of the labourer is diminished. If this loss of demand were not compensated, the labourer would sustain two evils in consequence of the tax. He would pay the tax; and his wages would fall. The second of these evils he does not sustain, because the

diminution of demand on the part of the labourers is compensated. The increase of demand on the part of government is exactly equal to the diminution of the demand on the part of the labourers. This prevents wages from falling, but it does no more. It yields nothing in compensation for the tax.

SECTION VIII⁵⁶

DIRECT TAXES WHICH ARE DESTINED TO FALL EQUALLY UPON ALL SOURCES OF INCOME

Assessed taxes, poll taxes, and income taxes, are of this description. After what has been said, it is not difficult to see upon whom, in each instance, the burden of them falls.

In as far as they are paid by the man, whose income is derived from rent, or the man whose income is derived from profits of stock the burden of them is borne by these classes. No additional demand arises from the tax; and, therefore, neither can landlords raise their rents, nor capitalists the price of their commodities.

In respect to the labourer, the result is different in different cases. If his wages are already at their lowest rate, no portion of such tax can fall upon him. His wages will rise, and throw his share upon the capitalist. If the wages of the labourer are sufficiently high, he will sustain his share of the burthen.

The effect of these taxes upon prices may be easily ascertained. A tax upon rent would produce no alteration in the price of any thing. Rent is the effect of price; and the effect cannot operate upon the cause. A tax upon profits would alter prices, only as a tax upon wages alters them.

Of the tax upon wages, there are two cases; that in which it raises wages, and that in which it does not raise them. In the case in which it does not raise them it will hardly be supposed that any alteration of prices should ensue. The capital of the country is not supposed to

⁵⁶ [This section appeared for the first time in the 2nd edition, and is one of the most interesting in this chapter. On the quasi-legal questions of permanency and security of different forms of income, and their bearing on tax equity, Mill was able to call upon his Benthamism to supplement his Ricardianism. For similar but less fully-developed views on this matter, see Bentham's *Proposal for a Mode of Taxation* in his *Economic Writings* (ed. W. Stark), vol. I, pp. 316-17.]

undergo any alteration, nor, of course, the quantity of produce. With respect to the demand, a portion of the power of purchasing, which belonged to the labourers, is taken from them: but the whole of what is taken from them is transferred to the government. Government may send abroad the amount of the tax. If we suppose, however, that it sends it abroad in goods, it is evident, that no diminution of prices will ensue. And if it sends it abroad in bullion, the case, in the long run, is the same; for as the vacuity which is thus made in the bullion market, is to be supplied, goods must go abroad to purchase it. The exportation of the bullion, if it diminishes the quantity of money, will produce a temporary depression of price. But the same effect would follow from the same cause on any other occasion.

In the case in which wages do rise, it may also be seen, that the capital and produce of the country remain the same, the amount of demand and supply the same, and the value of money the same. The aggregate of prices, therefore, one thing being compensated by another, is the same. That change, indeed, which takes place in the relative value of certain kinds of commodities, as often as wages rise and profits fall, is necessarily produced on this occasion. Those commodities, which are chiefly produced by fixed capital, and where little payment of wages is required, fall in price, as compared with those in producing which immediate labour is the principal instrument, and where little or nothing of fixed capital is required. The compensation, however, is complete; for as much as the one of these two sets of commodities falls in price, the other rises; and the price of both, taken aggregately, or the medium of the two, remains the same as before.

The several species of property, which in the ordinary and coarse application of language, pass under the name of income, are exceedingly different. This gives occasion to a question, whether it is equitable to levy the same rate of tax upon all incomes. The question, however, in what proportion taxes ought to fall, is rather a question of general policy, than of political economy; which, in regard to taxes, confines itself to two questions: first, on which of the three original shares of the annual produce, rent, wages, or profits, a tax falls: and next, whether it operates unfavourably on production. As this question however, is generally introduced into books on political economy, it is proper here to point out the way to its solution.

The grand distinction of incomes, as regards this question, seems to be, the value of them. All property may, with trifling exceptions,

be regarded as income. But the value of incomes depends upon two circumstances: first, upon what is called their amount, as 100*l.* per annum, or 1000*l.* per annum; secondly, their permanence and certainty. Thus the value of a man's property is ten times as great, if he has 1000*l.* year, as if he has 100; but that only if the permanence and security are equal; for if 100*l.* a year is secure for ever, while 1000*l.* a year is only to endure for a few years, the 100*l.* a year will be the more valuable property of the two. That, on the occasion of imposing a tax, property is to be estimated, according to one of the elements of its value, and not according to all of them, is a proposition which ought not to be admitted except on very substantial grounds.

Let us suppose, that one man's income is 100*l.*, the rent of land; that another man's income is 500*l.*, the salary of his office, depending not only upon his life and health, but in some degree upon the pleasure of his employers. The first will be worth 30 years' purchase; the last, in certain circumstances, not worth more than six. The real value of the property of these two men will, in these circumstances, be the same; and upon the principle of equal burthens upon equal property, the tax upon these ought to be the same.

It is true that, if the tax, proportional to the amount, is paid for 30 years upon the 100*l.* and six years upon the 500*l.* the amount of tax will be the same. But this, as a principle of taxation, is liable to this objection; that it excludes from consideration that, to which all consideration should tend, individuals, and their feelings.

There is another point of view in which we must consider the question. The period of enjoyment of the man whose income is 100*l.* in rent, may be as short as that of the man whose income is 500*l.* in salary; the life of the first may not be worth a greater number of years' purchase than the salary of the second.

In this way, undoubtedly, all incomes may be regarded as measured by the life of the individual.

It may also be affirmed, that, in like manner as the income of the man, who draws rent, passes to his descendants; so the income of the man who draws salary, passes to his successors. Strictly speaking, the two species of income are both equally permanent: the rent flows in a permanent stream, through one generation after another, and so does the salary. It would follow, therefore, that if rent were taxed at one rate, salaries at another, there would be two perennial streams of income, taxed in different degrees, the one more, the other less heavily.

This is true, and the only reason for such difference is, the difference of those who succeed to the incomes. In the case of income derived from land or from capital, the income passes to a man's children, to the persons most dear to him: in the case of salaries, it passes to those, with whom the man has no connexion. Whether this reason is sufficient, requires to be considered. There can be no doubt that in regard to feelings, in regard to the happiness of the individuals, it makes a great difference, whether their incomes are to pass to their children at their deaths, or to their successors, in their offices, or their professions. On this score it would seem to be required by the principle of all good legislation, that a corresponding difference should be observed in the imposition of taxes.

This, however, would be a step, it is said, towards the equalizing of fortunes. It would lessen the incomes of the descendants of the owners of permanent incomes, in order to increase those of the descendants of persons with life incomes. This is liable to the same objections as raising the scale of taxation, in proportion to the scale of income; taxing commodities, for example, higher to the man of 1000*l.*, than to the man of 100*l.* a year. It would lessen the motive to make savings, by lessening the value of great accumulations. It is to be inquired whether this allegation is well founded.

A tax, to operate fairly, ought to leave the relative condition of the different classes of contributors the same, after the tax, as before it. In regard to the sums required for the service of the state, this is the true principle of distribution.

In the case of incomes of different permanency, what does leave the relative condition the same?

It is quite clear, that the prospect for a man's children is one part of that condition. If a tax so operates upon two classes, as to reduce the condition of the children of the one class lower, as compared with the condition of the children of the other class, than it would otherwise be, it does not leave the relative condition of those two classes the same.

Suppose two men, each of 1000*l.* a year, the one rent, the other salary; the latter worth 15 years' purchase. Suppose that to make a provision for his children, the man with the salary saves one-half; the man with the rent spends all. With respect to expenditure, the man with the salary stands to the other in the relative condition of a man of half the income.

Next let us examine how it is with the children. The annual sum

of 500*l.* saved for 15 years, at compound interest, would amount, say, to 10,000*l.* This at 5 per cent. interest, would afford a perpetual income to the children of the man with the salary of 500*l.* a year. The children of the man with the rent would have 1000*l.* In this way, as the father's condition was that of a man with half the income, so is that of the children.

It is perfectly plain, therefore, that if the one is taxed at more than one half the rate of the other, he is taxed too high. The salary we supposed to be worth 15 years' purchase: the rent is worth 30: one half is here also the proportion. It therefore points out the rule. If one income is worth half as many years' purchase as another, it ought to be half as much taxed; if it is worth one-third of as many years' purchase, it ought to be taxed one-third, and so on.

It may be said, that if the class who live upon salaries are loaded with more than their due share of the burthen, the balance will adjust itself; because, the situation having been rendered less desirable, fewer people will go into it, and the salaries will rise. This does not remove the objection. For, first of all, why should legislation disturb the natural proportion, in order that the force of things may restore it? In the next place, the restoration of the equilibrium in this case is a slow operation. It requires a generation to pass away before the diminution of the numbers of those who live upon salaries can raise their condition. A whole generation is therefore sacrificed.

SECTION IX

TAXES ON COMMODITIES; EITHER SOME PARTICULAR COMMODITIES; OR ALL COMMODITIES EQUALLY

Taxes on commodities may either affect some particular kinds, or all commodities equally.

When a tax is laid on any particular commodity, not on others, the commodity rises in price, or exchangeable value; and the dealer or producer is reimbursed for what he has advanced on account of the tax. If he were not re-imbursed, he would not remain upon a level with others, and would discontinue his trade. As the tax is, in this case, added to the price of the goods, it falls wholly upon the consumers.

When a tax, in proportion to their value, is laid upon all commodities, there is this difference, that no one commodity rises in ex-

changeable value, or, as compared with another. If one yard of broad cloth was equal in value to four yards of linen, and if a duty of ten per cent. on the value were laid upon each, a yard of cloth would still be equal to four yards of linen.

An *ad valorem* duty upon all commodities would have the effect of raising prices, or their value in relation to money.

The members of the community would come to market, each with the same quantity of money as before. One-tenth of it, however, as it came into the hands of the producers, would be transferred to the government. But it would again be immediately laid out in purchases, either by the government itself, or by those to whom the government might dispose of it. This portion, therefore, would come into the hands of the producers oftener by once, after the tax was imposed, than before. Before the tax was imposed, it came once into the hands of the producers, from those of the purchasers of goods. After the tax was imposed, it would come into the hands of the producers in the same manner: but it would go from them to the government, and from the government come back into the hands of the producers a second time.

The producers, in this manner, would receive for their goods, not only the whole ten-tenths of the money of the country, as before; but they would receive one-tenth twice, where they received it only once before. This is the same thing exactly as if they had received eleven-tenths, or as if the money of the country had been increased one-tenth. The purchasing power of the money, therefore, is diminished one-tenth; in other words, the price of commodities has risen one-tenth.

Upon whom the tax would, in that case, fall, is abundantly obvious. The purchasers would come with the same quantity of money as before. The purchasing power of that money, however, would be reduced one-tenth, and they would be able to command one-tenth less of commodities than before. The tax would, of course, fall upon purchasers.

⁵⁷As this argument has not produced, in some minds whose decisions I highly respect, the same conviction which it has in my own, I will endeavour to render it still more perspicuous, by recurrence to one of the simplest possible cases.

Let us suppose a community of 10 persons, with only two species of commodities, bread, and meat. Let us suppose that 5 of those per-

⁵⁷ [The rest of the section was added in the 2nd edition.]

sons have 5 loaves to dispose of, and that the other 5 have 5 pounds of meat, the value of a loaf the same as that of a pound of meat. Let us suppose that the exchange takes place, as in a more complicated state of things, by the intervention of money; and, as the simplest possible case, let us suppose that the whole of the goods is exchanged against the whole of the money; in other words, that one exchange of the whole of the goods is performed by one operation of the money. If each loaf is worth 10 pence, and each pound of meat the same, it is necessary, under this supposition, that the 5 persons having the 5 loaves of bread should have 50 pence, and the persons having the 5 pounds of meat should have 50 pence.

It is obvious that the persons having the 5 loaves, going to market with 50 pence to buy the 5 pounds of meat, will pay for it at the rate of 10 pence per pound, and that the persons with the meat, going to market for the bread, will pay for it at the rate of 10 pence the loaf. If we suppose that the production of the loaves and the meat is perpetually renewed, it is evident that the same exchanges, at the same money price, may take place for ever. All this, I think, is clear.

Let us then suppose, that government taxes these commodities 10 per cent., and observe attentively what happens. When the first loaf of bread is sold for 10 pence, one penny out of the 10 pence received is paid by the seller to the government, and when one pound of meat is sold, one penny out of the 10 pence received is in like manner paid to the government. By the time that one exchange of all the commodities is effected, one-tenth of the money has been paid to government. With the money, government, as fast as it received it, has come into the market to purchase the same goods. The former purchasers came with all the former quantity, namely, with 100 pence, government came with a tenth more. For the same quantity of goods, therefore, for which 100 pence were paid before, 110 pence have been paid now; it is therefore proved that the price of goods is raised at the rate of the tax. The reason is, that one portion of the money which only performed one operation, in effecting one exchange of the goods, now performs two operations.

The case would be precisely the same, if we supposed the rapidity of circulation to be much greater, and that each piece of money had to perform 10 operations in order to effect one exchange of the whole of the commodities. It is necessary to observe that this is the only correct meaning of the term rapidity of circulation. This is the only meaning

in which rapidity of circulation has any effect upon the value of the money. This is strictly, therefore, the sense in which the term is here employed. If we suppose that in order to perform one exchange of the whole of the commodities, the money has to be exchanged 10 times, it is obvious, as before explained, that it exchanges each time for precisely one-tenth of the goods. Let us conceive that the bread and the meat, supposed in the former case, are 10 times as great, the loaves 50, and the pounds of meat 50, the money remaining the same, but performing 10 operations to effect one exchange of the whole. It is very obvious that the effect which we have just explained, as taking place, in consequence of the tax, upon the whole of the goods, when the whole was exchanged by one operation of the money, will now take place upon the one-tenth of the goods which is exchanged by one operation of the money; it will be raised one-tenth in money value; each tenth will be so raised; and therefore by necessary consequence the whole.

SECTION X

A TAX UPON THE PRODUCE OF THE LAND

A tax upon the produce of land, a tax upon corn, for example, would raise the price of corn, as of any other commodity. It would fall by consequence, neither upon the farmer, nor upon the landlord, but upon the consumer. The farmer is situated as any other capitalist, or producer; and we have seen sufficiently in what manner the tax upon commodities is transferred from him that produces to him that consumes.

The landlord is equally exempted. We have already seen that there is a portion of the capital employed upon the land, the return to which is sufficient to yield the ordinary profits of stock and no more. The price of produce must be sufficient to yield this profit, otherwise the capital would be withdrawn. If a tax is imposed upon produce, and levied upon the cultivator, it follows that the price of produce must rise sufficiently to refund the tax. If the tax is 10 per cent, or any other rate, upon the selling price, corn must rise in value one-tenth, or any other proportion.

In that case it is easy to see, that no part of the tax falls upon the landlord. It is the same as if one-tenth of the produce were paid in kind.

In that case, it is evident, that one-tenth less of the produce would come to the landlord; but as it would rise one-tenth in value, his compensation would be complete. His rent, though not the same in point of produce, would be the same in point of value.

If, instead of a money-tax, varying according to price, it were a fixed money-tax upon the bushel, or the quarter, the money-rent of the landlord would still be the same. Suppose the land or capital, which, as explained above, yields no rent, to produce in all two quarters, that which does yield rent to produce six quarters; four quarters, in that case, are the share of the landlord. Suppose the tax per quarter to be 1*l.*; corn must rise 1*l.* per quarter. The farmer, before the imposition of the tax, paid the landlord the price of four quarters; after it, he pays him the price of four quarters, deducting 1*l.* per quarter for what he had paid as tax. But corn has risen 1*l.* per quarter. He, therefore, pays him the same sum as before.

SECTION XI⁵⁸

A TAX UPON THE PROFITS OF THE FARMER, AND UPON AGRICULTURAL INSTRUMENTS

If a tax were imposed upon the profits of the farmer, without being imposed upon the profits of any other class of producers, the following would be its effects.

It would in the first place raise the price of raw produce; because that price is determined by the produce of the capital which pays no rent, and which, if it sustains a tax, must rise like any other taxed commodity, to indemnify the producer.

In consequence of this rise of price, it would increase the rent of the landlords. Suppose that capital is employed on the land in this case under three degrees of productiveness: the most productive portion yielding 10 quarters, the second 8, and the last 6. A landlord who had land cultivated under these circumstances, would receive at the rate of 6 quarters of corn as rent, 4 produced by the first portion, and 2 by the second. Suppose a tax imposed such as to raise the price of corn 5 per cent.: it leaves the 6 quarters of corn, accruing to the landlord, the same as before; but the value of these 6 quarters is 5 per cent. higher; the landlord's rent, therefore, is increased 5 per cent.

⁵⁸ [This section appeared for the first time in the 2nd edition.]

The difference between this case, and those treated of in the preceding section, is, that the landlord's portion of the produce is not taxed, when the profits of the farmer are taxed.

A tax upon the instruments of agriculture, is the same thing in effect, as a tax upon the profits of the farmer. It raises the value of produce, without affecting the quantity which goes as rent to the landlord. Thus, if a tax is laid upon agricultural horses, it increases the expense of production to the farmer, just as a tax upon coals would increase the cost of production to the iron-founder. For this cost the farmer can only be indemnified by a rise in the price of the produce. The quantities, however, of the corn, the 10, the 8, the 6 quarters, yielded to the different portions of his capital, are not affected. Six quarters of corn are the rent of the landlord, the same as before. Not only, therefore, does the whole of the tax fall upon the consumer, but he is charged with another burthen, the additional rent which is paid to the landlord. The community is taxed, in part for the use of the government, in part for the benefit of the landlords.

SECTION XII

TITHES AND POOR RATES

Tithes are a tax upon the produce of the land; a tenth of the produce, perfectly or imperfectly collected.

The operation, therefore, of this tax, has been already ascertained. It raises the price of produce, and falls wholly upon the consumer.

If the poor rate were levied in proportion to profits upon farmers, manufacturers, and merchants, it would be a tax upon profits. If it were levied in proportion to the rent of land, it would be a tax upon the rent of land. If it were levied upon the rent of houses, it would fall upon the inmates, and be a tax upon income. From the mode in which it is levied, it is drawn in part from all these sources. If it falls disproportionately upon the profits of any one class of capitalists, that class receives compensation. If the farmers, as is usually supposed, pay a higher rate for the maintenance of the poor than other producers, this as far as the excess extends, is the same thing as a separate and additional tax upon them. But if a separate tax is laid upon the farmers, we have already seen that it operates immediately to raise the price of corn sufficiently high to afford them compensation for the tax, and

raises the rent of the landlords. It is to them a benefit, not a burthen.

Of all taxes which raise the price of corn, one effect is remarkable. As a certain quantity of corn is necessary to the subsistence of the labourer, his wages must be competent to the purchase of that quantity. They must often, therefore, rise as the price of that quantity rises. But we have already seen, that, in proportion as wages rise, profits fall. A tax upon corn, therefore, operates upon all men as consumers. Upon capitalists it is apt to operate in two ways; it is, first, a tax upon them as consumers; and, secondly, it has often the same effect upon them as a tax upon their profits.

SECTION XIII

A TAX PER ACRE ON THE LAND

We have already considered in what manner a tax, laid upon the land, and proportioned to the rent; in what manner a tax laid upon the land and proportioned to the produce; and in what manner a tax laid upon the land, and proportioned to the farmer's profits, would operate. The first would be a tax upon the landlord; the second would be a tax upon the consumer, and would not effect the landlord; the third would be a tax upon the consumer, and would benefit the landlord. A tax may also be laid upon the land at so much per acre.

We have seen that there is a portion of capital employed upon the land, the return to which is sufficient to afford the ordinary profits of stock, but nothing more. If any addition is made to the cost of producing, a rise of price must afford compensation. If no addition is made to such cost, price will not be affected.

If a tax is laid, at so much per acre, on land, both cultivated, and uncultivated, no addition will be made to the cost of producing. There are two cases in which portions of capital are employed on the land, without yielding more than the ordinary profits of stock; of course yielding nothing for rent: the one is, where, after two or more doses of capital have been bestowed upon land, each yielding less than the former, a third or a fourth comes to be employed; the other is, where, after land of the second or third degree of fertility has been exhausted, cultivation is forced upon land of a still inferior quality.

⁵⁹It is evident, immediately, that a tax on the acre does not affect

⁵⁹ [The rest of this section was rewritten for the 3rd edition.]

the cost of production, when a subsequent dose of capital is employed upon the same land; because the tax is already paid; and it is, therefore the interest of the farmer to apply a second dose, as soon as the price of produce has risen sufficiently high to afford him a full profit and nothing more.

When capital is applied to new land of inferior quality, upon which the tax was previously paid, the cultivator receives his remuneration the moment produce rises sufficiently high to afford the profits of the stock which the cultivation may require; and no allowance is to be made for a tax which does not depend upon the cultivation.

When the tax is levied only on cultivated land; as capital passes downwards from the more fertile land which has been cultivated before, to the less fertile, which has not been cultivated, the tax likewise descends. The produce to be raised must yield, not only the ordinary profits of stock, but the tax also; such land will not be cultivated till the price of produce has risen sufficiently high to yield that accumulated return. The tax, therefore, is included in the price.

The consequence, with regard to the landlord, is beneficial. Suppose that land of the third degree of fertility is the last to which cultivation has descended; that such land yields at the rate of two quarters per acre, land of the next degree above it at the rate of four quarters, and land of the first degree of fertility six quarters; in this case, it is evident, that two quarters upon each acre affords both the tax, and the remuneration to the farmer. The landlord, therefore, may derive two quarters from the acre of second quality, four quarters from the acre of first. He draws this quantity of produce, in both cases; as well when such a tax is levied, as when it is not levied. But in the case of the tax, the price is raised, and each of his quarters of corn is of greater value. Such a tax would, therefore, raise upon the consumers, not only so much per acre to the government, but a great deal more for the benefit of the landlords.

One effect, however, of this tax would be, to retard the descent of capital to the inferior species of land. So long as fresh doses of capital, upon the land already in cultivation, were not diminished in productive power, to the whole extent of the tax, below what would be the productive power of capital employed upon the best of the uncultivated land, no capital would be employed upon it, and, during that interval, the cost of corn would be raised to the consumer, and additional rent would go to the landlord, without affording any revenue to the state.

When first imposed, such a tax would have the effect of throwing an inferior species of land out of cultivation, wherever an additional dose of capital, on the better land, would not in productive power fall below that, which had gone to the worse land, to an extent equal to the tax. This would still raise the price of corn, because, by the supposition, the last portion of capital would be less productive than before; it would also increase the rent of landlords, but not so much as the full operation of the tax.

