

# THREE LECTURES

ON THE

## TRANSMISSION OF THE PRECIOUS METALS FROM COUNTRY TO COUNTRY

AND THE

## MERCANTILE THEORY OF WEALTH.

DELIVERED

BEFORE THE UNIVERSITY OF OXFORD, IN JUNE, 1827

---

BY

NASSAU WILLIAM SENIOR,

LATE FELLOW OF MAGDALEN COLLEGE, A.M., PROFESSOR OF  
POLITICAL ECONOMY.

---

“ He shewed me a very excellent argument to prove that our importing less than we export do not impoverish the kingdom, which, though it be a paradox and that I do not remember the argument, yet methought there was a great deal in what he said.”— *Pepys's Memoirs*, vol. 1, p. 284.

---

LONDON:

JOHN MURRAY, ALBEMARLE STREET.

MDCCCXXVIII.

L O N D O N :  
PRINTED BY C. ROWORTH, BELL YARD,  
TEMPLE BAR

## ADVERTISEMENT.

---

THE Statute by which the Professorship of Political Economy is founded, requires the Professor to publish a Lecture every year. In compliance with this requisition I have selected from the course delivered in June, 1827, the portion which appeared to me least unfit for separate publication. As a fragment it is necessarily imperfect. My apology for presenting it to the Public is the necessity imposed on me by the Statute.

N. W. SENIOR.

MAGDALEN COLLEGE,  
March 20, 1828.



# LECTURE I.



## TRANSMISSION OF THE PRECIOUS METALS FROM COUNTRY TO COUNTRY.

I PROPOSE, in the present Lecture, to consider the effect of the actual transmission of the precious metals from one country to another. An inquiry peculiarly interesting at present, as it leads to conclusions decisive of the controversy now eagerly maintained on Free Trade. The argument runs generally in the following form.

The advocate of freedom dwells on the benefit of making full use of our own peculiar advantages of situation, wealth, and skill, and availing ourselves to the utmost of those possessed by our neighbours. He asks whether

we should act wisely, if we were to declare ourselves independent of foreigners for wine, to devote our mineral treasures, and our industry, to the forcing of grapes for the production of home-made port and claret, and discontinue the manufacture of cottons and woollens for the markets of Oporto and Bourdeaux? And he urges that the same absurdity in kind belongs to every protecting duty and prohibition. He observes, in the words of Adam Smith,\* that it is the maxim of every prudent master of a family, never to make at home, what it will cost him more to make than to buy. The tailor does not make his own shoes, but buys them of the shoemaker. The shoemaker does not make his own clothes, but buys them of the tailor. The farmer attempts to make neither the one nor the other, but employs those different artificers. All of them find it their interest to employ their whole industry in a way in which they have some advantage over

\* Book iv chap. 2

their neighbours, and to purchase, with a part of its produce, whatever else they have occasion for. And he infers, that what is prudence, in the conduct of every private family, can scarcely be folly in that of a great kingdom.

The advocate of restriction and prohibition admits, that if the interests of the consumers were alone to be considered, the law ought not to force the production at home, of what can be obtained better, or more cheaply, from abroad. But he urges, that the opulence of the whole community is best promoted by encouraging its domestic industry. And that the industry of each class of producers is best encouraged by giving them the command of the home market, undisturbed by foreign competition.

His opponent replies, that it is impossible to encourage the industry of one class of producers, by means of commercial restrictions, without discouraging, to an equal degree, the exertions of others. That every prohibition of importation is a prohibition of exportation.

That every restriction on the importation of French silks is a restriction on the exportation of those articles with which those silks would have been purchased. That if it benefit the English silk manufacturer, it injures, to at least an equal amount in the whole, though the injury is less perceptible, because more widely diffused, the cotton-spinner, the cutler, or the clothier. That the whole body of producers, therefore, as an aggregate, suffer in their capacity of consumers without compensation.

The really candid defender of restriction (and I am inclined to think that such persons do exist) admits, perhaps, the force of this argument, as applied to nations willing to take in exchange our commodities. To them he is willing to open our market on a footing, as he calls it, of reciprocity. But he urges, that there are many who refuse our commodities; and, while they persist in this ungrateful refusal, he retaliates by not accepting theirs.

The advocate of free trade replies, that the benefit of commerce consists, not in what is

given, but in what is received: that if the foreigner refuse to accept our commodities, he must either refuse us his own, or give them to us for nothing; that, in the first case, the abolition of commercial restrictions can produce no evil, in the second, it must produce a manifest good.

He would do neither, replies his adversary, he would deluge us with his goods, and receive payment for them in our money.

The dispute which I have supposed, and which corresponds, step by step, with almost all those which I have witnessed on this question, coincides at this point with the subject of the present Lecture. And, quitting my imaginary opponent and respondent, I proceed to consider the effect of the transmission of the precious metals from one country to another.

I will suppose that all the protecting duties, with which we have clogged our commerce with France, are suddenly removed, and that the removal is immediately followed by an

increased importation of French commodities to the amount of five millions sterling. And I will suppose the commercial restrictions on the part of France (and she is at least our equal in protecting her own industry by interfering with its natural direction) to remain unaltered. I will suppose, too, that the five millions in question are actually remitted in money.

It must be admitted that the efflux of so large a sum from England, and its influx into France, must sink all English prices, and occasion a general rise of prices in France. Indeed, if it did not, the transaction would be one of pure benefit to England, and of pure loss to France. As money is not a source of gratification, but a mere instrument of commerce, if our prices were not affected by parting with a portion of our money, we should be insensible of our loss; or rather we should have sustained no loss whatever, and have gained the five millions' worth of French commodities without any real sacrifice, while France would have

parted with those commodities, and received no sensible equivalent.

But those who fear that a nation may be injured by parting with its money, are certainly right in supposing that the transmission of five millions in specie from England to France, would occasion a general fall of prices in England, and a general rise in France. The steps, by which these effects would be produced in each country, cannot properly be stated in this part of my Lectures, but I suppose there is no one present who doubts that such would be the case.

The consequences would be an immediate and universal increase of imports, and diminution of exports, in France, and an immediate and universal increase of exports, and diminution of imports, in England. The commerce, which any country carries on with its neighbours, must depend on the prices of their respective exportable commodities. When commodities of the same quality, or which may

be substitutes for one another, can be imported from different quarters, a slight variation of price will decide which shall be preferred. If linen of the same quality can be imported into South America indifferently from Germany and from France, and the cost of transport from each country is the same, while the price per yard is also the same, South America will probably import indifferently from each country; but, if the influx of money should raise the price of linen of a given quality from two shillings to two shillings and a farthing per yard in France, while it remained at two shillings in Germany, South America would instantly desert the French market, and confine her linen trade to Germany.