SECTION XIV

TAXES UPON THE TRANSFER OF PROPERTY

Taxes upon the transfer of property are of several kinds; such as stamp duties upon purchase and sale, legacy duties, duties upon the writings required in the conveying of property, and others of the same nature.

In the case of all that property, which is the produce of labour and capital, the tax upon purchase and sale falls upon the purchaser, because the cost of production, including the profits of stock, must be afforded along with the tax.

Taxes upon the transfer of land, which is a source of production, and not the effect of labour and capital, fall upon the seller; because the purchaser considers what benefit he could derive from his capital employed in another way; and if the land will not afford him an equivalent, he will refuse to exchange it for the land.

Legacy duties, and duties upon free gifts, fall, it is evident, upon the receivers.

SECTION XV

LAW TAXES

Taxes upon proceedings at law are levied chiefly in the form of stamps, on the different writings employed in the business of judicature; and in that of fees on the several steps and incidents of the judicial procedure.

It is evident enough that they fall upon the suitors. It is equally evident that they are a tax upon the demand for justice.

Justice is demanded in two cases; either that, in which it is a matter

of doubt to which of two persons a certain right belongs; or that, in which the right of some person has been violated, and a remedy is required.

There is no peculiar propriety in taxing a man, because he has a right, which, unfortunately for him is disputed. But there is the greatest of all improprieties in taxing a man, because he has sustained an act of injustice.

It is very evident that all such taxes are a bar in the way of obtaining redress of injury; and just in so far as any thing obstructs the redress of injury, injustice is promoted. A tax upon justice, therefore, is a premium upon injustice.

SECTION XVI

TAXES ON MONEY, AND THE PRECIOUS METALS

A tax upon money cannot be conveniently levied, excepting either upon the occasion of its coinage, or that of the first acquisition of the bullion. It might be levied upon the bullion, either upon its importation from abroad; or, if the mine were within the country, upon its issuing from the mine.

A tax upon coinage is the same thing, in effect, with what has been called a seignorage. It is the paying of something more for the coins, than the quantity of bullion of which they are composed.

The effect of this is evident, when a currency consists entirely of the metals. No man will carry bullion to be coined, unless the metal in the coin is of as much more value than the bullion, as the amount of the tax. The currency, therefore, is raised in value; that is to say, the metal in the state of currency is raised in value, to an amount equal to that of the tax.

This is a tax which possesses the peculiar property of falling upon nobody. It falls not upon the man who carries bullion to be coined, because he carries it only when the coins are equal in value to the tax and bullion together. It falls not upon the persons to whom the coins are paid as the medium of exchange; because they are of the same value to them as if they contained the whole of the bullion for which they will exchange.

This is a tax, therefore, which ought always to be carried as far as the peculiar limit to which it is subject will admit. The limit to which

it is subject, is the inducement to illicit coining. If the tax is raised so high as to pay the coiner for his expenses and the risk of detection, illicit coinage is ensured.

In a country, in which paper circulates along with gold, the paper has a tendency to prevent the effect of a seignorage.

It is the interest of those who issue paper, to maintain in circulation as great a quantity of it as they can. They may go on increasing the quantity, till it becomes the interest of those who hold their notes to bring the notes to them for coins.

It is the interest of those who are the possessors of notes, to carry them to the bank for coins, only when there is a profit by melting. The coins, as coins, are not more valuable than the paper, so long as they circulate, without a premium, along with the paper. But if the paper has been issued in great quantity, the value of the currency may be so reduced, that the metal in the coins may be of more value as bullion than as coin. Melting for the sake of this profit, is the only check upon the quantity of a paper money convertible into coins at the option of the holder.

It is very obvious, that if coins are issued under a seignorage, with the metal in the coins of greater value than the metal in the state of bullion, the coins can be retained of that value only if the currency is limited in amount. When paper is issued without restriction, that limit is removed. The paper issued increases the quantity of currency, till the metal in the coins is reduced, first to the same value as that in bullion, next to a less value. At that point it becomes the interest of individuals to demand coins at the bank, for the purpose of melting; and then it is the interest of the bank to contract its issues.

A very simple, however, and a very effectual expedient, is capable of being adopted, for preventing this effect of a paper currency. That is an obligation on the bank to pay for its notes, either in coins, or in bullion, at the option of the holder. Suppose that an ounce of gold is coined into 3*l.*, deducting five per cent. for seignorage, and suppose that a bank which issues notes is bound to pay, on demand, not only 3*l.* of coins, but an ounce of bullion, if preferred; it is evident that the bank, in that case, has an interest in preventing the currency from sinking in value. If the currency is so high in value, that 3*l.* of currency is really equal in value to an ounce of bullion, the bank loses nothing by being obliged to give for it an ounce of bullion; if it is so depressed in value that 3*l.* is not worth an ounce of bullion, it

does lose. The check upon the issue of paper is thus made to operate earlier.

A tax upon the precious metals, when imported, or extracted from the mines, would as far as the metals were destined to the ordinary purposes of use or ornament, fall upon the consumers: it would, as far as the metals were used for currency, fall upon nobody.

It would raise the exchangeable value of the metal. But a smaller quantity of a valuable metal is not less convenient as the medium of exchange, than a greater quantity of a less valuable. It would be expedient, therefore, to derive as much as possible from this source. The facility, however, of carrying and concealing a commodity which involves a great value in small dimensions, renders it a source from which much cannot be derived. Under a very moderate duty, illicit importation would be unavoidable.

Though a tax upon the precious metals, as imported, or issued from the mines, would, like all other taxes upon particular commodities, fall ultimately upon the consumer, it would not do so immediately. That which enables the producers, when a tax is laid upon any commodity, to throw the burden upon the consumers, is the power they have of raising the price, by lessening the supply. Of most commodities, the quantity in use is speedily consumed. The annual supply bears, therefore, a great proportion to the quantity in use; and if it is withheld, or only a part of it withheld, the supply becomes so far diminished as greatly to raise the price. The case is different with the precious metals. If the annual supply were wholly withheld, it would, for some time, make no great defalcation from the quantity in use. It would, therefore, have little effect upon prices. During that interval the sellers of the metals would not be indemnified. During that time, more or less of the tax would fall upon them.

The same observation applies to houses, and all other commodities of which the quantity in use is great in proportion to the annual supply.

SECTION XVII

EFFECTS OF THE TAXATION OF COMMODITIES UPON THE VALUE OF MONEY, AND THE EMPLOYMENT OF CAPITAL

Capital is most advantageously employed, when no inducement whatsoever is made use of to turn it out of one employment into another.

It is most advantageously employed, when it follows that direction which the interest of the owners would give to it of its own accord.

Suppose that broad cloth is in England twenty shillings per yard; that linen, if made at home, would be three shillings per yard; that in Germany, on the contrary, linen is at two shillings per yard; and that broad cloth, if made there, would be twenty-four shillings per yard.

It has been already seen, how, in these circumstances, it would be the interest of England to employ her labour in making broad cloth for Germany, instead of linen for herself; and that of Germany, in making linen for England, instead of broad cloth for herself.

If, in these circumstances, a tax in England were laid upon broad cloth, which raised the price to twenty-four shillings, what would be the consequence?

In the first place, it is evident, that no broad cloth could be exported to Germany. The price, however, of linen, would still be so low in Germany, that it would be imported into England. Money, instead of cloth, would go abroad to pay for it. Money, therefore would become comparatively scarce in England; and prices would fall. It would become comparatively abundant in Germany, and prices would rise. Linen would, therefore, become too dear to be imported into England; unless in the meantime some other commodity, in consequence of the increasing value of money, became cheap enough in England to allow exportation. In the first case, England would, by a tax upon her own broad cloth, be deprived of the advantage of obtaining cheap linen from Germany, and would be obliged to produce it for herself. In the other case, she would be compelled to export, in exchange for the linen, another commodity, which, by the supposition, she produced on less favourable terms than the first.

In this manner it is evident that, by a tax imposed upon broad cloth, the people of England would suffer, not only by paying the tax upon broad cloth, but by being obliged to pay more also for their linen.

The effect of this tax upon prices would be, to raise the money value of broad cloth, and to lower the money value of all other commodities: not to raise, at least permanently, the price of cloth to the whole amount of the tax; because it would send part of the money out of the country: to lower the price of all other commodities, because by this departure of the money, the value of money would be raised.

If, when the tax was imposed upon broad cloth, a drawback of the whole of the duty was allowed upon exportation, there would be no

alteration in the trade with Germany: English broad cloth would be sent there, and linen would be imported, on the same terms as before. The people of England would sustain the burden of the tax, and would suffer no other injury. There would be no transit of the precious metals. The price of broad cloth would be raised in England; and the price of all other things would remain as before.

Even if no drawback were allowed, taxes have not a necessary tendency to lessen the quantity of foreign trade. Though England, as in the case already supposed, were hindered, by the tax on broad cloth, from exporting broad cloth; she might soon, by the transit of money, have it in her power to export some other commodity. The reason of this case, it will easily be seen, applies to all other cases. A highly taxed country may possibly export to as great an extent as if she had not been taxed at all. If care, however, has not been taken, and it seldom is taken, to compensate exactly for established duties by countervailing duties and drawbacks, it does not export with the same advantage.

There are two cases, in which the money cost of commodities may be raised by taxation: that in which commodities to any number are taxed one by one, as in the instance, just adduced, of broad cloth; and that in which all commodities are taxed by an *ad valorem* duty. In neither of these cases, it will be seen, has the high price of commodities, in other words, the low purchasing power of money, a necessary tendency to send money out of the country.⁶⁰

In the case adduced above, the broad cloth alone was enhanced in price by the tax. The purchasing power of money was lessened, therefore, only in respect to broad cloth. But money could not go out of the country with any greater advantage to purchase broad cloth; because that commodity, on importation, would have to pay the tax; and there would not be a new distribution of the precious metal, if the tax were drawn back.

Neither would an *ad valorem* duty, though it would raise, in the manner already explained, the price of all commodities, and reduce the purchasing power of money, have a tendency to send money out of the country. Suppose the duty ten per cent.; and the purchasing power of money reduced as much below the level of the surrounding countries. It would be of no avail to the merchant that his money would purchase ten per cent. more goods abroad, if he were obliged to pay

⁶⁰ [Ricardo suggested that Mill should add 'provided an equal tax were laid upon all similar commodities when imported'. *Works*, vol. IX, p. 133.]

ten per cent. duty upon their importation. It thus appears, that, if drawbacks and countervailing duties are applied upon exportation and importation, the price of commodities in one country may be raised to any extent above their price in the surrounding countries.

THE END

IV. MILL ON SCOPE AND METHOD

All of Mill's writings as a political scientist, educationist, historian and an economist were based on deeply-held convictions concerning the importance of 'theory' or abstract principles; and there is good reason to believe that he had considerable influence on the methodological thinking of two of the major contributors to the classical tradition, namely Ricardo and John Stuart Mill. Since there has been so much criticism of the classical writers for their adherence to a priori methods, and of Ricardo's 'vice' in this respect in particular, it may be of interest to consider James Mill's views on methodological questions here.

Mill's reviews of the works of others are replete with criticisms of those whom he regarded as having been insufficiently 'philosophical' or 'speculative'.¹ He regarded the inability to generalise or to move beyond immediate experience as an 'infirmity of the mind';² and it was for his own highly-developed powers of 'ratiocination' that his works were praised by admirers and denounced by opponents. These powers are obvious in all his writings, not least in his *History of British India* where he agreed with Gibbon in regarding mere facts as the least interesting part of the historian's material.³ The 'abstract' quality of the *Elements of Political Economy* has already been noted. Indeed it is evident in the earliest of Mill's economic writings, his essay on the corn bounty, which was basically an attack on those who, like James Anderson, rely solely on arguments based on undigested 'experience'.⁴ Mill saw no conflict between 'theory' or 'abstract speculation' and 'practice' or 'experience'. As far as he was concerned, 'good abstract principles are neither more nor less than the accumulated results of experience, presented in an exceedingly condensed and concentrated state'.⁵ The only distinction worth making was between 'comprehensive and pro-

¹ See e.g. his remarks on Sir James Steuart quoted above, pp. 24-25.

² See *History of British India*, London, 1826 in 6 volumes, vol. I, p. iv, and vol. II, p. 72.

³ For further comment on this see below, p. 384.

⁴ See above, p. 46-49.

⁵ *Monthly Review*, Apr. 1813, vol. LXX, p. 412.

found' principles and 'narrow and empirical' ones.⁶ His son was taught at an early stage the fallacy of the popular view of this question.

I recollect also his indignation at my using the common expression that something was true in theory but required correction in practice; and how, after making me vainly strive to define the word theory, he explained its meaning, and showed the fallacy of the vulgar form of speech which I had used: leaving me fully persuaded that in being unable to give a correct definition of Theory, and in speaking of it as something which might be at variance with practice, I had shown unparalleled ignorance.⁷

Halévy has said that 'Mill during the long walks which he loved to take with Ricardo was chiefly concerned to give him lessons in method'.⁸ This statement cannot be documented, but from the evidence of the Mill-Ricardo correspondence there is little doubt that Ricardo's eagerness to believe in the applicability of clear-cut principles made him the perfect subject for Mill's teachings. As Mill said proudly of his pupil: 'as soon as your *understanding* is convinced, there is perfect certainty.'⁹ Ricardo and Mill were completely at one on questions of method. Ricardo's *Reply to Bosanquet* is conducted as an attack on those who claim to be 'all for fact and nothing for theory'.¹⁰ He recognised that one of the crucial points separating him from Malthus was the different emphasis which they placed on theory and practice. 'If I am too theoretical which I really believe is the case, - you I think are too practical. There are so many combinations, - so many operating causes in Political Economy, that there is great danger in appealing to experience in favour of a particular doctrine, unless we are sure that all the causes of variation are seen and their effects duly estimated.'¹¹ He considered that one of Malthus's great mistakes lay in thinking that political economy was 'not a strict science like mathematics'.¹² Ricardo has been strongly criticised for the very qualities which Mill believed to be essential in a thinker, and which he did his best to encourage in Ricardo. Perhaps the first contemporary to make this criticism was J. L. Mallet, who distrusted Ricardo's 'entire disregard of experience

⁶ *Loc. cit.*

⁷ *Autobiography*, p. 22. A version of the conversation which made such a mark on John's memory can be found in James Mill's article, 'Theory and Practice', *Westminster Review*, Apr. 1836, vol. XXV, pp. 223-34.

⁸ *Growth of Philosophical Radicalism*, p. 272.

⁹ *Works*, vol. VII, p. 363.

¹⁰ *Works*, vol. III, p. 160, 181-2, 239, 252.

¹¹ *Works*, vol. VI, p. 295.

¹² *Works*, vol. VIII, p. 331.

and practice', and said of the *Principles* that it was 'almost a sealed Book to all but men capable of pursuing abstract reasoning by a strict and mathematical analysis'.¹³ The only difference between Mill and Ricardo was that whereas Ricardo's confidence in 'strong cases' shows itself mainly on economic questions, Mill's confidence extended to every subject upon which he wrote. There seems little reason, therefore, to quarrel with Halévy's conclusion that Mill 'did not so much give [Ricardo] a doctrine as develop in him the doctrinal leaning and make him a doctrinaire'.¹⁴

The extent of the direct influence of Mill on Ricardo must remain a matter for conjecture, but there is little doubt as to his influence on his son John's thinking on methodological questions. The emphasis of John's education was on equipping him with the tools of intellectual analysis, and so successful was this that John considered himself, in the early stages of his life, to be little more than a 'reasoning machine'.¹⁵ As he wrote to John Sterling in 1831: 'the only thing I believe I am fit for is the investigation of abstract truth, and the more abstract the better. If there is any science which I am capable of promoting, I think it is the science of science itself, the science of investigation – of method.'¹⁶

When John was going through his first 'mental crisis', with its accompanying estrangement from his father, Macaulay's famous attack on the *Essay on Government* appeared. Macaulay had set out 'to expose the vices of a kind of reasoning utterly unfit for moral or political discussions'.¹⁷ It was an extremely effective critique of the a priori, deductive approach, which, as John admitted, gave him much to think about. He was not satisfied with his father's offhand response to Macaulay's strictures: he felt that it would have been better to admit that the *Essay* was a reform tract and not a 'scientific treatise on government'. This line of argument would not have appealed to James Mill, for it opens up the gap between theory and practice; he would also have been the last to admit the truth of Macaulay's contention that 'it is utterly impossible to deduce the science of government from the principles of human nature'.¹⁸ But John was more flexible, and did

¹³ *Political Economy Club; Centenary Volume*, 1921, p. ix and p. 224.

¹⁴ *Op. cit.*, p. 282. See also T. W. Hutchinson, 'James Mill and the Political Education of Ricardo', *Cambridge Journal*, Nov. 1953, vol. VII, pp. 81-100.

¹⁵ *Autobiography*, p. 76.

¹⁶ See *The Earlier Letters of J. S. Mill* (ed. F. E. Mineka), vol. I, pp. 78-79.

¹⁷ *Miscellaneous Writings*, 1860, vol. I, p. 317.

¹⁸ *Op. cit.*, p. 317.

make efforts to come to terms with Macaulay's point of view in his essay 'On the Definition and Method of Political Economy', which later formed the basis for Book VI of his *Logic*. Perhaps the most interesting fact about these efforts is that John ended up far closer to his father's position than might have been expected. He admitted that his father's premises concerning the self-seeking propensity of men were too narrow, but held to the view 'that politics must be a deductive science'; and in so doing rejected Macaulay's view that political science must be inductive or based on 'experience'.¹⁹ He introduced the distinction between the 'science' of economics and the 'art' of legislation, and mentioned the possibility of using a posteriori methods in testing hypotheses; but he also upheld the a priori, abstract method as the only appropriate one for the moral sciences.²⁰ As Professor Anschutz has indicated, John's refusal to give up his father's basic position, despite his sympathy for certain elements in the opposition's case, is due partly to his view that the deductive approach was sanctioned by the method of the natural sciences, and partly to his political assessment that such methods were more likely to serve the all-important cause of progress and reform.²¹

James Mill's fondness for the abstract deductive approach is amply illustrated in the other works reprinted in this volume. The following extract from a dialogue written by Mill at the very end of his life helps to make explicit his views on the importance of political economy as a guide to action. It also provides a full statement of Mill's ideas on the rôle of 'theory' in economics; he uses the term to denote what would be called a 'model' in modern parlance. Several points of interest emerge from the extract. The most striking, perhaps, is Mill's view that the science of political economy was virtually complete, and his consequent impatience with further controversy; the implication being that those who oppose 'true' doctrines do so through ignorance or because the truth is incompatible with their selfish interests. He puts forward no 'external' criteria for the establishment of truth, in terms, say, of empirical evidence; the truth seems to be simply what right-minded, qualified economists believe it to be.

¹⁹ *Autobiography*, pp. 110-13.

²⁰ See *Essays on Some Unsettled Questions in Political Economy*, London, 1844, p. 146.

²¹ *The Philosophy of J. S. Mill*, Oxford University Press, 1953, espec. pp. 17-19; 62; 81-96.

WHETHER POLITICAL ECONOMY IS USEFUL

London Review, Jan. 1836, vol. II, pp. 553-572.

[After a preliminary exchange of definitions, A and B agree to debate the proposition that political economy 'has not yet been allowed the benefit of science; that the propositions hitherto framed about it, are either untrue, or insignificant'.]

B. – We need not, I imagine, go far into the question whether any of the propositions in political economy are true; because it is easy to form true propositions, if the value be neglected, on any subject. Thus we may say, that labour produces commodities; that labour is painful, and only exerted with a view to some reward – that a man will execute more work with tools than without them: so also, we can say it is warmer in summer than in winter; an ox is commonly heavier than a sheep, and so on. The question you really propose is, whether there be in political economy, any proposition of great utility . . . It appears to me, here again, to be necessary to inquire, whether, when you employ the word utility, and I employ the word utility, we are both of us thinking of the same thing; not thinking, the one of us of one thing, the other of another . . . We shall proceed with much more satisfaction in our inquiry, if we first ascertain that point. And a few questions, I think, with your answers, will afford us the requisite information . . . I can anticipate your answer to the first question I shall put – whether you think all utility to be that which is represented by pounds, shillings, and pence? You will say you do not . . . You are, then, of opinion that there are more species of utility than one?

A. – Certainly.

B. – Shall we endeavour to ascertain its more general species – in this way, I mean; by asking ourselves if the nature of man does not consist of two parts, the body and the mind?

A. – It does.

B. – May we not, corresponding with these parts, consider as one class of useful things, those which conduce to the welfare of the body; another, those which conduce to the welfare of the mind?

A. – We may.

B. – By conducive to the welfare, I mean things serving to yield

pleasure, or ward off pain, and that whether directly, or mediately, and indirectly . . . One class of useful things, therefore, are those which serve to produce bodily pleasure, or ward off bodily pain: another, those which produce mental pleasure, or ward off mental pain . . . The next step of our inquiry, is this: – As some things give pleasure to the body, without producing any other effect, and are useful on that account; are there not certain things which give pleasure to the mind, and are held useful, without regard to any ulterior effect? I may allude to astronomy as a sufficient illustration. That science, beyond some of its more familiar results, yields no guidance for the affairs of life. It is contemplative, and the pleasure which it yields is purely mental. But the pleasure which the mind receives, when it comprehends within its grasp a multitude of great objects, and traces distinctly their mutual operations and dependencies, is known to be very great. You do not hesitate, I suppose, to admit this?

A. – Certainly not.

B. – This pleasure, therefore, is a good; and that which procures it is useful . . . We need not inquire scrupulously into the comparative value of this pleasure. It is well-known how small is the value of all the merely corporeal pleasures, when taken nakedly by themselves, and without the addition of anything mental. The man who relishes most the pleasures of eating and drinking, flies from a solitary meal, and confesses that his enjoyment in it is reduced to little. Of the pleasures of love, we see that the bodily part is little valued when stripped of the mental, and that it is only the lowest of our species, who are found to be seriously under its influence.

A. – All that is true.

B. – You see to what this train of thought leads.

A. – You mean the conclusion, that the purely mental pleasures, those which begin and end in the existence of pleasurable thoughts, hold a high rank among the enjoyments of our nature, and the causes of them among the things which we denominate useful.

B. – You have traced the consequences clearly and well. We have now, therefore, agreed in certain points, which I think may be applied with advantage to the inquiry we are engaged in.