With every commercial rival, with whom France was formerly on a par, she would now be at a disadvantage, and many would now meet her in markets from which she had formerly excluded them. The same consequences, though to a less extent, would follow, even in

the cases in which France had exclusive powers of production. Every commodity has among its purchasers some whose desire for it, or at least for that variable quantity of it which they consume, induces them to spend on it a given portion of their income, and no more. On the slightest rise of price they either discontinue, or diminish their consumption. A very slight rise in the price of claret would occasion some to drink less, and others to drink none. Precisely the same causes which would diminish the exports of France, would increase her imports. However earnestly a nation may endeavour to secure to its own productive classes the monopoly in what they respectively produce, it cannot really protect them against foreign competition by any measure short of the prohibition of all foreign commerce. The consumer cannot be forced to buy the dearer or inferior home-made article. If he is prohibited from importing precisely what he wants, he may still make his purchase abroad. The increased

price in France of all home commodities would, of course, stimulate the consumption of foreign ones. The bills on France in other countries would increase, those on other countries in France would diminish, and the exchange would be against France throughout the commercial world. It is impossible that, under such circumstances, she could retain for a month the five millions which I have supposed to have been paid to her. They would flow from her in every direction.

In fact, until she parted with the money, France would have derived not benefit, but rather evil, from her export to England. That money is a means, not an end; that no gratification is afforded by an increase in the quantity necessary to effect a given purpose; that it is just as pleasant to purchase a given commodity for five shillings as for fifty, are truisms, but truisms so often impliedly denied, that they cannot be too often repeated. The rise of prices in France, while it lasted, must have

been an evil. It must have deranged, so far as it went, the existing relations of society, have impoverished creditors, and those whose incomes were fixed, and, to a certain extent, unfitted money to perform its function of a permanent expression or standard of value. If no other results were to have followed from the sacrifice of so much French industry, France had better have given away than have sold her five millions' worth of silks. The sale of the silks would become advantageous to her only, when, by re-exporting their price, she had obtained from other countries commodities capable of affording her more gratification than she could have derived from the industry of the silk-manufacturers, if she had employed them in manufacturing silks, or other commodities, for her own home market.

It is obvious that all this time precisely an opposite process would be going on in England. The general fall in English prices would give a preference to our goods in every market of which they had merely an equal participation

before : it would admit them to many others from which they were previously excluded. It would exclude from the English market many foreign commodities, which could now be obtained more cheaply at home. While the bills in England on foreign countries were increasing, the foreign bills on England would diminish, the exchange would be in our favour with the whole world, and the five millions would come back as rapidly as they went out. To suppose that the level of the precious metals in the commercial world can be permanently disturbed by taking money from one country to another, is as absurd as to suppose that the level of a pond can be altered by taking a bucket-full from one place, and pouring it in at another. The water instantly rushes to the place from which the bucket-full has been drawn, just as it rushes from the place into which it has been poured. Every country to which France exported any of the money she received from England would, to that extent, have more money than her habitual state of prices could

allow. It would flow from her either directly to England, or to those countries which were in want of money in consequence of having previously exported it to England.

It appears therefore, that even in the extravagant case which I have supposed of an export of five millions in money, the loss, if it can be called one, would be immediately repaired. The only inconvenience that we should suffer from the refusal of France to take our cottons and our hardware in return for her silks, would be that instead of the direct exchange of English for French commodities, we should give to France money; France would export that money to Germany, Holland and Russia; and Germany, Holland and Russia would return us that money in exchange for our manufactures; that our trade would in short be circuitous, instead of direct.

For the sake of illustration I have supposed a sudden and great transmission of money: effects the same in kind, though less in degree, would of course follow a more gradual one. If

a balance of only 100,000 sovereigns a year were sent to France, similar consequences, though less palpable, would follow either immediately, or as soon as the annual efflux of money from the one country to the other amounted to a sufficient sum to affect the prices of either country, or of both.

It would appear, therefore, that the exchange between two countries can never long deviate from its commercial par.

There are, however, exceptions to this rule; some real, others merely nominal.

A nominal deviation from the par of exchange arises from the difficulty of changing mercantile language. The existing commercial par of exchange between London and Paris is about 25 francs 47½ centimes (say 25 francs and a half) for a sovereign. But should any of the data on which this par is calculated be changed, should the quantity of bullion contained in the money of either nation be altered without the denomination of the pieces being changed,—if we should, for instance, put only 56½ grains of

pure gold instead of 113 into our gold pieces, and still call them sovereigns, or should the relative values of gold and silver alter, should silver exchange for  $\frac{1}{3}$  of its weight in gold instead of its present value, about  $\frac{1}{16}$ th, it is clear that the par between the countries would be altered. In either case the real par would probably be only  $12\frac{3}{4}$  francs for the sovereign, and this is the rate at which bills would be exchanged when the commerce of the two countries was in equilibrio. But if mercantile language were to remain unaltered, and 25 francs and a half for a sovereign were still called the par of exchange, it is clear that the ordinary rate of exchange between England and France would be 50 per cent. against England, and in favour of France; or, in other words, the real par of exchange would vary 50 per cent. from the nominal par. England would suffer no evil, and France would reap no advantage from this state of things, which would be merely the continuance of an obsolete nomenclature. The only inconvenience would be the chance of

misleading subsequent writers on exchange, who might not be aware that during the period in question commercial language had misrepresented the facts of the case.

Again, the real exchange between two nations may be, and indeed must be, permanently unfavourable to the one, and consequently favourable to the other, if there be any cause which occasions the precious metals to flow constantly from the one to the other. This must be the case between the mining countries and those countries with which they maintain a direct intercourse. As the principal trade of Mexico is the production and exportation of silver, the value of silver, estimated in silver, must always be lower in Mexico than in the countries to which it has been exported from Mexico, just as it must always be lower at Real del Monte than at the door of the Mexican Mint, and lower at the Mint than at Vera Cruz. A partial result of the same kind must be produced in those countries through which the precious metals pass. Russia is one of the principal

channels through which the precious metals pass from America to Asia. The real exchange must, therefore, be in general in her favour on her European frontier, by which she receives the metals, and against her on her Asiatic frontier, by which she exports them.