A. – I shall be happy to hear in what way.

B. – The matters which form the subject of political economy are matters in the highest degree interesting to mankind. They are, in fact, the multifarious operations concerned in producing, distributing, and

exchanging; placing, in a word, in the hands of the consumers, all the things which constitute the wealth of individuals and of nations: the things for which, almost exclusively, the labours, the schemes, the cares, of human beings are expended. These operations are of many kinds, and are connected together in a system of great complexity, – following one another according to certain laws, checking one another according to certain laws, – aided by one set of arrangements, impeded by another. This complicated tissue of causes and effects, subordinate to ends the most interesting to human kind, it cannot but be an agreeable exercise to an ingenious mind to explore, – to trace the course of such things, – to mark their concatenations. And if it succeed, by its meditations on the order of events, in discovering how they follow one another in trains, so as to reduce them all to a moderate number of trains, by which they can, as a whole, be held all at once in the mind's eye, and the mode in which every thing comes out can be distinctly comprehended; as a man raising himself to an eminence, from which he can look down upon a scene of the highest possible interest, not only beholds the numerous objects of which it consists, and their visible motions, but the causes of them, and the ends to which they are directed, and thence derives the highest delight; – is it not certain, that a similar commanding view obtained by the mind over a most interesting and complicated mental scene, must yield it a gratification of the highest value, even if no further consequence were to be derived from it?

A. – Undoubtedly, such a commanding view of so great a part of the field of human action, in which operations so multifarious, and tending to such interesting results, are taking place, cannot but yield a high degree of pleasure: and he must be one of the lowest of his species, who will not acknowledge that such a gratification of the highest part of our nature – the intellectual part, must hold a foremost place among the pleasures we are capable of receiving.

B. – I applaud this liberal declaration, and expected it from you. And now we, perhaps, have light to show us something of a matter which you, I expect, will acknowledge to be of the highest importance, but which is not often well understood; and by people who do not understand, and nevertheless are precipitate enough to judge without understanding, treated as of no importance.

A. – What is that?

B. – The connexion between that commanding view which we

have been considering, and the kind of utility which these men understand, – the things which they can taste, handle, smell, and see, – the things, in short, which they can sell and buy in a market, and to which the term practical utility is by them appropriated. If this intellectual operation should be found to have a commanding influence even on this same practical or market utility, may we not expect them to change their opinion with respect to the value even of the mental process?

A. – Certainly, that which increases the utility of other things, is itself useful.

[They proceed to discuss the value of taking a ‘comprehensive view’ in other fields.]

B. – But a commanding view of a whole subject, in all its parts, and the connexion of those parts, is it anything but another name for the theory, or science of the subject? Theory (*θεωρία*) is literally VIEW and science is *scientia*, KNOWLEDGE: meaning view, or knowledge, not solely of this and that part, but, like that of the general with his army, of the *whole*.

A. – I see the inference to which you are proceeding: you mean to say, that the theory or science of political economy is a commanding view of the vast combination of agents and operations engaged in producing for the use of man, the whole of the things which he enjoys and consumes: in other words, the things which he denominates the matter of wealth – the great object to which almost all the toils and cares of human beings are directed.

B. – You have anticipated me correctly.

A. – You would farther proceed to ask me, I have no doubt, whether the innumerable operations which take place in subservience to that end, may not take place in more ways than one; in short, in a worse way, or in a better way? Whether it is not of importance that they should take place in the best way? And whether the difference between the best way and the worst way, is not likely to be very great? – great, I mean, in respect to the particular end, the production of the matter of wealth. And to all these questions I should answer in the affirmative.

B. – I should become in love with controversy, if I always met with such controvertists as you . . . Admitting, as you have done, that on the proper ordering and conducting of the great and numerous trains of operations, subservient to the production and use of wealth, a great deal depends; that between good ordering, and bad ordering, the difference in respect to beneficial results is immense; you will, I

doubt not, allow, as you have done in general, that in this particular case, every thing cannot be well arranged without taking account of every thing; that the man who sees all is he alone who can arrange all – he alone who can discover if all the parts are, or are not, in co-operation; and how any change can be made in one part without affecting injuriously some other; in short, that the general, commanding, and complete view of the subject, which is properly denominated the science, is that alone which can with reason be looked to for the greatest of all possible benefits in the great affair, making everything concerned in it contribute in the highest degree to the attainment of the end.

A. – The conclusion seems to me to be incontrovertibly made out.

B. – I may now, then, reckon you a convert to my opinion – that the science of political economy is an important science?

A. – If there be such a science, and if that which goes by the name, instead of being that all-comprehensive view which you have been speaking of, and the importance of which I fully admit, be not mere scraps of a view – mostly incorrect, and leading to no useful conclusion.

B. – I grant to you most readily that it is a fair inquiry, whether the doctrine taught under the title of political economy deserves the name of science or not. In order to determine the question, perhaps you will point out which you think the criteria, or tests of a science – the marks or characters by which any combination of doctrines may be known to be, or not to be science . . .

[Two distinctive marks of a science are then put forward by A: that 'the propositions be not disputed' and 'that they explain the whole of the subject'.]

B. – Is it not possible for a proposition to be true and yet to be disputed?

A. – I cannot deny that; yet truth, it is said, prevails in the long run.

B. – You remember, I doubt not, the saying of Hobbes, so often quoted and approved, that if the truths of mathematics had been opposed to the interests of men having power, they would have been disputed against and denied; and the people persecuted who maintained them?

A. – I do.

B. – When the men, whose power enables them to set the fashion in opinions, as in dress, deem a set of doctrines opposed to their interest, were it but the interest of their ease, calling upon them for a dis-

agreeable exertion of thought to learn and understand them – do you not see the possibility of these propositions being disputed for a long time, however true they may be – of their being honestly rejected and deemed of no importance by the greater number of men?

A. – I see how often that occurs, and I cannot but admit that few men form their opinions upon the evidence of their truth; that the feeling of interest sways the minds of the greater number in what they believe or disbelieve, and to such a degree, that some men are under a sort of incapacity of thinking but as their interests direct; and I admit that the general supineness of men's minds makes them ready, even for the saving of trouble, and when the opinions do not concern any other interest, to take for granted the truth of those which are inculcated upon them, particularly by those who have an ascendancy, from their power, station, or reputation.

B. – I do not think, therefore, that you will insist upon it as a clear index against the scientific character of a set of opinions, that they are disputed, because we know that the Newtonian theory of astronomy was long disputed; that the utility of the Star Chamber was long maintained; that a government really representative of the people was long treated as a mischievous delusion.

A. – Let us change the term *undisputed*, to *true*; you will not object to truth as one of the tests?

B. – Certainly not, if I am enabled first of all to test the truth. Your two marks, according to the change you propose, will then be, 1st, That the propositions be truth; 2ndly, That they completely expound the subject. And nobody will deny that a set of true propositions, fully expounding a subject, are the science of that subject. But these marks avail us nothing till we have the means of determining what are true propositions, and whether they do embrace the whole of the subject. Can you name any tests by which either of these points can be determined?

A. – I cannot; but are we then to rest in the opinion that it is impossible to determine whether there is any science or not?

B. – I should say not, if we can do anything better; and I think we should by all means inquire how far we can advance, in determining either that a proposition is true, or that a set of propositions contain the entire exposition of a subject. On the latter question it is easier to approach the point of assurance than on the former, which is a reason for considering that in the first place, if you see no objection . . . It

appears to me, that a subject may be contained within a definition or description, in such a manner that it may appear little less than certain that no part of it is left out, though to attain that certainty the doubt may be incurred whether more is not included than enough . . . When the whole of a subject is thus before the inquirer, he may divide it into portions, and afterwards subdivide those portions into other portions, small enough and simple enough for easy and sure comprehension. . . . Propositions expounding those portions may therefore be made with tolerable ground of certainty; and when the propositions on all such portions are put together, they cannot but constitute a full exposition of the subject. . . . Let us apply to political economy the points we are thus agreed upon. Is it possible to make a definition or description of the subject of political economy, of which we may be sure, though it may include something which belongs not to the subject, that it leaves nothing out? As for example, if we say the subject of political economy is the system of operations concerned in the producing and using of the matter of wealth, may we not conclude, with some assurance, that our definition includes the whole of the subject? Let us consider thus: – In regard to any object of human pursuit, do not the end and the means comprehend all that we are interested in knowing about it? Thus, in regard to medicine, the end is the removal of diseases, the means the whole resources of the medical art. Well, then, the science of medicine is the knowledge of diseases, and of the means of cure . . . In what regards wealth, for which men watch and toil, and on the plentiful or scanty supply of which the happiness or misery, the power or weakness of nations so greatly depends, the use is the end, the production the means. The question is, whether the doctrines of political economy entirely embrace these objects. Let us first examine if they do so in regard to production. The two great instruments are human labour, and that with which, and upon which, labour is employed – the two last included under the term capital. If political economy, therefore, expounds the natural laws, according to which labour and capital are employed in production, they fully comprehend this part of the subject. Without going into details, I suppose we may assume, as this is not a controverted part of political economy, that the doctrines do embrace, without any omission, this part of the subject? . . . The first act of using, subsequent to production, is possessing, that is, reception of shares. The next act of using is, when that which is thus possessed by any one is not the article he wants, but may be, and is, exchanged for it. The

next, and last act of using is consumption. Appropriation, exchange, and consumption are, therefore, the three divisions of this last portion of the subject of political economy. Though, with respect to the truth of all the expositions of these subjects, there is not a perfect agreement among inquirers, I believe there is no dispute as to the completeness with which they embrace them. There is no dispute, for example, that the whole of the annual produce falls into three shares – one to the labourers, one to the capitalists, and one to the owners of land. The great question is, what regulates these shares, and determines so much to one and so much to another. It is well known, that the attempts of philosophers to ascertain the principle of wages, the principle of profits of stock, and the principle of rent, are attempts towards the solution of that question, and that whether their conclusions are true or false, they embrace all the parts of it. Next, with regard to exchange – its two great divisions are, exchange of home commodities for one another, exchange of home for foreign commodities. And the questions are, what are the purposes to which these exchanges are respectively subservient; what are the laws which regulate them, – in other words, which determine the quantity of one commodity which shall be given in exchange for another, in the several cases of home and of foreign exchange; and what is the nature and principles of money, the great instrument of facilitating exchanges? Whatever difference of opinion there may be as to the conclusions which inquirers have come to upon these subjects, it is not doubted, I believe, that they comprehend the whole of what it is useful to know in regard to them. We come now to the last part of using, which is consumption. That is divided into two kinds. There is no doubt, that whatever part of the annual produce falls to the share of any man, he uses it in one or other of two ways; either in the way of production, for the sake of what it may again yield, or for some purpose of necessity or pleasure to which it is sacrificed. And these two kinds of consumption, the productive, and the non-productive, include everything; the wealth of every member of the state, and by aggregation, of the state itself. The nature and consequences of these modes of consumption are embraced by the doctrines of political economy. And from this deduction it appears, that the science of the wealth of nations is entirely embraced by political economy . . . Political economy, therefore, possesses one of the qualities which you represented as essential to a science, that it should explain the whole of the subject to which it relates.

A. – It is so.

B. – The next of your essentials was, that the doctrines should be true. What, then, is the test to which we shall apply the doctrines of political economy, in order to know whether they are true?

A. – The disagreement about them, of political economists themselves, is a sufficient proof of the uncertainty, at least, of all their conclusions.

B. – Is it your opinion, that all doctrines which are disputed are untrue, or at least unproved?

A. – Not always, perhaps, but generally.

B. – Then, I claim the benefit of the exception for political economy; its doctrines are true, but not undisputed.

A. – How do you prove that it is an exception?

B. – How do you prove that it is not?

A. – I do not undertake to prove it; but I esteem disagreement a reason for disbelief.

B. – This, as a rule of conduct, would carry you far. There is disagreement on a question of right, in every case of litigated property. Do you conclude, in all such cases, that there is no right on either side? There was a time, when all the men and women in Europe believed the Pope to be infallible: was that proposition, then, true? A time came, when it was disputed: did it then cease to be true? When Galileo affirmed that the earth travelled round the sun, not the sun round the earth, his proposition was universally disputed: was it, then, untrue? It is now, in civilized countries, at least, universally believed: is it now, therefore, true?

A. – I do not say that, being disputed, makes a proposition false; it only shows that it is not proved to be true.

B. – Is it, then, your opinion, that truth is never disputed; never after it is proved? You would, in that case, reduce the number of established truths to a short catalogue. It is even denied that the establishment of property is useful, or the institution of government.

A. – I do not consider it a presumption against an opinion, that it is disputed by a few wrong-headed people.

B. – I will not suppose, also, that you hold it a presumption against an opinion, that it is opposed by a multitude of people, however great, if the subject be one which they cannot understand.

A. – No; the opinion of people who are capable of understanding the subject, and who have used the due means of understanding it, are

the only people whose opinions afford a presumption either for or against any proposition or propositions regarding it.

B. – Then you think that the opinions of those who, with a due degree of intellect, have used the due means of understanding the doctrines of political economy, that is, of the political economists themselves, are the only opinions which afford any presumption either for or against the doctrines which go under that name?

A. – I think so.

B. – And, thinking so, I have no fear that you will run from the consequences . . . One is, that the doctrines of political economy are of great importance . . . You have said that the opinions of sensible men, who have studied a subject, are the only opinions which form a presumption in favour of any proposition relating to it. Now all political economists, in whatever else they disagree, are all united in this opinion, that the science is one of great importance. There is, therefore, according to you, the strongest presumption of its importance.

A. – I do not dispute the importance it might be of, were a set of propositions embracing the whole subject actually established. But I am justified in holding it of no importance, so long as nothing important is established.

B. – Will you allow me to observe, that you have as yet offered no test of defective establishment, but a want of general concurrence. Do you not allow that a proposition is established, when it is proved?

A. – I allow that. But the proof may be supposed to be defective, when it is not generally admitted.

B. – You do not mean, when it is not admitted by the generality of those who know nothing about it?

A. – No; I mean of those who study it.

B. – But what proof have you that the generality of those who study and know political economy, are not agreed about its doctrines?

A. – See what contradiction there is, on almost all the leading points, among the writers on the subject.

B. – I believe you are here led into an error, by a superficial appearance.

A. – How do you mean?

B. – You take the proportion of the writers who oppose the standard doctrines, for the proportion of the well-instructed people who oppose them; but the fact is very different. The writers are some half-dozen individuals, or less. And who are the people who write in such a

case? Why, any creature who takes it into his head that he sees something in a subject which nobody else has seen. On the other hand, they who, after studying the subject, see the truth of the doctrines generally taught, acquiesce in them, hold to them, act upon them, and do not write. Every creature who objects, writes: they who believe, do not write. You thus know all the objectors, you have the knowledge of them forced upon you; you are ignorant of the thousands who do not object. And what can be gathered unfavourable to any doctrine, from the circumstance that some half-dozen individuals are found, with vanity enough, to think that they are wiser on the subject than the sum of all the other men who have studied it? Are persons ever wanting of that description, to oppose any system of propositions, however well established?

A. – I acknowledge the weight of the observation thus far; that those who desire to make objections commonly print, those who receive the doctrines do not print; and that the believers, therefore, may be a much greater number than they appear. But we have very strong evidence, that the number of those who admit the objections is also great. Do not the members of the legislature, the greater part of them, not only disclaim all confidence in the doctrines of political economy, but treat its pretensions to science as imposture?

B. – Of those members who disclaim all confidence in political economy, how many do you suppose speak with knowledge. how many without it?

A. – If I am to speak my opinion honestly, I doubt whether any. The greater part of them disclaim the knowledge, as well as the confidence; and those who do not so, leave nobody in doubt of the fact.

B. – But of those who know, and those who do not know a subject, of which are the opinions of any value? Were a blind man to give you his opinion upon the colours of any assortment of things placed before him, would you not treat the man as foolish, and his opinion good for nothing?

A. – The opinion of a man without knowledge must be allowed to be worth nothing at all. I think it ought not to be called an opinion: it is only so much unmeaning sound. He who utters the propositions, neither puts together nor separates ideas: he only puts together positive or negative terms.

B. – If ever so many people were to utter these unmeaning sounds – some on one, some on the other side of any question – they could not

be considered as adding anything whatsoever to the presumptions on either. The people, therefore, in the legislature, void of knowledge, who say they distrust and despise political economy, make no presumption against the doctrines against which they vent only a senseless noise.

A. – I cannot but agree with you.

B. – Even with regard to the supposition on which they mainly build, that there is such a diversity of opinion among political economists as raises a presumption against their doctrines, the fact is the reverse. Among those who have so much knowledge on the subject as to entitle their opinions to any weight, there is a wonderful agreement, greater than on almost any other moral or political subject. On the great points, with hardly any exception, there is general concord; and even on those points on which controversy is maintained, the dispute is about words, the ideas being in almost all cases the same. Take a summary view of the subject. In the great doctrines concerning production, distribution, exchange, and consumption, you find perfect concurrence; it is only as to some of the minor questions involved in these great doctrines that there is any dispute; and I might undertake to show that in few instances is even that dispute other than verbal . . . There is no branch of human knowledge more entitled to respect; and the men who affect to hold it in contempt afford indication only against themselves.

V. JAMES MILL AND INDIA

James Mill spent twelve laborious years writing the *History of British India*, and it was as its author that he was chiefly known to the contemporary reading public. It was largely as a result of his examination in this book, of Indian society and of the problems facing the British administration, that in 1819 he obtained the important position with the East India Company which he held for seventeen years.¹ Mill was accused of having betrayed his principles by accepting an appointment with the Company, but at no stage did he ever question the value of the Company as an instrument of government. John Stuart Mill was simply upholding the family tradition when he fought (unsuccessfully) in 1858 to retain the body which he and his father had so faithfully served.² As Professor Stokes's excellent study shows,³ utilitarianism exerted great influence on British rule in India during the nineteenth century. No volume devoted to James Mill would be complete which did not take some account of his involvement with Indian affairs.

For some reason the *History of British India* has been overlooked by historians of economic thought. As an attempt to remedy this state of affairs, it seemed worthwhile making a small selection from this massive work to illustrate Mill's attitude to Indian society in general, and his views on land tenure and revenue in particular. A selection has also been made from his evidence before the Select Committee on Indian Affairs in 1831-2, given when he was at the height of his powers and influence.

1. *The History of British India*

Mill's *magnum opus* was conceived and written according to the canons of 'philosophical history' popular towards the end of the eighteenth century. It shows clearly the influence exerted on Mill's intellectual outlook by his Scottish education: Hume, Robertson and

¹ See above, pp. 17-18.

² See *Autobiography*, pp. 169-70.

³ *The English Utilitarians and India*, Oxford University Press, London, 1959.

Gibbon were Mill's models. He believed that the historian's task was to delineate the natural laws of man's progress in society and avoid 'a dry statement of vulgar, historical facts'; that it was his duty to 'inflame the public virtues' and show 'the natural rewards of virtue and the punishments of vice'.⁴ These aims were further justified in his letters, his reviews of the works of others, and above all, in the Preface to his *History*, which his son described as being 'among the most characteristic of my father's writings'.⁵

Mill claimed to be attracted to Indian history by the mass of disconnected evidence on the subject, and by the indiscriminate mixture of fact and opinion to be found in the works of previous commentators. To produce order out of this chaos it was necessary to write a 'critical' or 'judging' history, which would weigh evidence carefully and distinguish between real and false causes, between good and bad ends; the incidental 'ratiocinations' required to support these judgments were to be as important as the narrative. To write this type of history the historian had to understand the laws of human nature and the ways in which 'general laws of motion' are modified by particular circumstances. 'In short, the whole field of human nature, the whole field of legislation, the whole field of judicature, the whole field of administration, down to war, commerce, and diplomacy, ought to be familiar to his mind'.⁶ That Mill considered this aspect of his work to be its most important contribution is confirmed by his claim to Ricardo that 'it would make no bad introduction to the study of civil society in general'.⁷

Mill's 'critical disquisitions' are spread throughout the work; but the heart of what Bain described as 'a grand sociological display' is to be

⁴ Review of C. J. Fox's *History of James II* in the *Annual Review and History of Literature for 1808*, vol. VII, pp. 99-101.

⁵ *Autobiography*, p. 17.

⁶ *History of British India*, London, 3rd edn., 1826, in six volumes, vol. I, p. xviii.

⁷ Letter to Ricardo, 19 Oct. 1817, *Works*, vol. VII, p. 195. Mill was offered an opportunity by Joseph Hume to review his own work in the *Asiatic Journal*; he refused, but gave the following indication of what he would have liked to say: 'Having first laughed inwardly at Hume's proposing me to puff myself - well I said to myself if I were to set about it what should I find to say . . . I knew that I had endeavoured to go deeper than the surface which is spread over the pages of the vulgar historians, I may say of all historians to a greater degree who have yet written, and that if I have succeeded my book will form a kind of era in the writing of history and render it impossible to acquire reputation by such flimsy things as have hitherto been applauded for history.' Letter to Place, 6 Jan. 1818. B.M. Add. MSS. 3513, f. 34.

found in Book II, 'Of the Hindus', from which the following extracts are taken. In this book he set out to establish the precise position occupied by the Hindus in the 'scale of civilisation' by means of a potent combination of Benthamite norms, classical political economy and the techniques of 'conjectural history' perfected by Scottish philosophers and historians. The whole of Book II is shot through with what has been described as 'Europocentrism'; his object was to counter the view that the Hindus enjoyed or had ever enjoyed a high degree of civilisation by European standards.⁸ He was highly critical of the pro-Oriental school of writers, of whom Sir William Jones was the most distinguished, who, in his opinion, had become so enamoured of Hindu culture as to have abandoned all objectivity and common sense; virtues which he believed existed only among Europeans.⁹ The impartial European alone was capable of writing the history of India. What might have been an apology for never having been to India and for knowing no Indian languages was turned into a qualification by Mill. The close observer of the Indian scene was likely to be given to 'partial impressions', and to lack the detachment necessary for combining and ordering the diverse but limited observations of many commentators.

Book II opens with a summary dismissal of the legendary accounts of ancient Hindu civilisation. In the absence of accurate historical records, the historian who wishes to draw up an account of the state of society and culture achieved by the Hindus in the past and maintained to the present must resort to 'philosophy' or conjecture. This method of procedure was justified by Dugald Stewart as follows: 'In examining the history of mankind . . . when we cannot trace the process by which an event *has been* produced, it is often of importance to be able to show how it *may have been* produced by natural causes.' And he added that 'it is of much more importance to ascertain the progress that is most simple, than the progress that is more agreeable to fact'.¹⁰ James Mill's opening section is fully in accord with the spirit of Stewart's remarks.

⁸ For an excellent discussion of this aspect of the book see D. Forbes, 'James Mill and India', *Cambridge Journal*, Oct. 1951, vol. V, pp. 19-33.

⁹ In the *Edinburgh Review* Mill commended a recent book on China as 'one of the most valuable which European good sense and intelligence (*there really seems to be no other*) has produced, upon the state of the Asiatic nations' (Jul. 1809, vol. XIV, p. 429). Italics supplied. See also *Eclectic Review*, vol. I, Jan. 1814, pp. 140-55, and *Monthly Review*, Jan. 1814, vol. pp. 1-17.

¹⁰ *Collected Works*, vol. X, p. 37.

The approach he adopts rests on the assumption that since human nature is much the same wherever it is to be found, universal laws of social development can be drawn up by the historian armed with philosophy, and shielded from the glare of apparent diversity.

Mill examines in turn all of the leading characteristics of Hindu society: the caste system, the form of government, the law, the method of taxation, the arts and sciences, religion and manners. The conclusion which he reaches after this extended exercise in social anthropology is that the Hindus are merely on a level with the antique civilisations of the past, and other Oriental civilisations of the present; and that this places them somewhat below the level achieved by Europe in its feudal period.¹¹ This 'scientific' conclusion, he claimed, was of great practical importance to the British people.

If the mistake in regard to Hindu Society, committed by the British Nation, and the British government, be very great; if they have conceived the Hindus to be a people of high civilization, while they have in reality made but a few of the earliest steps in the progress of civilization, it is impossible that in many of the measures pursued for the government of that people, the mark aimed at should not have been wrong.¹²

His low estimate of the state of civilisation attained by the Hindus provided a justification for continued British rule, and supported the view that India should be governed according to civilised European standards, rather than those of the native population. In the course of preparing his *History* Mill wrote a number of articles on the East India Company which make his position with respect to British rule quite clear. As would be expected, he was strongly opposed to the continuance of the Company's trading monopoly; he believed there to be a *prima facie* case against all monopolies; they belonged to 'an unenlightened and semi-barbarous age', whereas 'freedom is the offspring of civilization and philosophy'.¹³ He exposed the Company's case for retaining the monopoly as special pleading; exclusive privileges which were justifiable when the Company was first established were no longer necessary; unfettered competition would expand trade and serve both British and Indian interests better.¹⁴ He went to great pains to show that India, like other colonies, did not contribute to British

¹¹ *History of British India*, vol. II, pp. 186-90.

¹² *Ibid.*, p. 135.

¹³ *Monthly Review*, Jan. 1813, vol. LXX, p. 23.

¹⁴ See *Edinburgh Review*, Apr. 1810, vol. XVI; Jul. 1812 and Nov. 1812, vol. XX; *Monthly Review*, Jan. 1813 and Apr. 1813, vol. LXX; Feb. 1815, vol. LXXVI.

wealth in the form of tribute; the gains of a few nabobs could not compensate for the fact that since 1797 there had been no surplus revenue after meeting the enormous expenses of government.¹⁵ India would always be a drain on Britain because of the continued need for military preparedness 'where a small number of strangers' ruled 'an immense and widely extended population'.¹⁶

Despite these arguments, Mill considered that 'the English government in India with all its vices, is a blessing of unspeakable magnitude to the population of Hindustan'.¹⁷ In their present state the Indians were unfit to govern themselves; 'a simple form of arbitrary government, tempered by European honour and European intelligence' was needed.¹⁸ After all, 'even the utmost abuse of European power is better, we are persuaded, than the most temperate exercise of Oriental despotism . . . The wider the circumference of British dominion, the more extensive the reign of peace.'¹⁹

Mill praised the East India Company for the way in which it had discharged its governmental functions, and was opposed to any suggestion that India should be ruled directly by the British government; this would merely lead to neglect and corruption. He was in favour of encouraging British emigration to India because a large British population would exert 'moral pressure' on the natives and act as a civilising influence. He even went so far as to suggest what the flamboyant imperialist Disraeli later partially carried out, namely that, 'instead of sending out a Governor General, to be recalled in a few years, why should we not constitute one of our Royal Family, Emperor of Hindustan with hereditary succession'.²⁰

But Mill did not set out simply to provide a justification for British rule in India; this, after all, was not the main issue at stake. He was more anxious to demonstrate the virtues of the principle of utility as a guide to the conduct of affairs in India and, by implication, in Britain also. Mill's criticisms of Hindu law and government, and of a society

¹⁵ See *Edinburgh Review*, Apr. 1810; *Eclectic Review*, Jan. 1814, vol. I, p. 147; and 'Colony' in *Supplement to Encyclopaedia Britannica*, as separately reprinted, p. 19.

¹⁶ *Edinburgh Review*, Apr. 1810, p. 149.

¹⁷ *Ibid.*, Jan. 1810, p. 171.

¹⁸ *Ibid.*, Apr. 1810, p. 155.

¹⁹ *Ibid.*, Jan. 1810, p. 171 and again in Apr. 1810: ' . . . whatever may be our sense of the difficulties into which we have brought ourselves, by the improvident assumption of such a dominion, we earnestly hope for the sake of the natives, that it will not be found necessary to leave them to their own direction' (p. 154).

²⁰ *Edinburgh Review*, Apr. 1810, p. 156.

based on caste, tradition and religious dogma, were derived from utilitarian norms. Furthermore, they are put in such generalised form as to make them applicable to supposedly advanced communities like Britain as well. As John Stuart Mill said of his father's *History*: 'it was saturated . . . with the opinions and modes of judgment of a democratic radicalism then regarded as extreme'.²¹ James Mill himself was highly conscious of the radical content of his work and anticipated (one might almost say welcomed) hostile reactions from those whom he considered to be apologists for the *status quo*.²²

While it is true, as Halévy says, that Mill's *History* was 'an instrument of Benthamite propaganda',²³ this view must not be allowed to obscure the context within which Mill applied utilitarian standards of judgment. The basic format of the book was determined by Mill's belief in the idea of progress as a philosophy of history; a philosophy which he inherited from his Scottish mentors, but one to which Bentham does not appear to have subscribed. Although Bentham obviously appreciated Mill's efforts to further the cause of legal and administrative reform in India, he thought the *History* was badly written and claimed that the account of the 'superstitions' of the Hindus made him 'melancholy'.²⁴ It was to Scotland that Mill looked for recognition of his achievements as a philosophical historian.²⁵

Mill's special contribution lay in combining the idea of progress with the principle of utility, thereby strengthening the normative or propagandist aspects of both traditions.²⁶ In France, as Carl Becker has shown, the *philosophes* had made use of the idea of progress in their *histoires raisonnées* as a weapon to further the cause of a rationalist enlightenment.²⁷ In Scotland too, such writers as Adam Smith, Hume,

²¹ *Autobiography*, p. 17.

²² See e.g. his letter to Ricardo, 27 Dec. 1817, *Works*, vol. VII, pp. 233-4. As one reviewer put the matter, the main imperfection of the work 'is the author's disposition to undervalue the laws and constitution of his native country'. *British Review and London Critical Journal*, Aug. and Nov. 1818, vol. XII, p. 525.

²³ *Growth of Philosophical Radicalism*, p. 302.

²⁴ See *Bentham's Works* (ed. Bowring), vol. X, p. 450.

²⁵ Mill wrote to MacVey Mapiér for the Edinburgh opinion of his *History* because 'as I reckon the best judges to be with you, I am proportionately anxious to know what I am thought of among you'. Letter, 30 Apr. 1818, Bain, *op. cit.*, p. 170.

²⁶ See D. Forbes, *op. cit.*, p. 25.

²⁷ Carl Becker, *The Heavenly City of the Eighteenth Century Philosophers*, Yale University Press, 1932, chapter III.

Robertson and Millar employed conjectural history for liberal and didactic purposes.²⁸ But the Scottish writers laid far less emphasis than the French on reason as a determining force in history and human affairs; they depicted history as a blind social process in which order and gradual improvement occur without the conscious intervention of individual reason. The French writers in the same tradition saw the history of the race more as a clear-sighted march towards perfection, in which man's reason inexorably overcame the forces of superstition, intolerance and tyranny.²⁹

Mill considered himself to be furthering the tradition of 'that sagacious contemplator of the progress of society', John Millar, in carrying out a 'comprehensive induction' of the characteristics of Hindu society:

The writings of Mr Miller [*sic*] remain almost the only source from which even the slightest information on the subject can be drawn: one of the ends which has at least been in view during the scrutiny conducted in these pages, has been to contribute something to the progress of so important an investigation.³⁰

But Mill's use of conjectural history was more explicitly radical than any of his Scottish forebears, including Millar, whose opinions had been considered dangerously liberal by many of his contemporaries. The contrast between Mill and Millar can be seen in their respective attitudes to social change. Millar has this to say on the subject in the Preface to his *Origin of Ranks*:

When these enquiries are properly conducted, they have likewise a tendency to restrain the wanton spirit of innovation which men are too apt to indulge in their political reasonings. To know the laws already established, to discern the causes from which they have arisen, and the means by which they were introduced; this preliminary step is essentially requisite, in order to determine upon what occasions they might be altered or abolished. The institutions of a country, how imperfect soever they may seem, are commonly suited to the state of the people by whom

²⁸ See D. Forbes, 'Scientific Whiggism: Adam Smith and John Millar', *Cambridge Journal*, Aug. 1951, vol. VII, pp. 643-70; and D. Horn, 'Principal William Robertson D.D.', *University of Edinburgh Journal*, Autumn 1956, pp. 155-68, where Hume and Robertson are compared with Voltaire.

²⁹ The contrast has been stressed in F. A. Hayek's *Constitution of Liberty*, Routledge and Kegan Paul, 1960, chapters III and IV. See also Lois Whitney, *Primitivism and the Idea of Progress*, Johns Hopkins U.P., 1934, pp. 145-53.

³⁰ *History of British India*, vol. II, book II, chapter X, p. 139n.

they have been embraced; and therefore, in most cases, they are susceptible to those gentle improvements, which proceed from a gradual reformation of the manners, and are accompanied with a correspondent change in the condition of society. In every system of law or government, the different parts have an intimate connection with each other. As it is dangerous to tamper with the machine, unless one is previously acquainted with the several wheels and springs of which it is composed; so there is reason to fear, that the violent alteration of any single part may destroy the regularity of its movements, and produce the utmost disorder and confusion.

This can be contrasted with Mill's characteristically confident statement in his correspondence with Ricardo that: 'All great changes in society, are easily effected when the time is come'.³¹

Mill wished to change society and so, like the *philosophes*, he stressed the importance of reason in human affairs. The principle of utility provided a guide for a rational order and was the mark of high civilisation.

Exactly in proportion as *Utility* is the object of every pursuit, may we regard a nation as civilized. Exactly in proportion as its ingenuity is wasted on contemptible and mischievous objects, though it may be, in itself, an ingenuity of no ordinary kind, the nation may safely be denominated barbarous.³²

Mill reinforced philosophical radicalism by philosophical history. Utilitarianism, in his hands, was more than a pragmatic test of the fitness of laws and institutions; it became a universal principle for judging all societies at all times.

Mill's *History* could not be described as a popular work, but it was undoubtedly a highly influential one. Soon after its publication we learn from Francis Place that it was being presented by the Directors of the East India Company 'as a premium to all civil servants leaving the college [Haileybury] with *éclat*'³³; and subsequently it became the standard textbook at the college. Such was its influence that the pro-Orientalists, represented by Horace Wilson, considered it necessary to bring out a new edition of the book later, correcting some of Mill's opinions on the low state of Indian civilisation. Although Wilson thought it was 'the most valuable work upon the subject which has yet

³¹ Letter to Ricardo, 19 Oct. 1817, *Works*, vol. VII, p. 198. See also the letter quoted above, p. 187.

³² *History of British India*, vol. II, p. 134.

³³ Letter, 27 Dec. 1817, B.M. Add. MSS. 3513-33.

been published', he held that 'a harsh and illiberal spirit has of late years prevailed in the conduct and councils of the rising service in India, which owes its origin to impressions imbibed in early life from the History of Mr Mill'. The work, he said, was 'calculated to destroy all sympathy between the rulers and the ruled; to preoccupy the minds of those issuing annually from Great Britain . . . with an unfounded aversion towards those over whom they exercise . . . power'.³⁴ According to Mill's view of the matter, it was not the object of India's rulers to be popular; their job was to be clear-sighted and efficient.³⁵

2. *James Mill and the Indian Revenue System*

Mill attached great importance to the 'mode of providing for the pecuniary wants of the government' in determining the character and condition of a society and its capacity for progress. As Professor Stokes has made clear, this view was especially justified in the case of the Indian land revenue system:

It was the heart of the British administrative system, and the one subject which brought British rule into intimate contact with the lives of the Indian peasantry . . . All the great issues, the union or separation of judiciary and executive, the law to be administered and the rights to be protected, hinged upon it. More than half of the revenue of the State was derived from the taxation of land; and the fact that the State demand absorbed almost the whole surplus produce of the soil, after allowing for the bare subsistence costs of the cultivator, made it the determining influence in shaping the structure of Indian society. Except in the cities, every class above the immediate cultivators lived upon allowances or alienations of land revenue. Consequently, the British as sovereigns held in their hands the most powerful agency affecting the composition of Indian society.³⁶

We have noted earlier, when discussing Mill's treatment of taxes on rent in the *Elements*, that he saw no objection in principle to a system whereby the bulk of the state's revenue was derived from the annual produce of land. One might even say that in so far as the exactions of

³⁴ *History of British India*, fourth edition, 1846-8, with notes and continuation by H. Wilson, pp. xii-xiii.

³⁵ See e.g. Mill's answers to Qq. 4193-7 and Q. 400 below, pp. 442-3.

³⁶ E. Stokes, *op. cit.*, pp. 75-76. For the full background to Mill's ideas on this question the reader should consult chapter II of Professor Stokes's work. The treatment given here is intended only to make the extracts from Mill's writings and evidence intelligible.

the state could be confined strictly to rent or the net produce after payment of wages and profits, he regarded it as the ideal system of taxation. But he was bitterly opposed to the existing Indian system, particularly as reflected in the reforms introduced by Lord Cornwallis in Bengal in 1793.

The British administration in India had inherited an incredibly confused, uncertain and corrupt system of assessing and collecting the state's portion of the land revenue. Property and tenure rights were ill-defined; and the revenue demand on the ryots or peasant cultivators and paid by them to zemindars or tax-farmers, varied almost at will. To regularise this situation, Cornwallis decided to set a permanent limit on the demand made by the government on the zemindars, who in turn were to make fixed settlements with the villages or individual ryots in their districts. In this way private property rights were vested in the zemindars in the hope that this would provide them with an incentive to make improvements. At the same time an element of protection was given to the ryots against rack-renting by the zemindars.

The groundwork for Mill's attack on Cornwallis's permanent settlement is laid in his chapter on taxes in Book II of his *History*. After specifying the general qualities desirable in a tax system – that as little as possible should be taken in a way that does least harm to the people – he gives an *histoire raisonnée* of the establishment of property in a primitive society, in which he implies that the zemindar is an interloper with no property or tenure rights. His account of the Cornwallis system in operation is given later in Book VI. In Mill's opinion this scheme was based on 'aristocratical prejudices' in favour of private landlordism, a complete miscalculation of the character of the zemindars, and a failure to foresee the likely effect of the system upon the ryots. Mill's antagonism to the whole principle of aristocracy needs little further documentation here. Apart from any question of the legality of the zemindar's property rights, he believed that it was pointless to expect them to behave as paternalistic, improving landlords. Large land-owners relying on rent income were the same world over; their extensive possessions blunted the incentive to make profitable improvements; they relished power over their tenants rather than money; they were spenders and not accumulators. The real hope for improvements lay in the immediate cultivators, those who possessed little and relied on their own labour and capital. It was precisely this class, the ryots, that Cornwallis's settlement had sacrificed to the

zemindar. In his account of the Cornwallis system in practice Mill dwelt consistently on its failures.³⁷

After twelve years' service with the Company Mill's views were unchanged. He was given a full opportunity to air his criticisms and to expound an alternative solution in his evidence before the Select Committee on the Affairs of the East India Company in 1831-2. The Committee was appointed as a preliminary to the renewal of the Company's Charter in 1834. Since the last renewal in 1813 a good many complaints against the Company's handling of India's internal affairs, and of the monopoly of the China tea trade in particular, had accumulated. As Chief Examiner in charge of the correspondence with India relating to political, judicial and revenue matters, Mill was the star witness for the defence. In August 1831, for example, he appeared before the Committee on no less than eight complete sittings. When the Committee was re-convened in 1832, he was questioned on four more occasions. The evidence, together with his memoranda, covers a wide field, but does not deal with the China tea monopoly, which was outside Mill's province. The extracts reprinted below have been selected chiefly with the intention of illustrating Mill's views on revenue questions. To get some idea of the extent of Mill's responsibilities and of his grasp of affairs, it would also be necessary to consider his evidence on the machinery of government, the judicial system and the political questions involving relations between various Indian states.

With respect to land revenue in India, the solution favoured by Mill was for the government to be reinstated as the universal landlord dealing directly with the ryots, and eliminating the middle-man. The ownership of land should never have been handed over to the zemindars in return for a fixed contribution to the state. By so doing the government had created private rent income out of what might legitimately and harmlessly have furnished the revenue of the state. In his evidence Mill explains in precise, dogmatic terms the desirability of obtaining government revenue from land; the means by which land nationalisation could be effected; and the importance of the rent doctrine in assessing the revenue demand. By relying on pure rent as a source of income 'the wants of the government are supplied without any drain either upon the produce of any man's labour, or the produce of any man's capital'. To eliminate the abuses of a system which left

³⁷ *History of British India*, vol. VI, book VI, chapters 5 and 6. See also his replies to questions 3136-9, below, pp. 424-6.

the ryot at the mercy of the zemindar, the government should gradually purchase zemindary estates and confirm the ryots as hereditary occupants. A tax settlement based on a calculation of the net produce of every ryot holding, inclining to leniency in case of doubt, would serve the interests of the government without discouraging the immediate cultivator from undertaking improvements.

Apart from his antagonism to the *zemindari* as a class, Mill was opposed to the principle of permanency embodied in the original Cornwallis settlement. A standard tax assessment levied on all land regardless of fertility offended against the pure rent doctrine; it penalised land of low rent yield and created private rent income on land of higher fertility. This objection applied equally to a permanent *ryotwari* settlement as to a permanent *zemindari* settlement. Mill proposed that the ryots should become lease-holders with sufficient permanency of tenure to encourage improvements; but it would still be necessary to make periodic reassessments of the leases to keep the revenue demand in line with the rent-yielding capacity of land. This would allow the ryot to enjoy the 'profits of stock' and to accumulate capital, but would not permit him to succumb to the temptations inherent in the receipt of a rent income. Moreover, permanency of settlement entailed 'an alienation of the great source of the revenue of government'.³⁸

Mill was fully aware of the practical difficulties involved in reaching a settlement with individual peasant cultivators in a country where the population had been demoralised by previous exactions. Nevertheless, he maintained that the fundamental principle was perfectly clear, and no effort should be spared to bring an end to the old system and move in the direction indicated.³⁹ It should be noted in passing that John Stuart Mill, who considered his father to be the 'originator of all sound statesmanship' in India, followed him implicitly in this matter.⁴⁰

The two other major sources of revenue in India were the Company's monopoly of the manufacture of salt and of sales of opium; and Mill was called upon to answer criticisms of the desirability and of the mode of operating these monopolies. His answers to a questionnaire on these and other tax matters have been included because they contain a good deal of basic economic reasoning, combined with comments on

³⁸ See below, Q. 3434.

³⁹ See below, Q. 3555.

⁴⁰ *Principles of Political Economy*, book III, ch. IX, sec. 4.

the practical difficulties of revenue collection in an underdeveloped country.⁴¹

In conclusion, as evidence of the utilitarian mind at work in India, and to show how little Mill's attitude towards the native population had changed since he wrote his *History*, a short extract is included which gives his views, in a nutshell, on the question of employing Indians in the Company's service.⁴²

⁴¹ See below, pp. 435-41.

⁴² See below, pp. 441-3.

Extracts from the
HISTORY OF BRITISH INDIA

Note on the Text

The following extracts from the *History of British India* are all taken from volume I, Book II, chapters I to V of the 3rd edition (1826), the last to appear in Mill's lifetime. In preparing the extracts the procedure adopted has been to omit most of the detailed evidence by which Mill supported his 'ratiocinations'. In so doing, of course, the wealth of scholarship which went into the *History* is lost; but since the main strength of Book II lay in its deductive structure, it is hoped that much of the powerful flavour of Mill's work has been retained.

BOOK II
OF THE HINDUS

CHAPTER I

Chronology and Ancient History of the Hindus

[The chapter opens with a warning against the extravagant claims to antique heritage commonly made by backward peoples. In order to establish an accurate picture of the state of manners, society and knowledge attained by the Hindus in the past, these fictitious accounts must be discounted.]

With regard to the Ancient history of India, we are still not without resources. The meritorious researches of the modern Europeans, who have explored the institutions, the laws, the manners, the arts, occupations and maxims of this ancient people, have enabled philosophy to draw the picture of society, which they have presented, through a long revolution of years. We cannot describe the lives of their kings, or the circumstances and results of a train of battles. But we can show how they lived together as members of the community, and of families; how they were arranged in society; what arts they practised, what tenets they believed, what manners they displayed; under what species of government they existed; and what character, as human beings, they possessed. This is by far the most useful and important part of history; and if it be true, as an acute and eloquent historian has remarked, 'that the sudden, violent, and unprepared revolutions incident to barbarians, are so much guided by caprice, and terminate so often in cruelty, that they disgust us by the uniformity of their appearance, and it is rather fortunate for letters that

they are buried in silence and oblivion,¹ we have perhaps but little to regret in the total absence of Hindu records.

Whatever theory we adopt with regard to the origin of mankind, and the first peopling of the world, it is natural to suppose, that countries were at first inhabited by a very small number of people. When a very small number of men inhabit a boundless country, and have intercourse only among themselves, they are by necessary consequence barbarians. If one family, or a small number of families, are under the necessity of providing for themselves all the commodities which they consume, they can have but few accommodations, and these imperfect and rude. In those circumstances the exigencies of life are too incessant, and too pressing, to allow time or inclination for the prosecution of knowledge. The very ideas of law and government, which suppose a large society, have no existence: men are unavoidably ignorant and unrefined; and, if much pressed with difficulties, they become savage and brutal.