The mining countries are the only exception to the rule that no country can have an exchange permanently favourable or unfavourable, with the whole world. We have seen that a universal balance in favour of any country must soon so raise all her prices, as to exclude all her commodities from every foreign market, and to offer irresistible temptation to the introduction of foreign commodities into her own market. Instead of her stock of the precious metals increasing, it must diminish. A universal balance against any country must soon so exhaust her stock of the precious metals, and consequently lower her prices, as to diminish and gradually destroy her motives for purchasing foreign commodities, while it increased the motives of all other countries to

purchase hers. To suppose that it is possible to go on for ever buying without selling, or selling without buying, or even buying more than you sell, or selling more than you buy, are all equally irrational.

But though no country except a mining country can have its exchange with all other countries permanently favourable or unfavourable, the tendency of every efflux of the precious metals to occasion a proportionate influx, has one exception; namely, the case of a nation in which the stock of money has become larger or smaller than is requisite to enable her prices to bear their natural proportion to those of the rest of the commercial world. The functions of money, as a measure and an expression of value, are incapable of being adequately supplied elsewhere: but the amount of money necessary to perform them bears a very small proportion to the transactions of the country. One million of sovereigns would in general be amply sufficient to perform these services in England. They are now effected in Scotland

by a much smaller quantity. If a country have enough money to supply a measure and an expression of value, a substitute may be found for its third office, that of acting as a medium of exchange. It is obvious, indeed, that as money is a substitute for credit, credit must be a substitute for money; and it is well known that international commerce is carried on by means of bills of exchange, which are in fact merely an exchange of equal credits, with very little transmission of money. In a commercial country the actual intervention of money, except in very small payments, is avoided with almost equal success. It is probable that not one-thousandth of the daily exchanges in London, in which the value of the property on either side exceeds forty shillings, are performed by means of money, though in almost every one of them the terms are settled by a reference to money, or, to speak more correctly, in every one of them a sum of money, payable, but never actually paid, is one of the subjects of the exchange.

The obstacle to extensive transfers of credit consists in the difficulty of satisfying every successive vendor as to the circumstances and character of the person on whom the credit is tendered. This inconvenience is remedied by Bankers;—a class of persons who, having obtained general confidence themselves, let out to other persons the benefit of that confidence. One mode in which they do this is, by lending to their customers promissory notes, that is, scraps of paper containing promises on the part of the banker to pay, on demand, a given sum of money.

As long as the promise is believed, or, in other words, as long as the note is supposed to be convertible at pleasure into money, it performs the functions of money, and, as it is, unless for a very small value, more portable and less subject to loss or robbery, it is often preferred to money, and may circulate for many years, exchanged perhaps, on an average, every other day, and on every exchange effecting a new transfer of credit, until, when it has become

too dirty and too ragged to be safely handled, payment is at last required from the banker.

The issuing of notes, however, is not the principal means by which bankers facilitate the transfer of credit. As soon as the use of promissory notes and bills of exchange, or, as they are usually termed, of paper credit, has become familiar, every individual, who deals much in money, finds it convenient to keep an account with a banker, and to make his payments by drafts or checks, that is, by written directions to his banker to make the payment. If the receiver of the draft make use of the same banker, he places it in his hands, and the draft is satisfied, without any intervention of money, by a transfer in the banker's books. If he employ a different banker, the draft is still probably satisfied without the intervention of money, by periodical meetings of the different bankers, who, having each many drafts to receive and to pay, set them off against one another, and pay only the balance. It is calculated that payments are made at the clearing-house in

Lombard Street to the amount of £4,500,000 sterling every day, and on some days to the amount of £13,000,000, and that the balance actually paid seldom exceeds £200,000. And even that balance is not paid in money, but in notes of the Bank of England.

When a nation has reached a high state of commercial improvement, when it possesses, in every district, banking establishments, enjoying perfect confidence, and the use of written orders and promises, or, in common language, of paper credit, has become familiar, the use of money as a medium of exchange may be entirely dispensed with, except for those small payments which are not worth the trouble of issuing a note or a draft. And if it can be dispensed with, we may be sure that it will be so. The use of money, as I have often said before, and shall often say again, for it cannot be too frequently repeated, affords no gratification. It is a troublesome and costly mode of supplying the deficiencies of barter, and is abandoned whenever those deficiencies can be supplied at

less inconvenience or expense. “The gold  
“and silver money,” observes Adam Smith,  
“which circulates in any country, may be  
“compared to a highway, which, while it cir-  
“culates and carries to market all the grass  
“and corn of the country, produces itself not  
“a single pile of either. The operations of  
“banking, by providing a sort of waggon-way  
“through the air, enable the country to con-  
“vert, as it were, a great part of its highways  
“into good pastures and corn-fields, and  
“thereby to encrease, very considerably, the  
“annual produce of its land and labour.”  
“But,” he adds, that “the commerce and in-  
“dustry of the country, though they may be  
“somewhat augmented, cannot be altogether  
“so secure, while they are thus suspended  
“upon the Dædalian wings of paper, as when  
“they travel about upon the solid ground of  
“gold and silver.”

The intrinsic causes which give value to a sovereign are those which occasion gold to contribute to the gratification of mankind, and

make it difficult of acquisition. Either of these may vary, and the value of the sovereign will experience a corresponding variation. But the value of a note for one hundred sovereigns is subject to vary in value, in correspondence not only with the money which it promises to pay, but with the honesty and solvency of the issuer. It may be worth a hundred sovereigns, or fifty, or nothing. The only mode of ascertaining its value in gold is to present it for payment, and thus relinquish, *pro tanto*, the convenience of paper, an expedient which will not be resorted to while confidence exists. The grounds on which most persons rest their confidence must be exceedingly vague. They have seldom the means of accurately ascertaining the circumstances or the character of those on whom they bestow it, and their anxiety to effect sales leads them often to accept, with little scrutiny, the medium in which payment is proposed. The confidence thus blindly given must be subject to be as blindly withdrawn. The man who has taken notes as

readily as money, because he saw them taken by others, is as ready to follow the example of others in rejecting them. The rejected notes crowd to the banker who has issued them. If they exceed in amount the money which he reserves in his coffers for their payment, and the reserve of even the most cautious banker seldom amounts to a third of the demands to which he is liable, he must provide funds by immediately calling in those debts of which he can demand immediate payment. In times of commercial prosperity, a banker, whose property is equal to his engagements, and who has managed his affairs with tolerable prudence, will find no difficulty, though he may sustain some loss, in thus meeting a demand, or, to use the common expression, a run upon him, for money, however extraordinary and sudden. If he have parted with no note without having previously received the full value of what that note promised to pay, and have always advanced what he so received in loans on good security, capable of being immediately called

in or sold, (and these are the elementary rules for a banker's conduct,) he may indeed lose his profit, but it is scarcely probable that his creditors should suffer. But if the run occur in a time of commercial distress, and still more if it be occasioned by commercial distress, not the utmost caution that is compatible with profitable banking, or the largest amount of surplus property which is likely to belong to one individual, or even to a few individuals, will enable a banker to meet the demands of all those who are entitled to call on him for immediate payment. His debtors find it difficult to make their regular and accustomed payments, and impossible to answer an unexpected call. The securities which he sells are sunk in value, by the concurrence of an increased number of sellers, and a diminished number of buyers. He ceases to pay his notes on demand, and they do not merely sink in value, they become for a time utterly valueless. The inconvenience and loss sustained by their holders spreads alarm among all possessed of paper currency.

The demands on the issuers of notes for payment, and their inability to pay, spread like wildfire. A great portion, perhaps the greater portion, of what acted as the circulating medium of exchange throughout the country becomes valueless; and the effects are precisely the same as if an equal proportion of the metallic currency of the country had been suddenly annihilated or exported. Prices fall, the importation of commodities is checked, and their exportation is encouraged. The foreign exchanges become universally favourable, and the precious metals flow in until the void, occasioned by the destruction of the paper currency, has been filled. If, from fear of the recurrence of a similar calamity, the legislature should now endeavour to limit the use of paper money, and should succeed in the attempt, the additional money thus suddenly acquired will be permanently retained. But if things are left to take their own course, as soon as the storm is over the issue of paper will recommence, and

the precious metals, for which it afforded a substitute, will be re-exported.

I have selected this from among the many cases in which the amount of the precious metals in a nation may require sudden increase or diminution, not because it is one of the most frequent ones, but because it is a tolerably accurate representation of the state of this country, so far as respects money, during the last eighteen months.\* During the three years preceding 1825, and indeed in the beginning of that year, this country enjoyed remarkable commercial prosperity. Advantage had been taken of that prosperity, or rather of the general confidence which it produced, to substitute to a great degree a paper currency for the gold which previously circulated. The amount of country bank notes in circulation in 1822, as far as can be inferred from the stamp office returns,† was about twelve millions, and, in

\* This was spoken in June, 1827.

† Tooke's Currency, p. 39.

1825, had risen to between eighteen and nineteen millions. Gold to the amount of above £4,400,000 sterling was exported in one year, 1824,\* a part of it even to South America. I quoted in my third Lecture Mr. Tooke's account of the commercial insanity which prevailed in the beginning of 1825. Instances so numerous, and so extensive, of the misdirection of industry, have, I suppose, never occurred. Our loans to foreign states, which, as far as we are concerned, have declared themselves insolvent, the waste of our mining speculations in America and in our own dominions, the dissipation of the funds of so many joint-stock companies, all these are among the most palpable, but not the most important instances. The greatest losses were probably sustained from our excessive importation of foreign commodities, at prices extravagantly raised by the mutual competition of the importers, and from an undue extension of particular branches of manufacture,—that of silks for instance,—from a miscalculation on the part

\* *Mushett, Currency*, p. 172.

of the manufacturer either of the quantity for which the public were ready to pay an equivalent, or of the extent of the whole concurrent additional supply.

Commercial blunders so gross and so extensive necessarily produced wide embarrassment and ruin: evils not confined to those whose miscalculation had first occasioned them, or even to their immediate work-people and dependents, but involving many, who, having acted with apparent prudence, suddenly found their market destroyed by the ruin of their expected customers. It was under these circumstances of commercial distress, that accident or malice occasioned a sudden run upon a considerable bank in the west of England. Its failure shook the credit of a great London banking-house, which, after struggling through difficulties for upwards of a week, during which it paid away, it is said, more than £1,400,000, stopped payment early in December. The notoriety of these difficulties in the first instance, and the eventual failure, spread terror among the cre-

ditors of the country banks, above thirty in number, connected with that house, and many of them were unable to stand the run which followed. The failure of a great Yorkshire bank alarmed the northern part of the kingdom; and the consternation became general, not only among the holders of local notes, but among depositors, as well in the metropolis as in the country. Then followed that dreadful week which has been called "the panic," in which the question every morning was not, who has fallen? but, who stands?—in which nearly seventy banks suspended their payments: a state of things which, if it had continued only forty-eight hours longer, would, according to Mr. Huskisson,\* have put a stop to all dealings between man and man, except by barter; in which, in fact, nothing but the unexpected arrival of about 200,000 sovereigns from France, the discovery, in the cellars of the Bank of England, of 800,000 one pound notes, long before condemned to be burnt, and the inter-

\* Feb. 10th, 1826. Parl Hist. 199.

vention of a Sunday, prevented the manifest failure of an establishment, which we have been accustomed almost to consider a part of the constitution.

Most happily, the Bank of England did not decidedly stop payment, and, most happily; its notes retained their currency, and, happily also, the directors had the courage to increase their issues. That increase, however, did not nearly equal in amount the country notes which had ceased to circulate. The effect, therefore, was the same as if a considerable portion of the currency of a country, having only a metallic currency, had been suddenly annihilated. Prices fell; the exchanges, which had been against us in our prosperity, became favourable in our adversity, and gold flowed in in every direction. Many of the boxes of sovereigns, which had been exported to Paris in the previous year, returned without ever having been unpacked. I believe the influx of gold has now ceased, but it continued during the greater part of last year.

As our misfortunes were attributed chiefly to our paper currency, especially to the portion of it consisting of small notes, an attempt was made immediately to limit, and ultimately to extinguish them. An act was passed prohibiting the issue in England of any small notes, stamped or dated after two periods in the year 1826, and absolutely forbidding their use in England after the 5th of April, 1829. Scotland and Ireland were to have been included in these enactments, but successfully resisted them. If these enactments are persisted in, and if the omission of Scotland and Ireland do not render them nugatory, we shall retain the gold which our distress forced upon us, and probably require a further supply. If we revert to our former system, we shall again part with that portion of our gold which the returning use of paper will have rendered unnecessary.

This is not the place to inquire whether our small notes really produced the evils attributed to them, or whether the security afforded by an increased metallic currency is worth the expense

of keeping it up: they are subjects of great interest and difficulty, but will find their place rather at the close, than at the beginning of my Lectures. It is clear, however, that, as a question of immediate profit and loss, the necessity of importing so much gold during the last year must have considerably aggravated the distress of the country. It could have been obtained only by the sacrifice of the results of a portion of our industry and natural advantages, to obtain what? merely the privilege of giving a sovereign, where we had previously given a note or a check. It is clear, also, that if we again suffer small notes to form a considerable portion of our currency, the immediate consequence will be, that we shall export some millions of sovereigns, not only without inconvenience, but precisely because we find the use of the notes more convenient, and shall receive for them an equivalent in foreign commodities, every one of which will be a source of enjoyment. Nothing can be more correct than Adam Smith's illustration. The use of the precious

metals, or of any valuable article as money, like the use of fertile land for a road, may be necessary, but is a necessary evil. To part with them always produces an immediate increase of enjoyment, to purchase them is always an immediate sacrifice.