If we suppose that India began to be inhabited at a very early stage in the peopling of the world, its first inhabitants must have been few, ignorant, and rude. Uncivilized and ignorant men, transported in small numbers, into an uninhabited country of boundless extent, must wander for many ages before any great improvement can take place. Till they have multiplied so far as to be assembled in numbers large enough to permit the benefits of social intercourse, and of some division of labour, their circumstances seem not susceptible of amelioration. We find, accordingly, that all those ancient nations, whose history can be most depended upon, trace themselves up to a period of rudeness. The families who first wandered into Greece, Italy, and the eastern regions of Europe, were confessedly ignorant and barbarous. The influence of dispersion was no doubt most baneful, where the natural disadvantages were the greatest. In a country overgrown with forest, which denies pasture to cattle, and precludes husbandry, by surpassing the power of single families to clear the land for their support, the wretched inhabitants are reduced to all the hardships of the hunter's life, and becomes savages. The difficulties with which those families had to struggle who first came into Europe, seem to have thrown them into a situation but few degrees removed from the lowest stage of society. The advantages of India in soil and climate are so great, that those by whom it was originally peopled might sustain no

¹ Hume's *History of England*, 1, 2.

farther depression than what seems inherent to a state of dispersion. They wandered probably for ages in the immense plains and valleys of that productive region, living on fruits, and the produce of their flocks and herds, and not associated beyond the limits of a particular family. Until the country became considerably peopled, it is not even likely that they would be formed into small tribes. As soon as a young man became, in his turn, the head of a family, and the master of cattle, he would find a more plentiful subsistence beyond the range of his father's flocks. It could only happen, after all the most valuable ground was occupied, that disputes would arise, and that the policy of defence would render it an object for the different branches of a family to remain united together, and to acknowledge a common head.

When this arrangement takes place, we have arrived at a new stage in the progress of civil society. The condition of mankind, when divided into tribes, exhibits considerable variety, from that patriarchal association which is exemplified in the history of Abraham, to such combinations as are found among the Tartars, or that distribution into clans, which, at no distant period, distinguished the people of Europe. The rapidity with which nations advance through these several states of society chiefly depends on the circumstances which promote population. Where a small number of people range over extensive districts, a very numerous association is neither natural nor convenient. Some visible boundary, as a mountain or a river, marks out the limits of a common interest; and jealousy or enmity is the sentiment with which every tribe is regarded by every other. When any people has multiplied so far as to compose a body, too large and unwieldy to be managed by the simple expedients which connected the tribe, the first rude form of a monarchy or political system is devised. Though we have no materials from the Hindus, which yield us the smallest assistance in discovering the time which elapsed in their progress to this point of maturity, we may so far accede to their claims of antiquity, as to allow that they passed through this first stage in the way to civilization very quickly; and perhaps they acquired the first rude form of a national polity at fully as early a period as any portion of the race. It was probably at no great distance from the time of this important change that those institutions were devised, which have been distinguished by a durability so extraordinary; and which present a spectacle so instructive to those, who would understand the human mind, and

the laws which, amid all the different forms of civil society, invariably preside over its progress.

CHAPTER II

Classification and Distribution of the People

The transition from the state of tribes to the more regulated and artificial system of a monarchy and laws is not sudden; it is the result of a gradual preparation and improvement. That loose independence, which suits a small number of men, bound together by an obvious utility, scattered over an extensive district, and subject to few interferences of inclination or interest, is found productive of many inconveniences, as they advance in numbers, as their intercourse becomes more close and complicated, and as their interests and passions more frequently clash. When quarrels arise, no authority exists to which the parties are under the necessity of referring their disputes. The punishment of delinquents is provided for by no preconceived regulation. When subsistence, by the multiplication of consumers, can no longer be obtained without considerable labour, the desire to encroach upon one another adds extremely to the occasions of discord: and the evils and miseries, which prevail, excite at least a desire for a better regulation of their common affairs. But slow is the progress, made by the human understanding, in its rude and ignorant state. No little time is spent; first, in maturing the conviction that a great reformation is necessary; and next, in conceiving the plan which the exigency requires. Many partial remedies are thought of and applied; many failures experienced; evils meanwhile increase, and press more severely; at last men become weary and disgusted with the condition of things, and prepared for any plausible change which may be suggested to them. In every society there are superior spirits, capable of seizing the best ideas of their times, and, if they are not opposed by circumstances, of accelerating the progress of the community to which they belong. The records of ancient nations give us reason to believe that some individual of this description, exalted to authority by his wisdom and virtue, has generally accomplished the important task of

first establishing among a rude people a system of government and laws.

It may be regarded as a characteristic of this primary institution of government, that it is founded upon divine authority. The superstition of a rude people is peculiarly suited to such a pretension. While ignorant and solitary, men are perpetually haunted with the apprehension of invisible powers; and, as in this state only they can be imposed upon by the assumption of a divine character and commission, so it is evidently the most effectual means which a great man, full of the spirit of improvement, can employ, to induce a people, jealous and impatient of all restraint, to forego their boundless liberty, and submit to the curb of authority.

No where among mankind have the laws and ordinances been more exclusively referred to the Divinity, than by those who instituted the theocracy of Hindustan. The plan of society and government, the rights of persons and things, even the customs, arrangements, and manners, of private and domestic life; every thing, in short, is established by divine prescription. The first legislator of the Hindus, whose name it is impossible to trace, appears to have represented himself as the republisher of the will of God. He informed his countrymen that, at the beginning of the world, the Creator revealed his duties to man, in four sacred books, entitled Vedas; that during the first age, of immense duration, mankind obeyed them, and were happy; that during the second and third they only partially obeyed, and their happiness was proportionally diminished; that since the commencement of the fourth age disobedience and misery had totally prevailed, till the Vedas were forgotten and lost; that now, however, he was commissioned to reveal them anew to his countrymen, and to claim their obedience.

The leading institutions of the Hindus bear evidence that they were devised at a very remote period, when society yet retained its rudest and simplest form. So long as men roam in the pastoral state, no division of classes or of labour is known. Every individual is a shepherd, and every family provides for itself commodities with which it is supplied. As soon as the cultivation of land, which yields a more secure and plentiful subsistence, occupies a great share of the common attention, the inconvenience of this universal mixture of employments is speedily felt. The labours of the field are neglected, while the cultivator is engaged at the loom, or repelling the incursions of an enemy. His clothing and lodging are inadequately provided for, while the

attention of himself and his family are engrossed by the plough. Men quit not easily, however, the practices to which they have been accustomed; and a great change in their manners and affairs does not readily suggest itself as a remedy for the evils which they endure. When the Hindus were lingering in this uneasy situation, it would appear that there arose among them one of those superior men, who are capable of accelerating the improvement of society. Perceiving the advantage which would accrue to his countrymen from a division of employments, he conceived the design of overcoming at once the obstacles by which this regulation was retarded; and clothing himself with a Divine character, established as a positive law, under the sanction of Heaven, the classification of the people, and the distribution of occupations. Nor was it enough to introduce this vast improvement; it was right to secure that the original members of the different classes should be supplied with successors, and that the community should not revert to its former confusion. The human race are not destined to make many steps in improvement at once. Ignorant that professions, when once separated, were in no danger of being confounded, he established a law, which the circumstances of the time very naturally suggested, but which erected a barrier against further progress; that the children of those who were assigned to each of the classes, into which he distributed the people, should invariably follow the occupation of their father through all generations.

The classification instituted by the author of the Hindu laws is the first and simplest form of the division of labour and employments. The priest is a character found among the rudest tribes; by whom he is always regarded as of the highest importance. As soon as men begin to have property, and to cultivate the ground, the necessity of defenders is powerfully felt; a class, therefore, of soldiers, as well as a class of husbandmen, becomes an obvious arrangement. There are other services, auxiliary to these, and necessary to the well-being of man, for which it still remains necessary to provide. In a state of great simplicity, however, these other services are few, and easily performed. We find accordingly that the Hindu legislator assigned but one class of the community to this department. The Hindus were thus divided into four orders or castes. The first were the Brahmens or priests; the second, the Cshatriyas or soldiers; the third, the husbandmen or Vaisyas; and the fourth, the Sudras, the servants and labourers.² On

² [At this point Mill makes reference in a footnote to John Millar ('that sagacious

this division of the people, and the privileges or disadvantages annexed to the several castes, the whole frame of Hindu society so much depends, that it is an object of primary importance, and merits a full elucidation.

I. The priesthood is generally found to usurp the greatest authority, in the lowest state of society. Knowledge, and refined conceptions of the Divine nature, are altogether incompatible with the supposition, that the Deity makes favourites of a particular class of mankind, or is pleased with those who perform a ceremonial service to himself, than with those who discharge with fidelity the various and difficult duties of life. It is only in rude and ignorant times that men are so overwhelmed with the power of superstition as to pay unbounded veneration and obedience to those who artfully clothe themselves with the terrors of religion. The Brahmens among the Hindus have acquired and maintained an authority, more exalted, more commanding, and extensive, than the priests have been able to engross among any other portion of mankind. As great a distance as there is between the Brahmens and the Divinity, so great a distance is there between the Brahmen and the rest of his species . . .

II. Among the castes of the Hindus, the next in dignity and rank to the priestly tribe, is that of the Cshatriyas, or the military class. In the rude and early state of society, as man has provided few securities against the evils with which he is assailed, and his wisdom has enabled him to draw few general rules respecting the order of their recurrence, he lives in a perpetual expectation of unhappy events, as well from nature, as from his fellow men; and fear is the passion which chiefly usurps the government of his mind. The priest soothes his imagination, in regard to the first and most awful source of his apprehensions, by undertaking to procure from him the favour of the mysterious powers of nature. The soldier, from whom he expects protection against the ravages of hostile men, is the second object of his veneration and gratitude; and in the history of society, it will be generally found, that the rank and influence of the military order are high, in proportion as the civilization of the people is low. To all but the Brahmens, the

contemplator of the progress of society') on the question of the early Anglo-Saxon division of society into classes. The same point concerning the establishment of the caste system and its rigidity, again based on Millar's treatment of the subject in the *Origin of Ranks*, is made by Mill in his article on 'Castes' for the *Supplement to the Encyclopaedia Britannica*.]

caste of Cshatriyas are an object of unbounded respect. They are as much elevated above the classes below them, as the Brahmens stand exalted above the rest of human kind . . .

III. The Vaisyas are the third caste of the Hindus. Their duties are to tend cattle, to carry on merchandize, and to cultivate the ground. They are superior only to the Sudras, who owe to them, however, the same awful respect and submission, which it is incumbent on them to pay to the military class.

IV. As much as the Brahmen is an object of intense veneration, so much is the Sudra an object of contempt, and even of abhorrence, to the other classes of his countrymen. The business of the Sudras is servile labour, and their degradation inhuman. Not only is the most abject and grovelling submission imposed upon them as a religious duty, but they are driven from their just and equal share in all the advantages of the social institution . . .

This distribution of the whole people into four classes only, and the appropriation of them to four species of employment; an arrangement which, in the very simple state of society in which it must have been introduced, was a great step in improvement, must have been productive of innumerable inconveniences, as the wants of society multiplied. The bare necessaries of life, with a small number of its rudest accommodations, are all it prepares to meet the desires of man. As those desires, speedily extend beyond such narrow limits, a struggle must have early ensued between the first principles of human nature and those of the political establishment . . .

CHAPTER III

The Form of Government

After the division of the people into ranks and occupations, the great circumstance by which their condition, character, and operations are determined, is the political establishment; the system of actions by which the social order is preserved. Among the Hindus, according to the Asiatic model, the government was monarchical, and, with the usual exception of religion and its ministers, absolute.

No idea of any system of rule, different from the will of a single person, appears to have entered the minds of them, or their legislators . . .

The plan, according to which the power of the sovereign was exercised in the government of the country, resembled that which has almost universally prevailed in the monarchies of Asia, and was a contrivance extremely simple and rude. In the more skilful governments of Europe, officers are appointed for the discharge of particular duties in the different provinces of the empire; some for the decision of causes, some for the control of violence, some for collecting the contingents of the subjects, for the expense of the state; while the powers of all center immediately in the head of the government, and all together act as connected and subordinate wheels in one complicated and artful machine. Among the less instructed and less civilized inhabitants of Asia, no other plan has ever occurred to the monarch, for the administration of his dominions, than simply divide his own authority and power into pieces or fragments, as numerous as the provinces into which it was deemed convenient to distribute the empire. To each of the provinces a vicegerent was dispatched, who carried with him the the undivided authority and jurisdiction of his master. Whatever powers the sovereign exercised over the whole kingdom, the vicegerent exercised in the province allotted to him; and the same plan which the sovereign adopted for the government of the whole, was exactly followed by the vicegerent in the government of a part. If the province committed to his sway was too extensive for his personal inspection and control, he subdivided it into parts, and assigned a governor to each, whom he intrusted with the same absolute powers in his district, as he himself possessed in the administration of the greater department. Even this inferior deputy often divided his authority, in the same manner, among the governors, whom he appointed, of the townships or villages under his control. Every one of those rulers, whether the sphere of his command was narrow or extensive, was absolute within it, and possessed the whole power of the sovereign, to levy taxes, to raise and command troops, and to decide upon the lives and property of the subjects . . .

[Mill proceeds to an examination of the duties of the Hindu monarch: defence against external foes and preservation of internal order though judicial system.]

In the first stage of society, the leader in war is also the judge in

peace; and the regal and judicial functions are united in the same person. Various circumstances tend to produce this arrangement. In the first place, there are hardly any laws: and he alone is entitled to judge, who is entitled to legislate, since he must make a law for every occasion. In the next place, a rude people, unused to obedience, would hardly respect inferior authority. In the third place, the business of judicature is so badly performed as to interrupt but little the business or pleasures of the king; and a decision is rather an exercise of arbitrary will and power, than the result of an accurate investigation. In the fourth place, the people are so much accustomed to terminate their own disputes, by their own cunning, or force, that the number of applications for judicature is comparatively small. As society advances, a set of circumstances, opposite to these, are gradually introduced: laws are made which the judge has nothing to do but apply: the people learn the advantage of submitting to inferior authority: a more accurate administration of justice is demanded, and cannot be performed without a great application both of attention and of time: the people learn that it is for the good of the community, that they should not terminate, and that they should not be allowed to terminate, either by force or fraud, their own disputes: the administration of justice is then too laborious to be either agreeable to the king, or consistent with the other services which he is expected to render: and the exercise of judicature becomes a separate employment, the exclusive function of a particular order of men . . .

[So far as the duty to legislate is concerned, Mill points out that since the Hindus believe their public as well as private affairs to be governed by a divinely-ordained system, the power of legislation belongs to the priesthood; the monarch becomes the tool of his religious advisors, the Brahmens. Nevertheless, by retaining other powers, the Hindu monarchs had succeeded in keeping the balance in their favour.]

They had two engines entrusted to them, the power of which their history serves remarkably to display; they were masters of the army; and they were masters of the public revenue. These two circumstances, it appears, were sufficient to counter-balance the legislative, and the judicative, and even a great part of the executive power, reinforced by all the authority of an overbearing superstition, lodged in the hands of the Brahmens. These threw around the sovereign an external lustre

with which the eyes of uncultivated men are easily dazzled. In dangerous and disorderly times, when every thing which the nation values depends upon the sword, the military commander exercises unlimited authority by universal consent; and so frequently is this the situation of a rude and uncivilized people, surrounded on all sides by rapacious and turbulent neighbours, that it becomes, in a great measure, the habitual order of things. The Hindu king, by commanding both the force, and the revenue of the state, had in his hands the distribution of gifts and favours; the potent instrument, in short, of patronage; and the jealousy and rivalry of the different sets of competitors would of their own accord give him a great influence over the Brahmens themselves. The distribution of gifts and favours is an engine of so much power, that the man who enjoys it to a certain extent is absolute, with whatever checks he may appear to be surrounded.

CHAPTER IV

The Laws

[The subject matter of this chapter was of great interest to Mill as a Benthamite; it was here that Bentham and Mill saw the most far-reaching possibilities for implementing their views (see e.g. Mill's remark quoted above, p. 19). The subject also interested Mill as a philosophical historian, and at one time he hoped to write a history of English law tracing 'the expedients of the several ages to the state of the human mind, and the circumstances of society in those different ages, and to show their concord and discord with the standard of perfection'. (Letter to MacVey Napier, 5 Aug. 1818, in Bain, *op. cit.*, p. 173.) Most of the chapter consists of a detailed critique of the shortcomings, in terms of completeness, exactness, efficiency and humanity, of the Hindu system of law. There is room here only for a short section dealing with the law of property.]

It is needless to remark, that the sources of acquisition, by occupancy, by labour, by contract, by donation, by descent; which are recognised in almost all states of society, are recognised in Hindustan.

It is in the accuracy with which the intended effects of these incidents are defined, and in the efficiency of the means taken to secure the benefits they convey, that the excellence of one system above another is more particularly observed.

Though property, in the first stage of its existence, was probably measured by occupancy, and the one ceased with the other, the privilege was early conferred of alienating for a valuable consideration, or of transferring by purchase and sale. As this is a very simple compact, it appears to admit of little variety in the various stages of human improvement. In an age, however, in which the means of detecting fraudulent acquisitions, and of proving the good faith of contracts and bargains, are imperfectly known, purchases and sales, made in public, are alone considered valid. The laws of our Saxon ancestors prohibited the sale of every thing above the value of twenty-pence, except in open market; and it is with a pleasing kind of surprise we find, that similar circumstances have suggested a similar expedient to the people of Hindustan . . . The right, however, conveyed by a *bonâ fide* purchase is not, among the Hindus, carried to that extent, which is found requisite in a commercial and highly civilized society. If the goods were not the property of the person by whom they were sold, the right of the purchaser becomes absolute only if he can produce the vendor . . . This is quite sufficient to throw so much uncertainty into the great class of transactions by purchase and sale, as would prove, in a civilized state of society, a ruinous obstruction of business. A manufacturer purchases a quantity of the raw material, and works it up; he would lose, in a mischievous proportion, if the owner of that material could demand the identical substance, on tendering the half of its price. In many cases, the identical substance is exported; in many it is consumed; and cannot possibly be restored. Among children, and among rude people, little accustomed to take their decisions upon full and mature consideration, nothing is more common than to repent of their bargains, and wish to revoke them: Among the Hindus this has been found an affair of sufficient importance to constitute an entire head in the classification of their laws. A variety of cases are enumerated, in which, if dissatisfied with his bargain, a man may insist upon having it annulled; and in general any sale and purchase of things, not perishable, may be rescinded within ten days, at the will of either of the parties: another law, altogether incompatible with an age in which the divisions and refinements of industry have multiplied the number of exchanges.

The regulation, which fixes the price of things, instead of leaving it to the natural and beneficent laws of competition, conveys not a high idea of the knowledge of the Hindus . . .

The peculiar species of transfer which is known by the name of loan is an object of great importance in the jurisprudence of all nations . . . In an improved state of society, where the efficiency of laws, the diffusion of wealth, and the accommodations of business, have created a mutual confidence, loans are generally contracted on the security of law, without the actual custody or deposit of the property on which they may be secured. It is only in that extremely confined and degraded species of lending, abandoned to pawnbrokers, that pledges form a regular and component part. In the more early and imperfect states of the social union, circumstances are very different. Law is both feeble and inaccurate, poverty reigns, violence prevails; and the man who is able to discharge his debts to-day may be stript of all his possessions to-morrow. In these circumstances, the security of law upon the person or property of the debtor is seldom sufficient; and the deposit of some equivalent property, as a pledge, is the obvious, and, in point of fact, the common resource. The doctrine of pledges forms one of the most considerable branches of this part of the Hindu code . . .

We have now reviewed the great peculiarities of the Hindu law, in regard to those transfers of property which partake of the nature of exchange, and in which some sort of an equivalent is given and received; it remains for us to consider those, in which the property passes from one owner to another without any return.

The most extensive class of this species of transactions are those occasioned by the death of the owner. Men had considerably strengthened the chain by which they were connected with property, before they ceased to consider death as the cause of a perfect separation, and as leaving their possessions free to the earliest occupier. A right of succession in the children suggests itself, however, at a very early period in the progress of civilization. It is recommended by so many motives, it so happily accords with some of the strongest impulses of human nature, and is so easily engrafted upon the previous order of things, that it could not fail to be an early institution. The children, being naturally the nearest to their parent at the moment of his death, were generally able to avail themselves of the right of occupancy, and to exclude other successors by prior possession. It was the usual arrangement in early stages of society, that the different members of a family

should live together; and possess the property in common. The father was rather the head of a number of partners, than the sole proprietor. When he died, it was not so much a transfer of property, as a continued possession; and the co-partnership was only deprived of one of its members. The laws of inheritance among the Hindus are almost entirely founded upon this patriarchal arrangement . . .

The idea of a joint interest in the property of the family, while it early established the right of succession in the children, served to exclude the right of devising by will. As the property belonged to the parent in common only with his offspring, it could not be regarded as just, that he should have the power of giving it away from them after his death. It is only in stages of society, considerably advanced, that the rights of property are so far enlarged as to include the power of nominating, at the discretion of the owner, the person who is to enjoy it after his death. It was first introduced among the Athenians by a law of Solon, and among the Romans, probably, by the twelve tables. The Hindus have, through all ages, remained in a state of society too near the simplicity and rudeness of the most ancient times, to have stretched their ideas of property so far. The power of disposing of a man's possessions, by testament, is altogether unknown to their laws . . .

CHAPTER V

The Taxes

The form of the government is one, the nature of the laws for the administration of justice is the other, of the two circumstances by which the condition of the people in all countries is chiefly determined. Of these two primary causes no result to a greater degree ensures the happiness or misery of the people, than the mode of providing for the pecuniary wants of the government, and the extent to which the agents of government, of whatever kind, are enabled to divide among themselves and their creatures, the annual produce of the land and labour of the community.

The matters of detail, which by their number and uncertainty have so exceedingly perplexed the servants of the Company, in the financial

operations of the Indian government, cannot here be described. The general outline, and the more important effects, of that system of taxation which is described in the ancient books, are all that falls within the design of an account of the ancient state of the people. 1. 'Of grain,' says the ordinance of Menu, 'an eighth part, a sixth, or a twelfth may be taken by the king;' to be determined, adds the gloss of the commentator Culluca, 'by the difference of the soil, and the labour necessary to cultivate it.' 2. 'He may also take a sixth part of the clear annual increase of trees, flesh-meat, honey, clarified butter, perfumes, medical substances, liquids, flowers, roots and fruit, of gathered leaves, potherbs, grass, utensils made with leather or cane, earthen pots, and all things made of stone.' 3. 'Of cattle, of gems, of gold and silver, added each year to the capital stock, a fiftieth part may be taken by the king.' 4. 'Having ascertained the rules of purchase and sale,' says the law, 'the length of the way, the expenses of food and of condiments, the charges of securing the goods carried, and the neat profits of trade, let the king oblige traders to pay taxes on their saleable commodities; after full consideration, let a king so levy those taxes continually in his dominions, that both he and the merchant may receive a just compensation for their several acts.' 5. 'Let the king order a mere trifle to be paid, in the name of the annual tax, by the meaner inhabitants of his realm who subsist by petty traffic: 6. By low handicraftsmen, artificers, and servile men, who support themselves by labour, the king may cause work to be done for a day in each month.' It is added; 7. 'A military king, who takes even a fourth part of the crops of his realm at a time of urgent necessity, as of war or invasion, and protects his people to the utmost of his power, commits no sin. 8. The tax on the mercantile class, which in times of prosperity must be only a twelfth part of their crops, and a fiftieth of their personal profits, may be an eighth of their crops in a time of distress, or a sixth, which is the medium, or even a fourth in great public adversity; but a twentieth of their gains on money and other moveables is the highest tax: serving men, artisans, and mechanics, must assist by their labour, but at no time pay taxes.'