I propose, in the next two Lectures, to consider that extraordinary monument of human absurdity, the Mercantile Theory,—or, in other words, the opinion that wealth consists of gold and silver, and may be indefinitely increased by forcing their importation, and preventing their exportation: a theory which has occasioned, and still occasions, more vice, misery, and war, than all other errors put together.

---

## LECTURE II.

### MERCANTILE THEORY OF WEALTH.

---

AN eminent writer,\* perhaps the only man whose acquirements and virtues do honour both to a Spanish and an English University, while commenting on that extraordinary passage in the History of Human Knowledge, the inattention of the ancients to the philosophy of wealth, has compared their state of mind to that of children in the house of an opulent trader, who, finding the necessaries and comforts of life supplied to them with mechanical regularity, never inquire into the machinery by which these effects are produced, or, if they ever do think about it, suppose that breakfast, dinner, and supper, succeed one another by the spontaneous bounty of nature, like spring, summer, and autumn.

\* The Rev. Blanco White.

If I might venture to carry a little farther the parallel which has been begun by so masterly a hand, I should say, that when first the children turned their attention to the sources of their comforts, finding that their father often talked of the difficulty of getting money, and seldom of the difficulty of spending it, that he generally spoke of his fortune as consisting of the money he was worth, and that the motive which he generally assigned for refusing them any luxury was, that he had not money enough to afford it, they concluded that their enjoyments depended rather on the money which their father received, than on that which he spent; that their abundance depended on the amount of money for the time being, in his strong box, and would be increased indefinitely, provided that amount could be indefinitely augmented and retained. The obvious mode of effecting this wise object seemed to be to cause as much money as possible to come in, and as little as possible to go out; to encourage every exchange in which their father received

money, and to discourage every one in which he parted with it: to favour his trade with his own customers, and to restrain every trade in which he was a customer himself: to forbid his parting with a single shilling that he received, and to put an end to the unfavourable commerce which he carried on with his green-grocer and his shoeblick, by turning his manufactories into a potatoe garden, making his weavers dig, and requesting him to employ, in blacking his own shoes, some of the time which he formerly devoted to his shop.

I fear that the absurdity of my supposition may appear almost farcical. So true it is that the follies of real life are too gross not merely for fiction, but almost for hypothesis, and that whole nations may for centuries act, or endeavour to act, upon principles which it seems a mere burlesque to attribute to an individual. For in what does the mercantile system, with its prohibition of the exportation of the precious metals, its commercial treaties with those nations which are supposed most likely to supply

gold and silver, its prohibition and restriction of the importation of those commodities which are supposed to occasion an unfavourable balance of trade, or, in other words, a trade in which the precious metals are exported, and its bounties on the exportation of those commodities which are supposed to be paid for in gold and silver, and its attempts to render us independent, as it is termed, of foreign nations, by forcing us to produce at home what could be obtained better or more abundantly from abroad; in which of these attempts, and they constitute its essence, does the mercantile system differ from the conduct of my supposed children? If nothing should occur to check the world in its present state of improvement, and 1000 years hence, when all traces of the mercantile system which at present clogs all our actions, and disturbs all our reasonings, shall have vanished, when the rulers of every nation shall permit their subjects to use to the utmost their own advantages, and profit to the utmost of the advantages possessed by their

neighbours; if, in that millenium of good sense, a copy of these lectures shall be discovered, I shall be considered probably a recluse academic, totally unacquainted with the real business of the world, and declaiming from my cloister against opinions and conduct too monstrous to have had any but a visionary existence in my own imagination.

I need not give myself much trouble about the opinion of posterity, but my present hearers have a right to require from me some account of the causes that enabled a set of opinions which do not even admit of being plausibly stated, to prevail so universally, and to remain for so many centuries unquestioned. I am inclined to ascribe their immediate origin more to the use of money as a measure of value than to its use as a medium of exchange. A man possessed of an extraordinary number of valuable things is rich; but the clearest mode of stating his comparative wealth is to state the aggregate of the sums of money for which all his possessions would sell. We say, perhaps,

that he has 100,000 pounds; meaning that such is the aggregate amount of the sums of money for which all his property might be sold. When applied to an individual this language leads to no misapprehension. We know that the person whom we have described as possessing 100,000 pounds does not in fact possess twenty; that he does not habitually keep with him as much money as a petty shopkeeper of not one tenth or one hundredth of his fortune. And we are quite aware that if we could force him to increase the money in his custody to ten times its usual amount, we should impoverish rather than enrich him. But when men reason upon national wealth, they seem to forget that it is merely the aggregate of the wealth possessed by individuals. Their minds are confused by its magnitude and complexity; because the wealth of a nation, like the separate masses of which it is composed, may be computed in money, they suppose that it consists of money;—a mistake as gross, and perhaps as natural, as that of a child who, hearing that a given

merchant had 100,000 pounds, should suppose that he had a box containing that sum in gold and silver.

When this strange misapprehension of the nature of wealth had prevailed, I have no doubt that it was indebted for its continuance principally to the impossibility of reducing its principles to practice. We have seen that to sell without buying, or even to continue selling more than you buy, that is, to effect the object proposed by the mercantile system, the forcing a constantly favourable balance of trade, is impracticable. But if it had been practicable to a given extent and for a given time; if by force of prohibitions, restrictions and bounties, we had been able for twenty years together to make our exports exceed in value our imports, to the amount, we will say, of five millions sterling, and to receive and retain the balance, we should have found ourselves in time possessed of a hundred millions sterling in gold and silver, in addition to our money previously in circulation, which has never probably exceeded forty mil-

lions. It is difficult to say to what extent such an addition to our currency, uncalled for by any previous deficiency, would have raised the prices of all English commodities, and how low its abstraction from the currencies of the rest of the world would have sunk the prices of all foreign commodities. It is evident, however, that the rise here and the fall abroad, must have been such as to be inconsistent with the continuance of foreign commerce. When we found ourselves deprived not only of foreign luxuries and comforts, of wine, tea and sugar, but of the materials of our most essential arts, of cotton, deals and hemp, and repaid only by the pleasure of using five sovereigns to make a purchase which might have been previously effected by one, such a *reductio ad absurdum* would have been irresistible. We should have instantly seen the necessity of rather allowing our superfluous money to be exported, than of remaining like Midas, abundantly provided with gold, but in want of food, raiment and shelter. It is precisely because the object of the mercantile sys-

tem is unattainable, because a balance of trade universally favourable cannot be created under ordinary circumstances, or, if created, could not, under ordinary circumstances, be retained for a month, that the absurdity of this system remained so long undetected, and is still generally unacknowledged. It follows a will-o'-the-wisp, which can remain an object of pursuit only so long as its real nature is unknown.