In these several articles is found an enumeration of all the objects of taxation; and a general expression of the modes and degrees of impost. We perceive taxes on the produce of land, taxes on the produce of labour, a tax on accumulation, a tax on sales, and poll taxes. In article 1., is exhibited a tax on the produce of land; In article 2., a tax both on the produce of land, and on the produce of labour; In article

3., is a tax on accumulation, at least in certain commodities; In article 4., is a tax on purchases and sales; In article 5., is one sort of poll tax; In article 6., is another.

There are two primary qualities desirable in a system of taxation; and in them every thing is included.

The First is, to take from the people the smallest quantity possible of their annual produce.

The Second is, to take from them that which is taken with the smallest possible hurt or uneasiness.

I. Of taking from the people more than enough of the matter of wealth, the causes are two; 1st. When the government consumes beyond the smallest amount sufficient to obtain the services which it yields; 2d. When the collection of the taxes themselves costs more than the lowest sum at which, without sacrificing greater advantages, it is capable of being performed.

II. Of the hurt and uneasiness, beyond the loss of what is taken away, which a system of taxation is liable to produce, the causes seem to be; 1. Uncertainty; 2. Inequality; 3. Impediment to production; 4. Injury to the good qualities, bodily or mental, of the people.³

Of the first head and its subdivisions, no illustration is necessary; and a few words will suffice for the second.

1. Uncertainty may arise from two sources; 1. Uncertainty in the meaning of the words, by which the tax is defined; 2. Uncertainty in the circumstances upon which the amount of the tax is made to depend; as if it were made to depend upon the weather, or the state of a man's health. Uncertainty in the meaning of the words opens a door to oppression and fraud, on the part of the collector. He will exact the largest sum consistent with the words, if he is not bribed; the lowest, if he is. Uncertainty, from whatever source, is a cause of uneasiness. The mind is continually haunted with the idea of the worst, and with all the fears which attend it; fears, often very great and tormenting. As often as a source of chicanery is opened about the amount which the contributor should pay, a source of extortion is opened, and a source of oppression, necessary to effect the extortion.

2. Of the unequal partition of taxes, the necessary consequence is, a greater quantity of suffering, than the same amount of taxes would produce, if more equally imposed; because the pain of the man who

³ [Mill is following Adam Smith fairly closely here, as did most classical writers on this subject. Cf. *Wealth of Nations*, bk. V, ch. II, Part II.]

pays too much is out of all proportion greater than the pleasure of the man who pays too little. To make the burthen of taxes equal, it should be made to press with equal severity upon every individual. This is not effected by a mere numerical proportion. The man who is taxed to the amount of one tenth, and still more the man who is taxed to the amount of one fifth or one half, of an income of 100*l.* per annum, is taxed far more severely, than the man who is taxed to an equal proportion of an income of 1000*l.* and to a prodigious degree more severely than the man who is taxed to an equal proportion of 10,000*l.* per annum.⁴

3. On the mischievousness of all taxes which impede production, it is needless to enlarge. It is only necessary to make them known, or rather acknowledged. 1. Of this sort, are all taxes which take away any part of that property which has been already employed, as capital because there is always more or less of difficulty in replacing it from the fund destined for immediate consumption. 2. Of this sort also are all taxes which create any encouragement whatsoever, or any discouragement whatsoever, to any particular employment of capital in respect to other employments; for as capital is always carried by a strong impulse to that employment which is the most productive, every thing which turns it out of the course which it would take of its own accord, turns so much of it out of a more, into a less productive channel.

4. That all taxes ought to be shunned which tend to lessen the amount of useful qualities in the people, will not be contradicted. Taxes upon medicines have a tendency to diminish health and strength. Taxes upon innocent amusements, as the sports of the field, have a tendency to drive the people to others that are hurtful. Taxes upon articles of consumption not hurtful, which have a tendency to supplant others that are, as tea and sugar to supplant intoxicating liquors, prompt to the consumption of the hurtful. Taxes upon law proceedings are a premium upon the practice of every species of iniquity. Lotteries are a direct encouragement to a habit of mind, with which no useful tendency can easily co-exist. And all taxes, of which the quantity due is not clear and certain, train the people, by continual practice, to a state of hardened perfection in mendacity, fraud, and perjury.

⁴ [This conclusion in favour of some unspecified form of progressive taxation as opposed to proportional taxation was reversed by John Stuart Mill in his *Principles of Political Economy* (Ashley ed.), bk. V, ch. II, p. 806. A fuller discussion of what James Mill meant by 'equality' in taxation is given in the *Elements*, above, pp. 348-52.]

1. In the above list of the sacred ordinances concerning taxes, the first relates entirely to the tax on the produce of the soil. It offends against the rule of *certainty* to a high degree. The amount varies as one to one half; and the variation is made to depend upon circumstances the uncertainty of which opens a boundless field to all the wretched arts of chicanery and fraud on the part of the people, and all the evils of oppression on the part of the collectors. As the determination of the circumstances on which the amount of the assessment depends belongs of course, in such a state of society as that of the Hindus, to the agents of the treasury, a free career is afforded to all the baneful operations of favour and disfavour, of bribery and corruption. Whenever an option is granted between a less exaction and a greater, the violent propensity of all imperfect governments to excess is sure in time to establish the greater. It would appear accordingly that a sixth part of the produce became the uniform tax in Hindustan; and that the indulgence in favour of the barren soils was extinguished . . .

2. In the second of these fiscal ordinances, a variety of products are enumerated, which, in a rude age, are either the spontaneous produce of the soil, as flowers, roots, grass; or obtained from the spontaneous produce, by some very simple process; as perfumes and medical substances, by expression; flesh-meat and honey, by killing the animals which produce them; and these, as costing little in point of labour, are all taxed at the highest rate imposed upon grain. By one of those capricious arrangements which abound in the institutions of a rude people, utensils made of leather, cane, earth, and stone, in the production of which labour is the principal agent, are placed under the same exaction as the spontaneous productions of the soil. The consequence must have been to render these commodities proportionably dear.

In the execution of this ordinance, there must have been excessive uncertainty, and excessive expense. What is meant by 'the annual increase?' The 'annual produce of trees' is an absurd expression: trees grow not by the year. What shall be said of such expressions, as 'the annual produce,' of 'clarified butter,' 'of flesh-meat,' 'of flowers?' These are not commodities, which continue accumulating, till the amount of the annual produce is seen entire at the end of the year: but commodities daily brought into existence and daily consumed. To collect the tax upon such commodities, a daily visit in every family would hardly suffice. In the execution of this ordinance, the temptation

to the incessant practice of all the arts of fraud, on the part of the people, and the powers of oppression bestowed upon the collectors, were well calculated to fill society with immorality and suffering.

3. In the third of the above ordinances are enumerated the principal classes of moveables known to the Hindus. It seems to be the addition made in any year to the previous stock, and not the previous stock itself, of which one fiftieth is taken in the way of tax. In a society, full of knowledge and industry, this would have been a tax upon capital, and therefore mischievous: in Hindustan, where gold, silver and gems, were most commonly hoarded, and not devoted to production, it would not have been easy to find a less objectionable tax. Unless in a state of society rapidly progressive, or a state in which there is excessive fluctuation of fortunes, that is, excessive misery, it would be a very unproductive tax.

4. In the words of the fourth ordinance is described a tax on all purchases and sales. The circumstances on which the amount is made to depend are so uncertain, as to constitute a great seminary of fraud on the one hand, and a great office of oppression on the other. The tax is also hurtful to production, by impeding circulation; that is, the passage of property from a situation in which it is less, to one in which it is more useful. The mode in which, at least in modern times, it was chiefly raised, that of transit duties, multiplied to excess, obstructed all that encouragement to industry which is afforded by the interchange of commodities, not only between different countries, but one province and another of the same country. As often as property which has been, and is to be employed as capital, is bought and sold, it is a tax upon capital.

5. A poll tax, when paid in money, or any other common measure of value, is chiefly objectionable on account of its inequality; as the same sum is a very different burthen to different persons.

6. A poll tax paid in labour is somewhat less objectionable in point of equality, though the same portion of his time may be a much greater burthen upon one man than it is upon another. It is chiefly objectionable on account of the loss of time, and of property, which it occasions to those who have it to pay. In a well-ordered society, accordingly, where every man's time and labour are disposed of to the best advantage, it has no place . . .

In this system of taxation, other sources are of small importance; the revenue of the sovereign arises almost wholly from the artificial

produce of the land. To understand in what manner the people of Hindustan were affected by taxation, the circumstances of this impost are all that require to be very minutely explored.

The tenure of land in Hindustan has been the source of violent controversies among the servants of the Company; and between them and other Europeans. They first sprung up amid the disputes between Mr Hastings and Mr Francis, respecting the best mode of taxing Bengal. And they have been carried on with great warmth, and sometimes with great acrimony, ever since. Of these controversies the account will be due, at the periods when they occur. At present it will suffice to bring to light the circumstances which appear to ascertain the ancient state of the country, in respect to the distribution of property in the land.

In a state of society resembling our own, in which property is secure, and involves very extensive rights or privileges, the affections which it excites are so strong, and give such a force to the associations, by which the idea of it is compacted and formed, that in minds of little range, whose habits are blind and obstinate, the particulars combined together under the idea of property appear to be connected by nature, and not, without extreme injustice, to be made to exist apart.

At different times, however, very different rights and advantages are included under the idea of property. At very early periods of society it included very few: originally, nothing more perhaps than use during occupancy, the commodity being liable to be taken by another, the moment it was relinquished by the hand which held it: but one privilege is added to another as society advances: and it is not till a considerable progress has been made in civilization, that the right of property involves all the powers which are ultimately bestowed upon it.

It is hardly necessary to add, that the different combinations of benefits which are included under the idea of property, at different periods of society, are all equally arbitrary; that they are not the offspring of nature, but the creatures of will; determined, and chosen by the society, as that arrangement with regard to useful objects, which is, or is pretended to be, the best for all.

It is worthy of remark, that property in moveables was established; and that it conveyed most of the powers which are at any time assigned to it; while, as yet, property in land had no existence. So long as men continue to derive their subsistence from hunting; so long, indeed, as they continue to derive it from their flocks and herds, the land is en-

joyed in common. Even when they begin to derive it partly from the ground, though the man who has cultivated a field is regarded as possessing in it a property till he has reaped his crop, he has no better title to it than another for the succeeding year.

In prosecuting the advantages which are found to spring from the newly-invented method of deriving the means of subsistence from the ground, experience in time discovers, that much obstruction is created by restricting the right of ownership to a single year; and that food would be provided in greater abundance, if, by a greater permanence, men were encouraged to a more careful cultivation. To make, however, that belong to one man, which formerly belonged to all, is a change, to which men do not easily reconcile their minds. In a thing of so much importance as the land, the change is a great revolution. To overcome the popular resistance, that expedient which appears to have been the most generally successful, is, to vest the sovereign, as the representative of the society, with that property in the land which belongs to the society; and the sovereign parcels it out to individuals, with all those powers of ownership, which are regarded as most favourable to the extraction from the land of those benefits which it is calculated to yield. When a sovereign takes possession of a country by conquest, he naturally appropriates to himself all the benefits, which the ideas of his soldiers permit . . .

To those who contemplate the prevalence of this institution, among nations contiguous to the Hindus, and resembling them in the state of civilization, it cannot appear surprising, that among them, too, the sovereign was the lord of the soil . . .

The cultivators were left a bare compensation, often not so much as a bare compensation, for the labour and cost of cultivation: they got the benefit of their labour: all the benefit of the land went to the king.

[Mill goes on to quote the description given by the Select Committee of the House of Commons on E. Indian Affairs (1810) of the system of municipal government and communal division of labour in Indian villages at the time.]

The state of taxation is described by the same committee, in the following terms: 'By the custom of the Hindu government, the cultivators were entitled to one half of the paddy produce (that is, grain in the husk) depending on the periodical rains. Of the crops from the dry

grain lands, watered by artificial means, the share of the cultivator was about two thirds. Before the harvest commenced, the quantity of the crop was ascertained, in the presence of the inhabitants and village servants, by the survey of persons, unconnected with the village, who, from habit, were particularly skilful and expert, in judging of the amount of the produce, and who, in the adjustment of this business, were materially aided by a reference to the produce of former years, as recorded by the accountants of the villages. The quantity which belonged to the government being thus ascertained, it was received in kind, or in money.' Of garden produce, of which the culture was more difficult, a smaller portion was taken; because, if field culture was taxed as much as it could bear, it seems to have been supposed that garden culture, at an equal rate of taxation, could not have been carried on.

'Such,' continue the committee, 'were the rights of the ryots, according to the ancient usage of the country. In consequence, however, of the changes introduced by the Mahomedan conquest, and the many abuses which later times had established, the share really enjoyed by the ryots was often reduced to a sixth, and but seldom exceeded a fifth. The assessments had no bounds but those which limited the supposed ability of the husbandmen. The effects of this unjust system were considerably augmented by the custom, which had become common with the Zemindars, of sub-renting their lands to farmers, whom they armed with unrestricted powers of collection, and who were thus enabled to disregard, whenever it suited their purpose, the engagements they entered into with the ryots; besides practising every species of oppression, which an unfeeling motive of self-interest could suggest. If they agreed with the cultivators at the commencement of the year, for a rent in money, and the season proved an abundant one, they then insisted on receiving their dues in kind. When they did take their rents in specie, they hardly ever failed to collect a part of them before the harvest time had arrived and the crops were cut; which reduced the ryots to the necessity of borrowing from money lenders, at a heavy interest of 3, 4, and 5 per cent, per month, the sums requisite to make good the anticipated payments that were demanded of them. If, from calamity or other cause, the ryots were the least remiss in the discharge of their rents, the officers of the renters were instantly quartered upon them; and these officers they were obliged to maintain, until they might be recalled on the demand being satisfied. It was also a frequent practice with the renters to remove the inhabitants from

fertile lands, in order to bestow them on their friends and favourites; and to oblige the ryots to assist them, where they happened to be farmers, in the tilling of their lands; and to furnish them gratuitously with labourers, bullocks, carts, and straw.'

The two terms, Ryot and Zemindar, introduced into this passage, are of frequent recurrence in the history of India, and require to be explained. By ryots, are always denoted the husbandmen; the immediate cultivators of the ground. The Persian term Zemindar, introduced by the Mahomedan conquerors, was in Bengal, and certain other parts of India, the name of a certain sort of middleman, between the cultivator who raised the crop, and the king who received the greater part of the net produce. Into the controversy respecting the nature of the interest which the Zemindar possessed in the land with respect to which he performed his function of middle-man, I shall not at present enter. Another occasion will present itself for the examination of that subject. It is here sufficient to say, that in districts, sometimes of less extent, a person, under the title of Zemindar, received the share of the produce, which was exacted from the ryot; either by himself, or the persons to whom he farmed the receipts; and paid it over to the sovereign, reserving a prescribed portion to himself. The Zemindar was thus, whatever else he might be, the collector of the revenue, for the district to which he belonged. As the receipt of revenue, in a rude state of government, is a business most dear to the governors, the Zemindar, in order the better to secure this favourite end, was vested with a great share of the powers of government. He was allowed the use of a military force; the police of the district was placed in his hands; and he was vested with the civil branch of judicature. When his district was large, he was a sort of a petty prince. In various places in India, however, the collection of the revenue had never become fixed and hereditary, in the hands of an individual, and the business was transacted between the immediate cultivators, and a man who possessed none but the characteristics of an immediate officer of government.

The committee say, that a rate of taxation much more severe than that which existed under the Hindu governments was introduced by the Mahomedan rulers, and amid the abuses of modern times. For this opinion they have no authority whatsoever. It is, therefore, a mere prejudice. The rate which they mention goes far beyond the scale of the ancient ordinances: And what reason is there to believe that the

ancient Hindu governments did not, as the Mohamedan, levy assessments to the utmost limits of the supposed ability of the ryots? In those parts of India which Europeans have found still remaining under Hindu governments, the state of the people is worse, if there is any difference, than where they have been subject to the Mohamedan sway.

The rate established in the ancient ordinances has been regarded as evidence of mild taxation, that is, of good government. It only proves that agriculture was in its earliest, and most unproductive state; and though it paid little, could not afford to pay any more. We may assume it as a principle, in which there is no room for mistake, that a government constituted and circumstanced as that of the Hindus had only one limit to its exactions, the non-existence of any thing further to take. Another thing is certain, that under any state of cultivation, but the very worst, if the whole except a sixth of the produce of a soil, so rich as that of Hindustan, had been left with the cultivator, he must have had the means of acquiring wealth, and of attaining rank and consequence; but these it is well ascertained that the ryots in India never enjoyed.⁵

Notwithstanding these proofs that the ownership in the land was reserved to the king, this conclusion has been disputed, in favour, 1st of the Zemindars, and 2dly, of the Ryots. The question with regard to the Zemindars may be reserved till that period of the history, when it was agitated for the sake of practical proceedings on the part of the government. The question with regard to the Ryots belongs peculiarly to this part of the work.

The circumstances, which appear to have misled the intelligent Europeans who have misinterpreted this part of the Hindu institutions, are two; first, the tenure of the ryot or husbandman; and secondly, the humane and honourable anxiety, lest the interests and the happiness of the most numerous class of the population should be sacrificed, if the sovereign were acknowledged as owner of the soil.

But, if this acknowledgment were ever so complete, it is inconsistent neither with the tenure which is claimed in favour of the ryots, nor with the means of their prosperity and happiness. And if it were, the acknowledgment of its previous existence would be no bar to a pre-

⁵ The population in India, through so many ages, must have been kept down by excess of exaction. Even in the richest parts of India one half of the soil has never been under cultivation.

ferable arrangement; since the sovereign can have a right to nothing which is injurious to his people.

In a situation in which the revenue of the sovereign was increased in proportion to the number of cultivators, and in which a great proportion of the land continued void of cultivators, there would be a competition, not of cultivators for the land, but of the land for cultivators. If a ryot cultivated a piece of ground, and punctually paid his assessment, the sovereign would be far from any wish to remove him because it would be difficult to supply his place. If the ryot sold the ground to another ryot, or left it to a successor, that is, put another in his place who would fulfil the wishes of the sovereign, he, whose source of fear was the want of a cultivator, had still cause for satisfaction; and seldom, if ever, interfered.

By custom, the possession of the ryot became, in this manner, a permanent possession; whence he was not removed except when he failed to pay his assessment or rent; a possession which he could sell during his life; or leave by inheritance when he died. As far as rights can be established by prescription, these rights were established in India in favour of the ryots. And no violation of property is more flagrant than that by which the tenure of the ryot is annulled.

But, according even to European ideas, a right to cultivate the land under these, and still greater advantages, is not understood to transfer the ownership of the land. The great estates in Ireland, for example, let under leases perpetually renewable, are vendible and inheritable by the leaseholders, without affecting the ownership of their lords; subject, moreover, to a very important restriction, from which the sovereigns in India were free; the lords of such estates cannot raise their rents at pleasure; the sovereigns in India enjoyed this privilege, and abused it to excess. The sovereigns in India had not only the ownership, but all the benefit of the land; the ryots had merely the privilege of employing their labour always upon the same soil, and of transferring that privilege to some other person; the sovereign claimed a right to as much of the produce as he pleased, and seldom left to the ryots more than a very scanty reward for their labour.

That ownership in the land justified this extent of exaction, or implies a valid title to any power at variance with the interests of the ryots, is an erroneous inference. Without violating its obligations to the people, a government cannot spend any sum, beyond what is strictly necessary for the performance of the services, which it is

destined to render; and it is justified in taking even this sum exclusively from the cultivators of the land, only if that is the mode in which all the qualities desirable in a financial system are the most completely realized.

Those who contend for the privileges of the ryots would no doubt observe, that in this mode of interpretation, we reduce the ownership of the sovereign to an empty name; and that to the admission of it, thus understood, they see nothing to object. The controversy is then at a close. The ownership of the sovereign in the soil, wherever it exists, is, by the principles which constitute the very foundation of government, reduced to the limits above described. And it is no less certain, that all which is valuable in the soil, after the deduction of what is due to the sovereign, belongs of incontestable right to the Indian husbandman.

The Hindu mode of raising the revenue of the state, wholly, or almost wholly, by taking as much as necessary of the rent of the land, while it is the obvious expedient which first presents itself to the rudest minds, has no inconsiderable recommendation from science itself. Previous to allotment, the productive powers of the soil are the joint property of the community; and hence are a fund peculiarly adapted to the joint or common purposes and demands. If the whole of what is strictly rent were taken away, the application of labour and capital to the land would resemble the application of labour and capital to wood or iron; and the same principles, in both cases, would determine their reward.

But as the expense required for the services of government exceeds not a very small portion of the rent of the land, unless where the quantity is very minute, the greatest possible benefit is derived from the productive powers of the soil, when it is the property of individuals. The benefits of the soil have accordingly, over the greater part of the globe, been employed, first, to supply in whole, or for the greater part, the necessities of government, next to enrich the individual occupant. The most remarkable exception to this rule is in modern Europe. After the conquests of the Gothic nations, the land was thrown in great portions into the hands of the leading men; and they had power to make the taxes fall where they chose; they took care accordingly that they should fall any where rather than upon the land; that is, upon any body rather than themselves. Further, as their influence over the sovereign made him glad to share with them what he derived from the

taxes, they not only threw the burden off their own shoulders, but taxed, as they have continued to do, and sometimes on a progressive ratio, to the present hour, the rest of the community for their benefit.

The objections to the Hindu system of providing for the expenses of government, arise rather from the mode, than the essence.

By aiming at the receipt of a prescribed portion of the crop of each year; and with a very imperfect distinction of the lands of different powers, the Hindus incurred most of the evils which a bad method of raising tax is liable to produce. They rendered the amount of the tax always uncertain, and its pressure very unequal; they rendered necessary a perfect host of tax-gatherers; and opened a boundless inlet to partiality and oppression on the one hand; to fraud and mendacity on the other. A tax consisting of any portion of the gross produce of the soil, raises the price of that produce; because the tax raised from the poorest of the cultivated land must be returned, along with the expense of cultivation, in the exchangeable value of its produce. In this manner a tax is levied upon the consumers of corn, which surpasses the sum paid to the government, and enriches the owners of the best land at the expense of the community⁶ . . .

Extracts from Oral Evidence and Memoranda submitted by James Mill to the Select Committee on the Affairs of the East India Company 1831 and 1832

(a) *Land Revenue*

Minutes of Evidence, *Parliamentary Papers*, 1831, vol. V
2 Aug.

3133. You have stated that it is always the practice in India that the principal source of revenue should be the land; is that a practice which we have maintained? – It is.

3134. Do you conceive it is possible to avoid following that system, or do you think it is an advisable system? – I should not think it either possible or advisable to avoid it; not possible, because there is really no other adequate source of revenue in India. India is a country

⁶ See a Dissertation on the Principles of Taxation, the most profound, by far, which has yet been given to the world, by David Ricardo, Esq., in his work ‘On the Principles of Political Economy and Taxation.’

exceedingly poor. There are few sources of industry different from labour upon the land. If you were therefore to abandon the land revenue, there is no other means that I am aware of, of obtaining a revenue. You might, to be sure, proceed by indirect means, but it would come to the same thing; you must either go without the revenue, or you must take it where it is to be had. I conceive, however, that the peculiarity of India, in deriving a large proportion of its revenue from the land, is a very great advantage. Nine-tenths probably of the revenue of the government in India is derived from the rent of land, never appropriated to individuals, and always considered to be the property of government; and to me that appears to be one of the most fortunate circumstances that can occur in any country; because in consequence of this the wants of the state are supplied really and truly without taxation. As far as this source goes, the people of the country remain untaxed. The wants of government are supplied without any drain either upon the produce of any man's labour, or the produce of any man's capital.

3135. You have described various systems of collecting the land revenue; which of those do you think is the most advantageous for the people? – I conceive that as matters are at present settled in India, by far the best security for the inferior people is, that the assessment should be made and should be collected from them by the officers of government, without the intervention of a middle-man. It appears to me that the interest of the ryot is much more likely to be protected if he transacts with the officer of government under all responsibility to which he is liable, than if he transacts with the other species of middle-man; and I should say that the experience of India goes to that conclusion. With respect to village settlement, the villages being a sort of fraternity, very often claiming to be relations, and in some cases calling themselves brethren, it was sometimes thought that the inferior ryots would be under an equitable and kind management if the assessment was distributed upon them by the heads of the village; but experience has gone very much to the contrary: it has been found that those heads of villages are in almost all cases oppressors of the inferior ryots.

3136. What do you suppose to have been the object for which the permanent settlement was introduced? – I believe the permanent settlement was introduced with the best of all possible motives, with a view to the protection of the whole mass of the agricultural population. That

appears to me, from the proclamations of government at the time, and other documents, to have been the object in view. From our want of experience, great abuses had before that time been practised by the different sorts of people whom we employed in the collection of the revenue. The detail of the business was so great, that it frightened Lord Cornwallis and the government of the day, and they conceived that no better method for the protection of the ryots could be invented, than to create a species of landlords, from which they expected much benefit to arise. The ground upon which their reasoning principally went was this, that those zemindars having a permanent interest in the land assigned to them, would feel an interest in the prosperity of the ryots, in the same manner as a landlord in England feels an interest in the prosperity of his tenants. This was expected to produce two good effects; to create a landed aristocracy in the country, and, above all, to afford protection to the ryots from this kind of paternal feeling that was expected to pervade the zemindars. Unhappily that last expectation has been found to be very far from corresponding with the facts, they little understood the nature of the men with whom they were transacting . . .

3138. To what extent do you believe that the permanent settlement did affect the rights of the ryots? – I believe that, in practice, the effect of it has been most injurious. The most remarkable circumstance, and that by which all the rest seem to have been introduced, was the interpretation put upon the effect of the sales of land, particularly public sales that were made for recovering arrears of revenue. The idea came to be entertained, that the purchasers at those sales were proprietors. They were denominated proprietors: a man that purchased an estate was considered to be the proprietor of that estate; and in consequence of this notion of proprietorship, and the great powers that are annexed to it, in the mind of an Englishman, an idea seems to have been entertained that the purchaser of this estate purchased the rights over it, as completely as a man would purchase rights over an estate, by purchasing it at a public sale in England. Those auction purchasers, as they were called, proceeded to act upon this assumption, to impose new rates upon the ryots, and even to oust them wherever they found it convenient. When applications were made to the courts, and they were not early made, because the people are exceedingly passive, the judges for the most part, coincided in opinion with those auction purchasers, and decided that their rights included every thing, and that

the ryots were in the condition of tenants at will. This has proceeded to a very considerable length; because during the first year of the operation of the permanent settlement, a very great transfer of property took place. It appears also, that the same sort of feeling as to the rights of the ryots, which was thus spread by the interpretation of this act of purchasing, has pervaded also the other properties which had not changed hands, and even those cases of transfer which took place by private bargain; and that generally in Bengal now there is hardly any right recognized as belonging to those inferior holders.

3139. Do you conceive that at present the transfer of property by any means is held to give the new acquirer a complete right over the cultivators? – I believe so: the thing is not so distinctly made out upon the records in other cases as in that of the auction purchasers, but there is every reason to infer that the same sort of feeling that was generated in the case of those estates that were sold, now pervades the whole of them. There is a very remarkable expression in one of the despatches from the government of Bengal, that the rights of the ryots in Bengal, under the operation of the permanent settlement, had passed away *sub silentio* . . .

3144. Are you of opinion that at present the ryots have no rights at all in the land? – Generally that is the case; they are mere tenants at will of the zemindars in the permanently-settled provinces.

3145. Could the government by any process now return to the rights which existed in the year 1793? – There is one mode which has long appeared to me an unexceptionable one, and requiring only time for the full benefit of it: it is this; that whenever any zemindary property shall come to be sold, it shall be purchased on account of government, and re-settled with the ryots upon their old hereditary principle. This has been strongly recommended by the home authorities.

3146. How are those old hereditary rights to be ascertained? – The great thing is to confirm them in their possessions as hereditary occupants. The object is, that government should never hand them over to the zemindars again, but that they should remain the ryots of government, from whom the government collector will collect individually. In other words, those estates are to become ryotwar . . .

4 Aug.

3161. In those cases in which government, having purchased those estates, may be said to have introduced the ryotwar system, on what

principle was the property assessed? – On the principle commonly adopted, that of taking all the evidence that can be obtained of what is the real value of the land; what, from its productive powers, it can afford to pay.

3162. Could that assessment secure the fair rights of the ryots, unless there is a regular survey? – The great difficulty in raising a revenue from the land in India is, the difficulty of ascertaining correctly the value of the land. Approximation is all that can be obtained. The instruction for many years sent from home, and impressed upon the governments of India is, that in no case can more be taken than the rent of the land, without both injustice and permanent injury to the country; not only injury to the individual cultivators, but injury to the government itself. And in all doubtful cases the instruction has been, to take special care to err on the side of lenity rather than on the side of severity; to take less than the rent rather than more.

3163. What proportion of the gross produce do you consider a mere rent? – I think that no proportion of the gross produce can ever be assigned as a standard of rent, because rent depends wholly upon the fertility of the land. In some cases, I conceive there is land that may be cultivated, and can afford no rent; there is land that may yield something, but very little beyond what is necessary to repay the expense of cultivation. There is other land that may afford a very large surplus beyond the expense of cultivation. My own conception is, that a good deal of mischief has been incurred in India by supposing that a certain proportion of the produce might with propriety be assigned as a standard of rent or revenue. This was the standard taken by the rude governments which preceded ours. One of its tendencies must have been to prevent all but land of a certain degree of fertility from being cultivated at all, and it must have operated as rent most unequally in all other cases.

3164. If this system of the purchase of lands permanently to remain in the hands of the government is to continue, is it not a mode of getting rid of the zemindary system, and of substituting ryotwar generally in those provinces? – If it is persevered in, that would be the ultimate effect of it.

3165. On what principle do you suppose that the Court of Directors gave those orders; was it upon a conviction of the mischiefs of the existing system? – My opinion is, that the Court were merely influenced by the consideration of the ryots, who had been divested of the rights

they considered to belong to them; the desire that the ryots of Bengal should be restored to the situation they held formerly, or that now held by the ryots in other parts of India.

3166. Do you think that is quite reconcileable with the declarations of the first government, and with the faith of government to those whom they then constituted proprietors? – I conceive that it is perfectly reconcileable. The original engagement with those proprietors was to give them the benefit of a permanent assessment, but when those individuals who now hold the property have sold it, they are divested of all right and concern in it. The government, who purchases in that case, stands in the place of the zemindar, and holding the land in that capacity, may settle with its tenants in what way it pleases.

9 Aug.

3343. What effect do you think the zemindary settlement has upon the creation of capital? – I should think the operation of it was by no means favourable to the creation of capital in any respect; if it affects the accumulation of capital in any degree, it must either be the capital in the hands of the zemindars themselves or that in the hands of the under-tenants, and in my view of the matter it has no peculiar tendency to create capital in either case. The zemindars are notoriously not accumulators. The zemindars of the interior, those originally constituted, are a class habitually and even proverbially improvident and spendthrift; they are, with scarcely any exception, prodigal men, who waste whatever they have as fast as they can obtain it. The case is different, to a certain degree, with those men not connected with the land, who have purchased estates and live in Calcutta. They are capitalists, and as far as that class are concerned, it is very likely there is accumulation in their hands.

3344. Do you think that it tends to create a landed interest? – In Bengal it certainly has not had that effect. To a very great degree the original possessors have, from their own improvidence and other causes, lost their estates. Few of the old zemindars now exist. The men who now hold the property are not resident; they are capitalists who reside in the towns, and manage by their agents.

3345. Are not those evils owing to the circumstance of the zemindars being defective in their personal character, and not the best qualified; or are they part of the system? – They are not saving men; and I think that may be predicted generally of the persons that live

upon rent. I know no country in which the class of men whose income is derived from rent can be considered as accumulators; they are men who spend their incomes, with a very moderate portion of exceptions.

3346. Is it generally true that the more prosperous the upper classes are that live by rents, the chance is that there will be more prosperity in the other classes? – The question turns upon the effect of their expenditure. Now the effect of their expenditure upon the accumulation of capital is in my opinion very little indeed, if any thing at all; because their consumption is all dead consumption; it is not reproductive consumption in the smallest degree. The only consumption that is a source of accumulation, is the consumption that takes place for the sake of reproduction. I do not conceive that a country is considered the richer for the expenses of an army for example: and for the same reason it is not the richer for the expense of those who spend their incomes.

3347. Is it not the fact that the cultivation has extended in those provinces where the zemindary system prevails? – I believe that is the fact.

3348. To what do you ascribe that? – There can be no doubt that this extension of cultivation implies an increase both of population and of capital. In order to enable the country to extend its cultivation further, capital must have been applied to it, unless old land at the same time had gone out of cultivation. I have no doubt that there has been in Bengal considerable increase of capital and extension of cultivation; but it is another question whether that has been owing to the zemindary system.

3349. Would you not ascribe that accumulation of capital in any degree to the zemindary system? – I should ascribe it in no degree whatever, because I have no idea that the zemindary system is favourable to the accumulation of capital in the hands of the ryots, and there is express evidence of the fact, that it is the ryots and not the zemindars who have extended the cultivation.

3350. By what means have the ryots extended the cultivation? – Their numbers have increased; and where an estate of a zemindar borders upon waste land, it has been found that the ryots generally have advanced upon the waste, and have carried on the cultivation by degrees.

3351. Do you think the ryots have accumulated capital? – The ryots cannot have done this without an extension of capital equal to

those effects. They have multiplied considerably, and when the families increase, there is a subdivision of the property, and in consequence of the subdivision of the property, there is a stimulus to the members of the family among whom the subdivision has been made to increase their income, by attempting to cultivate the waste.

3352. If the ryots have in any degree accumulated capital, is not that a proof that their situation has somewhat improved? – Of some of them no doubt it has.

3353. Then you would not say that the effect of the zemindary settlement has been unmixed injury to the ryots? – Where the ryots have had an opportunity of obtaining fresh land, under certain advantages, they have been able, under the zemindary system, to extend cultivation; but I conceive that they would have effected it better under another system . . .

3433. Supposing that at the time when the permanent settlement was made in Bengal, that settlement had been made with the ryots, and not with the zemindars, is it or not your opinion that a very considerable benefit would have accrued to that country by the establishment of that permanent settlement? – I am of opinion that the prosperity of the ryots would have been much greater, and that in all respects the wealth of the country would have improved in consequence of such an arrangement.

3434. Then your objection is not to the permanent settlement, but to the medium through which the revenue under the permanent settlement is collected? – The sole objection I have to the permanent settlement as permanent is, its being so far an alienation of the great source of the revenue of government.

3435. Are you not of opinion, if the permanent settlement has been of such a description as that the wealth of the country had increased, other sources of revenue would have opened to the government by means of that increase of wealth? – There is no doubt that if wealth had grown in the country, you might have gone to that wealth, and have obtained a portion of it by the operation of taxation.

3436. Supposing the country to have remained in a stationary state, are you of opinion that any considerable increase of revenue could have accrued to the government under a system of land revenue which was variable at their pleasure? – I conceive that if government, without fixing in perpetuity the rent to be demanded from the ryot, were so to manage that they should never take more than the rent from the

ryot, still the means of accumulating wealth would remain in the hands of the ryots as much as those of any other producers in any country where the rent of the land is conveyed away, and has become the property of individuals.

11 Aug.

3555. Can you point out shortly, the means by which you think the system might be [so improved as to render the present system of taxation the best that could be devised]? – The means . . . must be left, in a great degree, to the intelligence of the local authorities. If we are agreed upon the fundamental principle, that it is the obtaining of a fair rent, the grand endeavour obviously is, to limit the collections to this rent. Now, the doing this is unquestionably a matter of extraordinary difficulty. The difficulty of it must never be overlooked. We have none but very imperfect instruments to employ; with the total absence of a moral feeling in the country to aid us, it is not shameful to be dishonest in a public trust; no discredit attaches to a man in such a situation for robbing either his fellow subjects or the government; and if he does not avail himself of his advantages to make himself rich by any means, he is rather reckoned to have behaved unskilfully than to have behaved honourably. When we consider in addition to these circumstances, how imperfectly any one European with an imperfect knowledge of the natives, their language and circumstances and with a large extent of country to attend to, can watch over the numerous individuals that he employs, it will be easily understood that the difficulty is exceedingly great of limiting the exaction upon the ryot to the rent; but means I have no doubt will be discovered by vigilance and care, and by improvement of the judicial business generally, the great instrument of protection in the long run, aided by those improvements in the education and intellects of the people, which will take place gradually, and which have been taking place; I have no doubt that means will be found of limiting the demand upon the ryot to a moderate rent, and then I conceive that the prosperity of that country will be as fully secured as it can be . . .

[When Mill appeared on 18 Aug., the Committee faced him with evidence showing that the revenue from other sources, chiefly from the monopoly of salt and opium, had increased faster than the land revenue; their object was to cast doubt on Mill's view that land

represented the only reliable and adequate source of revenue in an underdeveloped country. Mill refused to accept the conclusion that these other sources could replace a properly-constituted land revenue system. On the following day, he was given an opportunity to amplify his earlier remarks (Qq. 3343-6; Q. 3434) on the subject of capital accumulation and permanency of tenure.]

19 Aug.

3971. If it is beneficial to create a right of property to encourage improvement by leases of fifteen, twenty or thirty years, is it not *a fortiori* more important to give a permanent right to that property as an additional inducement to improvement? – I am not disposed to admit that conclusion; I am by no means of opinion that cases of a sufficient duration are not as effectual in improvement as permanency, and I should say, adverting to the experience of all countries, that improvements have been made by leaseholders, and not by permanent holders, in the great majority of cases.

3972. Will you explain why you consider a lease beneficial upon general principle? – By affording adequate encouragement to the outlay of capital upon the land.

3973. If that is an encouragement by securing the enjoyment of the profits of the application of capital, is it not your opinion that a permanent settlement would be a stronger inducement to improvement than a temporary one? – I think that, practically, it is not.

3974. Can you explain on what grounds you think a permanent security of property not so likely to encourage a man to improve his estate as a right for a limited period? – Because I think, in general, the persons who own rent, and live upon rent, consume it all. That is the rule almost universally with them in India, and very generally, I believe, elsewhere. Accumulation is made by the immediate cultivators, and it is accumulation, and that alone, which is the source of capital.

3975. Do your observations apply to the granting permanently to the zemindar? – Granting permanently to the zemindar, or permanently to anybody, even to the cultivator, because if the permanency of his grant were to exalt him to the character of a zemindar, my observation would apply to him as well as to the present class of zemindars.

3976. Taking into consideration the great extent of cultivation, and the mass of ryots in India, how could the cultivation of a few

begahs or of small lots of land, raise them into the character of zemindars, or even proprietors? – Supposing you were to fix a rent at the present moment, an equitable rent, neither more nor less than according to my definition of rent, it ought to be; this, after a lapse of time, after the increase of population and the extension of cultivation, would become something less than the rent; in process of time, something considerably less. After that time, the ryot whose payments were thus rendered permanent, would not be merely a cultivator enjoying the profits of his stock, he would have become a landlord, enjoying also a portion of rent. As soon as he does enjoy a portion of rent sufficiently large to enable him to live upon it, he feels the temptation to let his land to other ryots, and cease cultivating himself.

3977. Is that the case generally in England with the proprietors of very small portions of land, do they not in general cultivate themselves? – I believe in a great many cases not, in others they do, but I believe it is not found that they are better cultivators than the class of leaseholders.

3978. Can it be supposed, in looking at the class of individuals who are to rent the lands in India, that such danger to any extent could take place? – The danger would not be immediate, because the progress of population and cultivation, which would render what would be an adequate rent at this moment, a good deal less than a rent, is a result which it must require many years to bring about. But supposing a payment was to be fixed in perpetuity, at the present moment, and that each of the present cultivating ryots was, after a certain number of years, to be the owner of a certain portion of rent, I should expect the consequence I have now mentioned to take place.

3979. How do you account for the improvements that have taken place in America and in Australia, and which are now taking place in the more densely peopled parts of those countries, except on the principle stated, of the cultivators being also the proprietors? – Those cases I think cannot very properly be brought into comparison with India; the circumstances are essentially different.

3980. Are you not aware, that in America it is not one in twenty cases where any person hires a farm, but that the almost general rule is, that the proprietor cultivates it? – That cannot be the case where the property is extensive. As long as the holding is small, no doubt it is so, but such great proprietors as Jefferson was in Virginia, Washington and others in various places, have their tenants.

3981. Then you are not aware, that the cases of having tenants, are

exceptions from the general rule, in any of the States of America? – I have not the least doubt there are many persons in America who continue to accumulate, and to lay out their accumulations upon the cultivation of the land; but I believe that the inducements in America are of a very peculiar kind.

3982. Why should not the same principle operate in India, where so much waste land may be cultivated, as now operates in other parts? – I think the same motives do not exist. The people are in different circumstances. A population of old and rich countries transplanted into a country altogether new, seem to deal with land not as landlords but mercantile adventurers . . .

[On 23 Aug., Mill's tenacity was further tested by a series of questions designed to draw from him the admission that increases of revenue in the permanently settled provinces of Bengal and Benares could be attributed to the superiority of the land system. Here is part of Mill's reply.]

4001 . . . If the facts, as they are placed in the questions before me were admitted, admitted without any explanation; if no satisfactory account could be rendered why there had been an increase of revenue in the zemindary provinces, and a falling off of revenue in the provinces under temporary settlements, this would, in my opinion, afford no ground whatever for the inference that the zemindary system is preferable to the ryotwar. To me it would still appear, that to bear out this inference, there was nothing whatever in the state of the facts but this one circumstance, that they had existed concomitantly . . . It does not by any means follow, because the zemindary system was contemporary with prosperity in the one case, the detailed and temporary settlement, with the want of prosperity in the other cases, that they were respectively the causes of these opposite results.

[In addition to this lesson in elementary reasoning, the Committee were also reminded that the increased 'productiveness of taxes' was not an infallible sign of rising standards of living.]

4068 . . . In proof of this I may appeal to Ireland; the progress of revenue has been very great in Ireland, and there is no portion perhaps of the British empire which has exhibited more rapid improvement in all the sources of wealth than Ireland; but I should not think it safe to

infer from this that the population of Ireland has increased in felicity or in wealth, individually taken.

(b) *Other Sources of Revenue*

[When the Select Committee was re-convened in 1832, a questionnaire was sent by T. Hyde Villiers to James Mill, which enabled Mill to summarise his views on the Company's methods of raising revenue. The following extracts from Mill's replies are taken from *Parliamentary Papers*, 1832, vol. XI, pp. 278-81.]

[Question] V. To explain the system of raising revenue from Salt in the Provinces with which you are acquainted and from which the monopoly of the manufacture, and first sale of the article by Government have had on the agricultural and general commerce of the country; upon the personal interests of the people, and upon the Government revenue, as contrasted with the probable effects of any alteration in the system of managing this branch of revenue, which it may occur to you to suggest.

I do not think a tax upon salt, considered in itself, is calculated to have any peculiar effects either upon the agricultural or commercial interests of the country.

Neither do I think that the mode of levying that tax in India, through the medium of a monopoly, has any tendency to affect those interests.

The amount of the tax, no doubt, affects the personal interests of the people as payers, in proportion to its amount, just as any other payment of equal amount would do.

I am not aware of any hardship there is in making the payment through the price of salt, which adds peculiarly to the burthen of the payment.

Whether the best mode of raising a revenue through the price of salt be that of a monopoly, is a controverted question, and one upon which, for want of decisive evidence, it is not easy to come to a satisfactory conclusion.

The mode to be compared with it is, that of allowing the free manufacture, and free importation of salt, the manufacture subject to excise duties, the importation to custom duties.

In comparing the two modes, the principal question to be solved is, in which of the two the difficulties of preventing smuggling would be the greatest.

Under the present system, when the manufacture is in the hand of government exclusively, and limited to a few districts, and all importation is on account of government, the difficulty of preventing smuggling seems to be reduced to its lowest terms.

What would be the increase of difficulty, (for it seems clear there would be increase) in the case of free manufacture, can only be estimated by experienced and judicious men upon the spot.

The means necessary to be employed to overcome any very considerable difficulties in the prevention of smuggling are very undesirable; they are at once expensive, and apt to create great evils among the people.

To compensate these evils, the only material advantage, I think, which any body can promise himself from the system of freedom, is, the reduction of price which he may anticipate from this mode of supply, without diminishing the revenue of government.

This would, no doubt, be a most desirable effect, if it be one which can be counted upon. But government must be cautious of encountering the certain evils of a greater scope to smuggling, for an advantage which is doubtful in any considerable degree.

The present price to the consumer may be considered as made up of two portions: first the duty to government; second the prime cost of the article.

In what way is either of these to be reduced by the system of freedom?

It may be said that the rate of duty may be lowered, if the quantity sold is increased, and yet the amount of revenue remain the same.