But, it may be said, granting the delusion as to the practicability and the utility of the end proposed by the mercantile system to have been universal, and universal it certainly was, and almost continues to be, yet as the means are so clearly productive of immediate injury, how came they to be so readily acceded to? How comes it that any departure from them is submitted to with such reluctance? How comes it that people are so anxious, in this instance alone, to sacrifice immediate to the hope of future benefit; to submit eagerly to general and immediate privation in the hope of a national benefit hereafter?

The answer is, that though restrictions and prohibitions of importation, and bounties on exportation, always occasion public loss, they produce, or are supposed to produce, individual gain. And the preponderance in amount of the loss over the gain is more than compensated so far as either acts on public opinion, by the concentration of the gain, and the diffusion of the loss. A restriction or prohibition of the importation of any foreign commodity occasions a loss to those persons who would have produced the English commodity with which the excluded foreign commodity would have been purchased; but these are unascertained persons. No man feels that he is one of the persons peculiarly entitled to complain. It occasions also a loss to all those who are forced to purchase the dearer or the inferior English commodity. But though the sum of these inconveniences is most oppressive, the evil in each particular instance is generally trifling. On the other hand the producer of the English commodity, for which the foreign one might be

a substitute, is an ascertained person fully estimating, and generally over estimating, the loss to which the admission of a rival would subject him, and if possible exaggerating his own terrors in his expression of them.

Nothing but inquiry into the details of our commercial law will convince those among my hearers to whom the subject is not familiar, how trifling may be the individual gain that is offered and admitted as an effectual counterpoise to a public loss. We submit to a loss, exceeding probably a million sterling every year, occasioned by the restriction on the importation of Baltic timber; and voluntarily inoculate our houses with dry rot, lest saw-mills in Canada, and ships in the North American timber trade, the aggregate value of which does not amount to a million sterling, should become less productive to their owners. We prohibit sugar refined in the colonies, and consequently import it in a state more bulky and more perishable, lest the profits of a few sugar refiners should be lessened. Other selfishness

may be as intense, but none is so unblushing, because none is so tolerated, as that of a monopolist claiming a vested interest in a public injury.

The subject is still further obscured by that powerful instrument of confusion, national jealousy. Free trade is not only to deprive us of our money, it is also to carry it to our neighbours; it is to do worse than impoverish ourselves, it is to enrich them. The trade with a country is likely to be advantageous in proportion to its extent, productiveness and proximity. The trade between Middlesex and Kent is more advantageous to both parties than that between Middlesex and Caithness. But those very circumstances are the causes of national jealousy. The trade between Great Britain and France would be the most beneficial that either country could carry on: they are countries of great extent and powers of production; their respective wants and supplies are happily adapted to each other, and the short sea, which, for commercial purposes, rather unites than

separates them, reduces the expense of carriage almost to nothing. The wines of the Garonne would naturally be cheaper in London than in Paris. The mineral treasures of Wales and Cornwall would find their way as easily to the Loire as to the Thames. For these very reasons each nation has always exercised her perverse ingenuity to exclude the commodities of her neighbour. And so well have they succeeded that the imports of Great Britain from France, instead of forming, as they naturally would do, a third or fourth of all our imports, do not exceed a fiftieth. The mercantile system seems to have proclaimed, and national jealousy to have re-echoed,

*Nequicquam Deus abscidit*

*Prudens oceano dissociabili*

*Terras, si tamen impiæ*

*Non tangenda rates transiliunt vada.*

Another most efficient fallacy consists in a use of the word "independent." To be independent of foreign supply, in consequence of the abundance of our own, is unquestionably a

benefit. If we could give to our soil and climate the productive powers of the richest plains in Mexico, and instead of eight or ten, obtain a return of ninety or one hundred, for every grain of wheat committed to the earth, we should be independent of foreign grain; but the benefit would consist not in the independence, but in the abundance. The independence of the mercantile system is accompanied not by abundance, but by privation; it arises not from the extent, but from the mismanagement of our resources; not from our riches, but from our self-inflicted poverty. It is the independence of Swift, who deprived himself, during the last years of his sanity, of the power of reading, by an obstinate resolution never to use glasses. It is the independence of my supposed trader in blacking his own shoes. It is to be independent of the footpath, by walking in the kennel.

Independence of our neighbours has, however, sometimes been recommended, not as a means of wealth, but of security. This view

of the subject is not within the scope of Political Economy. If I might venture to travel somewhat beyond my sphere, I should reply that it seems forgotten that dependence, as well as independence, must be mutual; that we cannot be habitually dependent on another nation for a large portion of our annual supplies without that nation's being equally dependent upon us. That if such a mutual dependence should increase the inconveniences of war to the one, it would equally increase them to the other. That if the supposed intercourse were one in which England received raw produce in return for her manufactures, or even her gold, (and such are the cases in which this argument is chiefly used,) such an intercourse would bind to her the foreign country in question by the strongest of all possible ties, the immediate interest of the owners of the soil, the most powerful class in every community, and the only class possessing power in a poor country. I should illustrate the argument by our relations with the Baltic states. I should observe that

our dependence on them for the principal materials of our navy,—a dependence carrying a peculiar appearance of insecurity, never seemed to diminish our strength during war, while the dependence on England of the Russian landholders for their rents, made peace with us absolutely essential to them; and actually enforced it by means of the unpunished murder of one sovereign, and unresisted menaces to another. And I should infer from all this, that an attempt at commercial independence must infinitely increase the chances of a war to a nation, by diminishing the motives in other nations to remain at peace with her, and, by impoverishing her, must make her less able to support the wars to which it inevitably leads. To the mercantile system, besides its own peculiar follies, we may in general attribute the greatest of all human follies, the existence of war between civilized nations.

It will be observed that I have considered all interference with the natural channels of commerce, all prohibitions and restrictions on

importation, and all bounties on exportation, as founded on the mercantile system; or, in other words, on the belief that wealth consists of gold and silver, and that the amount of the gold and silver in a country is to be increased by securing to her a favourable balance of trade; that is, a trade in which her exports shall always be of greater value than her imports, and the balance be paid to her in money. I have done so, because, with three exceptions, which I shall mention hereafter, no plausible defence of any interference with commerce can be made on any other principle. I say no *plausible* defence, because I should not consider a wish to favour one class of the community at the expense of another, or at the expense of the whole community, a plausible defence. I do not consider the monopolies which Elizabeth, in the ignorance of her times, thought, or pretended to think, cheap rewards to her favourites, defensible. Nor do I think a monopoly in favour of a class more defensible than one in favour of an individual.

I know, indeed, that there are many honest maintainers of the opinion that the prosperity of a country is best promoted by protecting her industry from foreign competition, and rendering her independent of foreign supply, who do not formally admit the truth of the mercantile theory, or, more frequently, are ignorant that such a theory exists. Such persons, in general, are mere repeaters by rote of prejudices caught up in conversation, and if they ever search for a reason, are satisfied with finding one in the sounds “protection” and “independence;”—sounds, they think, entitling them to the countenance of what they call common sense. When it is possible, however, to drive or to seduce them into argument, their first or second move leads them inevitably, as I remarked in my last lecture, to the mercantile theory. They cannot deny that the commodities which they would exclude must be given to us gratuitously, or in exchange for our own produce, or for money. The first supposition, granting that we could be sufferers by it, is

too absurd even for the reasoners whom I am describing. If they adopt the second, they must admit that the loss to the producers, whose exports we indirectly prohibit, balances the gain to those whom we forcibly encourage, leaving the loss to the public uncompensated: they are driven, therefore, to maintain that the payment would be made in money; and to suppose that such a payment could continue, and would be an evil, *is* the mercantile theory.

I have observed, however, that there are three cases in which an interference with the natural course of trade may be defended, without recourse to the mercantile theory. The first is, where the defence rests on the grounds of security. This argument I have already disposed of.

The second case is, where a long persistence in the system of exclusion has occasioned the formation of expensive domestic establishments, and the education of numerous artificers, to whom the admission of the foreign commodity would be injurious. The answer to this argu-

ment, on the mere principles of Political Economy, is obvious. The only purpose of the supposed establishments and skill is, the producing the commodity in question. If that commodity, or a substitute which is preferred to it, can be obtained without their assistance, they are as useless as a machine which has been superseded by a better invention; as useless as a ferry after the erection of a bridge. In one of the debates on the silk trade, in the beginning of the last session,\* the Member for Coventry “ stated that there were in that city  
“ 9700 looms, 7500 of which were in the hands  
“ of operative weavers, who applied their ma-  
“ nual labour, as well as their machinery, to  
“ the manufacture of ribands. These looms  
“ were for the most part of the worst possible  
“ construction; and it would scarcely be be-  
“ lieved that the improved loom in France  
“ would, in a given time, produce five times as  
“ much riband as the common loom in England,  
“ with the same degree of manual labour. He

\* 1 Parl. Hist. 1826, p. 389.

“ could also state that there existed an improved  
“ manufacture in Germany, by which one man  
“ could make forty-eight times as much velvet  
“ as could be made in an equal time by an  
“ English machine. What chance was there  
“ that the English manufacturer could maintain  
“ such a competition ?”

As a mere question of wealth, the answer is, what object is there in such a competition ? To perpetuate the old system, because, whenever it is abandoned particular interests must suffer, is a principle which, if fairly applied, would lead to the suppression of every improvement whatever. No improvement can possibly be made which shall not be immediately injurious to somebody. Printing ruined the copyists ; and the Turks, to protect their interests, prohibited it. Vaccination was deeply injurious to medical men. Steam-boats interfere with our coasters and packets. And if the vacuum engine should be perfected, it will in their turn deteriorate the value of the existing steam-boats. But would not any legislator have been

hooted from his post who should, on these grounds, have prohibited or restricted printing, vaccination, or steam-boats? Will the proprietors of coal mines be heard if they pray that Mr. Perkins be restricted from making any improvements in the steam-engine which shall diminish the consumption of coal? And in what does the substitution of a foreign for a domestic commodity differ from the substitution of one domestic commodity for another? If the powers of the French and German looms had been such as they were stated to be by the Member for Coventry, we should certainly, on the removal of the existing impediments, have procured from France and Germany all our ribands and velvets. We should have procured them by extending some branches of our domestic manufactures, in order to produce commodities to be sent either to France and Germany in exchange for the ribands and velvets, or to some other country to purchase money, with which the ribands and velvets would have been purchased. The diminution in the price of

ribands and velvets would have enabled the consumers of those commodities to devote to other purposes a larger portion of their incomes, which would have afforded means of further extending the whole industry of the country. Without doubt these changes could not have taken place without peculiar suffering as well as peculiar benefit. The English manufacturers of ribands and velvets must have been injured, just as the English producers of those articles, for which the demand was increased, must have been benefited. So, if Mr. Perkins's improvements take place, we shall perhaps cease to raise the same quantity of coal. We shall also devote more of our labour to the production of steam-engines, and to those manufactures in which they can be serviceable. And to do this, we shall probably be obliged to discontinue or curtail some other branches of industry. In this case, as in the last, there will be partial individual suffering, as well as partial individual benefit. In both cases, besides the partial suffering and the partial benefit,

is the general benefit to the whole community considered as consumers. A benefit which will be permanent, while both the gain and the loss to peculiar classes of producers will pass away. If we should think it madness to prohibit, or to tax, the use of an improved steam-engine, because it must be injurious to those employed in raising coal, what pretence is there for prohibiting or taxing foreign ribands or velvets because their importation would be injurious to the English silk-weaver? On what pretence can the man who throws the shuttle claim a protection which we should deny to him who works in the mine, or navigates the collier?

I should grieve to be supposed indifferent to the partial evil which must accompany any change in the channels of commerce, however generally beneficial. I am far even from thinking that the peculiar evils sustained by those who are injured are balanced by the advantages obtained by those classes of producers who are peculiarly benefited by the change. I well know that when loss and gain appear equal,

the loss is a greater evil than the gain is a good. I resist the interposition of government against the most beneficial direction of our industry, or, in other words, I defend free trade, solely on public grounds. Solely because to prohibit every change which is accompanied by individual injury would be to prohibit every improvement whatever. Because the effect of such a barbarous policy would be at best to keep us at the point at which we stood when it was introduced;—to sacrifice, in fact, the very end of government. For what is the end of government but to promote the happiness of the whole by forcing the interests of individuals to bend to those of the community?—the few to submit to the many?

I am aware, however, that in the existing state of knowledge and feeling in this country, any attempt to apply at once to foreign commerce the principles on which we act, and that as a matter of course, in our internal trade, would be unsuccessful. We have been accustomed in our internal trade to see every im-

provement accompanied by individual suffering, but we have also been accustomed to consider the general benefit as overbalancing the partial injury, and at once to stifle complaints by replying, “ these are the ordinary chances of trade ; when your manufacture was introduced you injured somebody else, and if we were to prohibit or restrict whatever interferes with existing interests, we must remain stationary for ever.”