On this however it is to be observed, that this result is equally attainable under the system of monopoly; because, if the quantity sold would be increased by lowering the price, it is only necessary now to augment the sales: so that for this end, no change of system is required.

If it be said that the cost of production would be lowered, for that the salt might be imported cheaper than it can be made.

That advantage also is equally attainable under the present system, as under that of freedom; because, if government could import the article at a lower rate than it can manufacture, the price might be reduced to that extent without any reduction of the rate of duty.

It has appeared to the Court of Directors so probable, that a large portion, if not the whole of the Bengal supply, might be obtained from the coast at a cheaper rate than it can be manufactured in Bengal; that they have frequently urged upon the Bengal Government the expediency of the trial, and have never acknowledged the sufficiency of the reasons upon which they have declined it.

It may be further said, that there would be an advantage to the community in opening this branch of manufacture to their industry.

This resolves itself into the question, whether the cost of production would be less in the hands of individuals, than in the hands of government; I consider that as doubtful, at the least; because, though it may be true that government operations are the reverse of economical, the want of economy is probably more than compensated; in this very peculiar case, by unity of system, concert of operations, and more effectual application of power.

The result of this comparison seems to be in favour of the monopoly; unless the very name monopoly is considered a make-weight, and a counterbalance to real and substantial advantages; advantages gained by it, not as an instrument of commerce, but of taxation, raising great revenue through sale of salt.

Of the monopoly itself there are two modes, and each has its partisans.

In Bengal the salt is sold by government at sales by auction, one per month; and the price is regulated by the quantity put up.

At Madras the price of the article is fixed; and individuals come and purchase at the government stores, at any time, and in any quantity they please.

For my own part I do not see that there is any great balance of advantage on either side.

It is alleged that the periodical sales at Calcutta give advantage to the great capitalists, who alone can purchase the great lots, and are thereby enabled to establish a sort of sub-monopoly in their own favour.

But the large capitalists will always have an advantage; and there is competition enough of large capitals at Calcutta to prevent the rate of profit to the dealers in salt from exceeding that in other departments of trade.

It is also certain that the sale of salt at the stores on the coast is there the great scene of abuse, and it is obvious that such sales cannot easily be protected from abuse, to which periodical sales by auction are much less exposed.

[Question] VI. You are requested to submit similar observations on the operation and effects of the system of levying revenue from Opium in Bengal, should you have had an opportunity of observing its influence on the general interests of the agriculture and the commerce of the country.

I have already . . . expressed my opinion that the tax on opium, or the revenue derived from it, is, of all species of taxes, one of the most desirable, as it falls in greatest part, not on the subjects of the government but on foreigners.⁷

The mode of realizing the revenue is the same in principle as that employed in the case of salt. It is realized through a monopoly and periodical sales . . .

I am satisfied that the monopoly of opium has had no injurious effect on the agriculture or commerce of the country.

It has had a favourable effect on the interests of the people, in as far as they are relieved from the burthen of taxation, by the amount of revenue thus derived from foreigners.

The small amount levied on internal consumption, I have never heard objected to.

I do not consider any other mode of raising a large revenue by opium feasible . . .

[Question] VIII. Tolls upon navigable rivers and canals. – How far these collections affect commerce, or how far it may be practicable to extend internal navigation, and at the same time to indemnify the government for the expenditure which may be incurred for that purpose?

In as far as such tolls are a source of revenue to government, they are of the nature of transit duties, and liable to the same objections. In as far as tolls for the use of bridges, canals, roads and other expensive accommodations, are only a compensation for the cost of them, they are payments merely for a service rendered, and to this the Indian Governments have been directed to restrain them.

As the benefits of them are local, or at least confined to those who

⁷ [He had given evidence on this question before the Committee on 28th June 1832; see *Parliamentary Papers*, Vol. XI, pp. 299ff.]

consume the goods which pass them, it seems but reasonable that they should bear the expense, and not the community at large, of whom the greater part do not partake the benefit. When the abuses incident to the collection can be prevented, such tolls therefore seem expedient.

The indemnification of the government for any increase in the extent of internal navigation depends entirely upon the amount of commerce to be conveyed by it, and is the subject of computation in each instance.

[Question] IX. Pilgrim Taxes. – How far these can be considered as identifying the British Government with the superstitious and idolatrous worship at the places where the taxes are levied; and how far the abandonment of such taxes might tend to aggravate the evils that result from the assemblage of large bodies of pilgrims at places, and at periods when their feelings are peculiarly excited?

I cannot enter into the train of thought by which the conclusion is come to, that because we take from the pilgrims resorting to certain religious festivals, the tax which they have always been accustomed to pay, we identify ourselves with the superstitions they go to practise.

I think the case must be, that, in arriving at such conclusion, the receiving of the tax is confounded with the licensing of stews, and gaming houses, by which it is supposed that somehow they are authorized, though why you should refuse to license, or do any thing else calculated to lessen the evils which you cannot prevent, I do not understand.

But at all events the two cases are entirely different. We wish to avoid the appearance of authorizing stews and gaming-houses; but so far are we from wishing to avoid the appearance of authorizing the superstitions of our native subjects in India, that we profess it, nay, are bound to protect those superstitions, so long as the people desire to observe them.

A tax is commonly considered a discouragement; so much so, that if the pilgrim tax had been first imposed by us, it could hardly have failed to be regarded as a blow struck on the national religion, by an impediment thrown in the way of its most solemn ceremonies.

It has been alleged that the imposition of the tax has the effect of increasing the number of pilgrims; desire, it is said, being inflamed by

difficulty. Upon this principle we ought to cry out for the abolition of all taxes on ardent spirits, for the purpose of lessening the number of drunkards and for the multiplication of bad houses for the purpose of lessening debauchery.

That much endeavour has been used, and expense incurred to lessen not only the enormities, but the calamities incident to such assemblings of people, the records of the Government afford abundant evidence. That the relaxation of these endeavours would be attended with a great increase of the evils can hardly be doubted. If only the tax were abandoned, and the same endeavours and cost for the prevention of evil were continued, I do not see what other effect the abandonment of the tax would have than that of increasing the number of pilgrims, by lessening the expense of their exploit and bringing it within the means of a great number of persons.

[Question] X. The monopoly of tobacco being peculiar to the provinces of Malabar and Canara, under the government of Fort St. George, it is of importance to ascertain whether there is any thing in the situation of those two provinces to warrant the establishment of a peculiar system of taxation in them, and whether the interests of Government, and of the people, may not be eventually promoted by placing the supply of Malabar and Canara on the same footing as the other provinces of Fort St. George. The expense of management and collection, as contrasted with the levy of ordinary custom or transit duties, and the charge annually incurred in repressing smuggling, and punishing breaches of the peace, will require to be particularly explained in as far as you may be able to do so.

In itself, tobacco seems as unobjectionable a subject of taxation, as any commodity can be.

It is purely a luxury, and not only so, but it is not entirely harmless; its effects are not good, either upon the body or the mind.

There has been a warm controversy between two collectors about the best mode of realizing a revenue from this source; and, as usually happens in warm controversy, there seems to be so much exaggeration as to lessen our confidence in the statements received.

Tobacco in any considerable quantity, is consumed in India only in the provinces of Canara and Malabar, and it is grown in the neighbouring province of Coimbatore. That is the reason why the monopoly is confined to those provinces. The mode of realizing the revenue by monopoly appears to have been resorted to, as in the case of salt and opium, for the greater facility of coping with the smuggler.

It would appear that the means employed have not been successful in the prevention of abuse.

Whether this has arisen from defects which may be remedied, or from the insuperable difficulties of the case, remains to be inquired. If the latter, the tax should be given up.

It is said the people of Malabar and Canara are poor, and already overtaxed. That may be a very good reason for lessening the amount of taxation, without being any reason for abolishing the tax on tobacco. It is no reason for abolishing the tax on whiskey, that the people of Ireland are miserably poor, seeing the consumption of whiskey tends only to make them poorer.

(c) *The Employment of Natives in the Company's Service*
25 Aug. 1831 (*Parliamentary Papers*, vol. VII, p. 396)

4193. Would not a considerable advantage accrue to the natives of India by the introduction of a system whereby natives and not Europeans might be largely employed in the collection of the revenue? – The great advantage I should contemplate would be the cheapness. If the payments of the ryots were accurately defined, and there were an administration of justice sufficiently perfect to afford redress to the ryot for every grievance, you might then employ, without danger, the greatest rogues in the world in collecting the revenue.

4194. Would not the people of India derive very considerable benefit from natives being employed in the collection of the revenue, where Europeans are at the present moment employed? – An opinion is very generally entertained, but which I confess I do not participate, that it would be good for the natives of India to be more largely employed in the business of the government than they are now. It appears to me that the great concern of the people of India is, that the business of government should be well and cheaply performed, but that it is of little or no consequence to them who are the people that perform it. The idea generally entertained is, that you would elevate the people of India by giving them a greater share in their own government; but I

think that to encourage any people in a train of believing that the grand source of elevation is in being an *employé* of government, is anything but desirable. The right thing in my opinion, is, to teach people to look for their elevation to their own resources, their industry and economy. Let the means of accumulation be afforded to our Indian subjects; let them grow rich as cultivators, merchants, manufacturers; and not accustom themselves to look for wealth and dignity to successful intriguing for places under government; the benefit from which, whatever it may be, can never extend beyond a very insignificant portion of the whole population.

4195. Do you not conceive that the exclusion of the natives from the higher branches of the revenue employment is looked upon by them, and is in point of fact, a stigma upon them? – I do not believe that they look upon it in that light.

4196. Do you know any country in which it would not be so considered? – I should point to India as a country in which it is not so considered.

4197. Supposing, for example, Englishmen alone were employed in the higher branches of employment in Ireland, do you not conceive that the Irish would consider it a stigma upon them? – I consider that the feeling of degradation, from being governed by foreigners, is a feeling altogether European. I believe it has little or no existence in any part of Asia.

4198. Do you not think that by the greater employment of the natives of India in the higher branches of employment, the character of the natives would be ameliorated? – I should think that such employment would have little effect in that way. The thing of importance, in order to elevate the character of any people is to protect them. Elevation is the natural state of a man who has nothing to fear; and the best riches are the effects of man's own industry; effects which never fail when the protection is good.

21 Feb. 1832 (*Parliamentary Papers*, vol. IX, p. 56)

400. Is it your opinion that it would be conducive to the amelioration of the system of government in India, if means could be found of gradually introducing native agency to a much greater extent into the various departments of the government? – I would have no exclusion; wherever a fit native appears, he should be considered a proper candidate for employment; and there is one important reason for employing

fit natives, that their employment can in general be obtained at a cheaper rate than that of Europeans; but the great object with me is to obtain the fittest instruments, native or not. The mere employment of natives in itself does not appear to me to be a matter of so much importance as it does to some other persons, whose opinions nevertheless I highly respect. It appears to me ten thousand times more important, with respect to the good of the population in general, that the business of the Government should be well done, than that it should be done by any particular class of persons.

BIBLIOGRAPHY

No attempt has been made to compile a complete bibliography of Mill's articles and books. The items listed here are simply the by-products of preparing this volume, and are appended in the hope that they will be of some help to future students of James Mill's work. Mill's writings on all topics are included; those which contain material that may be of special interest to economists are asterisked. Works which are reprinted in this volume are also marked with a dagger. Where authorship is uncertain the items have a question mark against them.

LETTERS AND MANUSCRIPTS

Of the published letters, by far the largest collection is to be found in Bain's biography of Mill and in Piero Sraffa's edition of Ricardo's *Works*, volumes VI to IX. Mill letters can also be found in:

G. WALLAS, *Life of Francis Place*, London, 1898

T. CONSTABLE, *Archibald Constable and his Literary Correspondence*, Edinburgh, 1873
in 3 volumes

LADY KNUTSFORD, *Life and Letters of Zachary Macaulay*, London, 1900

W. SPENCE ROBERTSON, *Life of Miranda*, London, 1929 in 2 volumes

Unpublished letters are widely scattered. The following libraries possess Mill letters; the list is by no means exhaustive.

British Museum, The Place and Napier MSS.

University College, London, The College Collection and the Bentham and Brougham MSS.

London School of Economics, The Mill-Taylor Collection.

Yale University Library

University of Illinois Library, The Hollander Collection

Derby Borough Public Library, The Horton MSS.

National Library of Scotland

Bibliothèque Publique de Genève, The Dumont MSS.

Mill's *Commonplace Book* is in two parts; the bulk (3 volumes) is at the London Library and the rest (1 volume) is with the Mill-Taylor Collection at the London School of Economics.

BOOKS AND PAMPHLETS

†* *An Essay on the Impolicy of a Bounty on the Exportation of Grain*, London, 1804
An Essay on the Spirit and Influence of the Reformation of Luther by C. Villers, translated and illustrated with copious notes by James Mill, London, 1805

†* *Commerce Defended*, London, 1807; 2nd edition, 1808
Schools for All, Not Schools for Churchmen Only, London, 1812

- †* *The History of British India*, London, 1817 in 6 volumes: 2nd edition, 1821; 3rd edition, 1826
- †* *The Elements of Political Economy*, London, 1821; 2nd edition, 1823; 3rd edition, 1826, reissued 1844. French translation of 2nd edition in 1823; German translation in 1824. Italian translation in *Biblioteca dell'Economista*, vol. V, Turin, 1854
- Analysis of the Phenomena of the Human Mind*, London, 1829
- Fragment on Mackintosh*, London, 1830

ARTICLES

1. *Supplement to the 4th, 5th and 6th editions of the Encyclopaedia Britannica*, Edinburgh, 1824, 6 volumes.

Half-volumes of this work appeared regularly between 1815 and 1824 and a collection of Mill's contributions which contained the articles on Government, Jurisprudence, Liberty of the Press, Colonies and the Law of Nations was separately reprinted in the early 1820's. The following articles were written by Mill.

* Banks for Saving	Education
* Beggar	Government
* Benefit Societies	Jurisprudence
Caste	Law of Nations
* Colonies	Liberty of the Press
* Economists	Prisons and Prison Discipline

2. *Parliamentary History and Review*, London, 1826

According to John Stuart Mill (*Autobiography*, pp. 82-83) his father contributed one major article to this journal, probably the 'Summary View of the Conduct and Measure of the Seventh Imperial Parliament'.

3. *Edinburgh Review*

In compiling this list I have consulted Mrs Esther R. Houghton, who is assisting in the editing of the *Wellesley Index of Victorian Periodicals*, shortly to be published; the evidence for the attributions to Mill is omitted here, but will be given in the *Wellesley Index*.

- 'Filangeri on the Science of Legislation', Jan. 1807, vol. IX, pp. 343-73
- †* 'Smith on Money and Exchange', Oct. 1808, vol. XIII, pp. 35-48
- 'Leckie on Foreign Policy of Great Britain', Oct. 1808, vol. XIII, pp. 186-205
- 'Emancipation of Spanish America', Jan. 1809, vol. XIII, pp. 277-311
- 'Jovellanos on Agriculture and Legislation', Apr. 1809, vol. XIV, pp. 20-39
- 'Molina's Account of Chile', Jul. 1809, vol. XIV, pp. 333-53
- 'DeGuignes "Voyages à Peking"', Jul. 1809, vol. XIV, pp. 407-29
- 'Bexon's "Code de la Législation Pénale"', Oct. 1809, vol. 19, pp. 88-109
- 'Voyage aux Indes Orientales', Jan. 1810, vol. XV, pp. 363-84
- * 'Affairs of India', Apr. 1810, vol. XVI, pp. 128-57
- 'Sur la Tolération Religieuse', Aug. 1810, vol. XVI, pp. 412-43
- 'Mémoires du Prince Eugène', Nov. 1810, vol. XVII, pp. 39-57
- 'Code d'Instruction Criminelle', Nov. 1810, vol. XVII, pp. 88-114

- 'Chas. Sur la Souveraineté', Feb. 1811, vol. XVII, pp. 409-28
- 'Liberty of the Press', May 1811, vol. XVIII, pp. 98-123
- 'Wilke's History of Mysore', Aug. 1811, vol. XVIII, pp. 343-69
- * 'East Indian Monopoly', Nov. 1811, vol. XIX, pp. 229-43
- 'Letters of Tippoo Sultan', Feb. 1812, vol. XIX, pp. 363-73
- 'Malcom on India', Jul. 1812, vol. XX, pp. 38-54
- * 'East India Monopoly', Nov. 1812, vol. XX, pp. 471-93
- 'Education of the Poor', Feb. 1813, vol. XXI, pp. 207-19
- 'Malcom's "Sketch of the Siks"', Jul. 1813, vol. XXI, pp. 432-43
- ? 'Neild on Prisons', Jan. 1814, vol. XXII, pp. 385-400

4. *The Westminster Review*

Here again I have had the assistance of Mrs Houghton of the Wellesley Index.

- '*Edinburgh Review*', Jan. 1824, vol. I, pp. 206-49
- '*Quarterly Review*', Oct. 1824, vol. II, pp. 463-503
- 'Robert Southey's Book of the Church', Jan. 1825, vol. III, pp. 167-213
- 'Ecclesiastical Establishments', Apr. 1826, vol. VI, pp. 504-48
- 'Formation of Opinions', Jul. 1826, vol. VI, pp. 1-23
- 'State of the Nation', Oct. 1826, vol. VI, pp. 249-78
- 'The Ballot', Jul. 1830, vol. XVIII, pp. 1-37
- 'Theory and Practice', Apr. 1836, vol. XXV, pp. 223-34

5. *The London Review*

- 'State of the Nation', Apr. 1835, vol. I, pp. 1-24
- 'The Ballot - A Dialogue', Apr. 1835, vol. I, pp. 201-53
- 'The Church and its Reform', Jul. 1835, vol. I, pp. 257-95
- 'Law Reform', Oct. 1835, vol. II, pp. 1-51
- 'Aristocracy', Jan. 1836, vol. II, pp. 283-306
- †* 'Whether Political Economy is Useful?', Jan. 1836, vol. II, pp. 553-72

6. *The Monthly Review*

Identification of authorship of articles for this journal can be found in B. C. Nangles, *The Monthly Review, 2nd Series, 1790-1815*, Oxford, 1955. The listing for James Mill does not always seem to be correct owing to possible confusion with another contributor with a similar name. The list given here is based on Nangles but modified where the attribution seemed incorrect.

- 'Jamieson's "Dictionary of the Scottish Tongue"', Sep. 1810, vol. LXIII, pp. 11-31
- 'India', Dec. 1811, vol. LXVI, pp. 337-52
- 'Tracts on Education', May 1812, vol. LXVIII, pp. 83-95
- * 'East India Company', Jan. 1813, vol. LXX, pp. 20-37
- * 'East India Company', Apr. 1813, vol. LXX, pp. 410-25
- 'India', Jan. 1814, vol. LXXIII, pp. 1-17
- * 'East India Company', Feb. 1815, vol. LXXVI, p. 137
- 'India', Apr. 1815, vol. LXXVI, pp. 399-412
- 'India', Jun. 1815, vol. LXXVII, pp. 190-4

7. *The Eclectic Review*

Except for the last two items the evidence for attribution to Mill is chiefly internal; see above, p. 23.

- * 'Spence's "Britain Independent of Commerce"', Dec. 1807, vol. III, pp. 1052-8
- * 'Wheatley's "Essay on the Theory of Money"', Jan. 1808, vol. IV, pp. 24-35; Feb. 1808, vol. IV, pp. 130-8; Apr. 1808, vol. IV, pp. 355-62
- * 'Chalmers' "Enquiry into National Resources"', Jul. 1808, vol. IV, pp. 575-89
- * 'On National Subsistence', Jan. 1809, vol. V, pp. 50-56
- * 'Ricardo's "High Price of Bullion"', Mar. 1810, vol. VI, pp. 216-27
- * 'Indian History', Jan. 1814, vol. I, n.s., pp. 140-55
- * 'Corn Laws', Jul. 1814, vol. II, n.s., pp. 1-16

8. *The Literary Journal or Universal Review of Literature Domestic and Foreign*

Attribution of authorship of articles in this journal which was edited by Mill is particularly difficult. But it seems worthwhile recording some of the interesting articles which appear to bear traces of Mill's hand. See also above, p. 23.

- 'Millar's "Historical View"', Oct. 1803, vol. II, pp. 325-33
- * Articles defending the trade of neutral ships, Oct. 1803, vol. II, pp. 366-74; 385-400; 433-41
- * 'Brougham's "Inquiry into Colonial Policy of European Powers"', Nov. 1803, vol. II, pp. 513-27
- * 'Malthus's Essay', Dec. 1803, vol. II, pp. 577-87
- * 'Boase's "Observations on Lord King"', Jun. 1804, vol. III, pp. 627-35; 694-701; 753-60
- * 'Lauderdale's "Inquiry"', Jul. 1804, vol. IV, pp. 1-18
- * 'Foster's "Essay on Exchange"', Aug. 1804, vol. IV, pp. 137-66
- * 'Anderson's "Calm Investigation"', Oct. 1804, vol. IV, pp. 385-402
- * 'Cook's "Answer to Lord Sheffield"', Dec. 1804, vol. IV, pp. 137-66
- * 'Jordan on W. Indies', Dec. 1804, vol. IV, pp. 583-94
- * 'Lauderdale on Irish Currency', Apr. 1805, vol. V, pp. 367-71
- * 'Say's "Traité"', Apr. 1805, vol. V, pp. 412-25
- * A series of articles defending the neutral trade appeared beginning Dec. 1805, vol. V, and continued in the issues for Feb., May and Jun. 1806, vol. I (2nd series).
- 'Tooke's "Divisions of Purley"', Jan. 1806, I (2nd Series), pp. 1ff.
- * 'Lord Sheffield's "Strictures"', Jan. 1806, vol. I (2nd Series), pp. 51-62
- * 'Sir James Steuart's "Collected Works"', Mar. 1806, vol. I (2nd Series), pp. 225-35
- * 'Lord Liverpool's "Treatise on Coins of Realm"', May 1806, vol. I (2nd Series), pp. 449-59
- 'Craig on Millar', Jun. 1806, vol. I (2nd Series), pp. 624ff.
- 'Filangieri's "Science of Legislation"', Sep. 1806, vol. II (2nd series), pp. 225-42.

9. *Annual Review and History of Literature for 1808*, vol. VII

- 'C. J. Fox's "History of James II"', pp. 99-101
- 'Bentham on Scotch Reform', pp. 198-203

10. *The British Review*

'Dugald Stewart's "Elements of the Philosophy of Mind"', Aug. 1815, vol. VI,
pp. 170-200

11. *Anti-Jacobin Review and Magazine*

'Belsham's Logic', May 1802, vol. XII, pp. 1-13

12. *The Philanthropist*

A large number of articles, some of which are identified in Bain's biography.

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