Unfortunately the prejudices of the mercantile theory have prevented the application of this reasoning to foreign commerce. They have done more ; they have turned against improvement the very argument which ought to be decisive in its favour. They have enabled those who fear that they may suffer individual injury from foreign competition, instead of merely deprecating that injury, or praying that the sacrifice of their interests to those of the public may be as much softened to them as possible, to found their opposition on public grounds ; to proclaim that every departure

from our system of exclusion will make us dependent on foreigners, and deprive us of our money, and in short to call in aid of what they suppose to be their own immediate advantage all the absurdities of that monstrous theory.

In a representative government, where each individual may proclaim in their utmost exaggeration his sufferings and his fears, where the power arbitrarily to do good is chained by the same fetters which restrain the power arbitrarily to do evil, where, in short, public opinion is omnipotent, and is, on these subjects, so ill-informed, and therefore so easily misdirected, there appears, at first sight, no limit to the extent to which individual interest, popular prejudice, and national jealousy, might not carry the system of exclusion. There appears at first sight no reason why the dread of foreign competition, felt in turn by each class of producers, should not have led us at last to the perfect non-intercourse of Japan. In fact, as far as legislation could effect this object, it seems nearly to have been attained by the sta-

tute passed in the third year of the reign of Edward IV. Mr. Daines Barrington's abstract of this statute is in the following words :—

“ The fourth chapter is intitled, ‘ certain  
“ merchandizes not lawful to be brought ready  
“ wrought into the kingdom.’ It enumerates  
“ almost every kind of goods which can be  
“ imported, and may now be looked upon as  
“ the fundamental law of the customs ; founded  
“ upon the best principles of commerce.”

Such were our principles of commercial legislation in the fifteenth century : and so little were they improved in the eighteenth, that a man of Mr. Barrington's high station, public spirit, and general knowledge, believed that a prohibition of “ almost every kind of wrought goods that  
“ can be imported,” was “ founded upon the  
“ best principles of commerce.” And so slow has been the subsequent diffusion of knowledge, that for repealing that statute in our own times Mr. Huskisson has been called “ a hard-hearted  
“ theorist, exceeding the devil himself in malig-

“ nity, and in contempt for the happiness of  
“ mankind.”

Happily, however, there is in the political, as in the human, body, a *vis medicatrix*, which for extraordinary evils produces extraordinary remedies. The absurdities of the English laws respecting landed property produced uses and trusts: the violence of the feudal times gave rise to knight-errantry: when exclusion became the fundamental law of the customs, it was necessarily followed by smuggling. The smuggler is a radical and judicious reformer. His labours are unhappily confined to the least bulky articles, but as far as this field extends they are always directed to that part of the prohibitive system, which may be broken through with the greatest advantage, because it is maintained at the greatest loss. In those countries which have carried the prohibitive system to the extent which Mr. Daines Barrington thought the perfection of commerce, in Spain, for instance, at this instant, and in her colonies, be-

fore that system had deprived her of them, the smuggler is essential to the well-being of the whole nation. All external commerce depends on him. But in this country, and at present, I am far from thinking that the direct effect of his exertions in giving us a free trade in those commodities which, from their bulk and value, fall within his province, are any compensation for the crime, the misery, and the public expense, of which he is the occasion and the victim. His merit is that of having supplied the only argument which could have enabled the improvement of our commercial code. If Mr. Huskisson had had no better arguments than those which I have addressed to you, he would have applied in vain to the House of Commons and the country. They have been before the public, unanswered and unsubmitted to, from the time of Adam Smith until now. Mr. Huskisson's argument was, were prohibitions right or wrong, wise or foolish,—were they attempts to protect and foster the industry of our own country, or to

sacrifice the permanent interest of the whole community to the temporary advantage of a portion of its members,—they were inoperative. They might annihilate the calling of the lawful trader, but it was only to convert him into a smuggler; to exchange for legitimate commerce the crime and lawlessness of contraband. “What,” he asked, “was the consequence of such a system? A number of families, that would otherwise be valuable and industrious members of society, existed and trained up their children in a state of perpetual warfare with the law, till they insensibly acquired the habits and feelings of outlaws, standing to the rest of the community rather in the relation of pirates than of fellow-subjects. And was this abominable system to be tolerated, not to uphold the revenue, but to its injury, merely because in a few secondary branches of manufacture, we did not possess the same natural advantages, or the same degree of skill as our neighbours?”

Happily these arguments were to a certain extent successful, and it is to their force, and to the smuggler who gave them that force, that we are indebted for the relaxation which we have yet obtained of the fetters which, under the mask of protection, have so long cramped the energies of this country.

In my next lecture I shall consider the third ground on which commercial restrictions may be defended, without having recourse to the mercantile theory; and I shall conclude the subject by some remarks on the influence which that theory is still able to exert, and the calamities to be apprehended if that influence should continue.

---

•

## LECTURE III.

MERCANTILE THEORY OF WEALTH CONCLUDED.



I REMARKED, in my last lecture, that there are three grounds on which an interference with the natural channels of commerce may, in some cases, be defended without having recourse to the mercantile theory. Two of these, security in case of war, and the immediate injury to the domestic producer with whom the imported commodity would interfere, I have considered. I now proceed to the last, which is taxation:—

The principle of free trade is non-interference: it is to suffer every man to employ his industry in the manner which he thinks most advantageous, without a pretence on the part of the legislator to controul or direct his operations. But when a tax is laid on any domestic product for which a substitute can be obtained from abroad, if the tax exceed the

difference between the price at home and abroad, and the expense of importation, it may, besides the general evils necessarily incident to a tax, also operate as an interference with the natural employment of industry. It may occasion the home producer to abandon his business and devote himself to the production of some other commodity, by the exportation of which he may be enabled to import, tax free, the foreign commodity. A heavy tax is imposed on the domestic manufacture of glass:—if no restrictions were imposed on the importation of foreign glass we should cease to manufacture glass at home, and devote an additional portion of our industry to the manufacture of commodities to be exported in exchange direct or indirect, for the glass of France and Germany.

The obvious mode of preventing this is to levy an equivalent, or, as it is called, a countervailing duty on the foreign commodity: and we may easily believe that no government is likely to be wanting in this precaution. The

fault is uniformly on the other side. Partly with a view to reconcile to the tax the domestic producer; partly in the hope of additional revenue; and partly with the patriotic intention of protecting domestic industry, a specific tax on any home product is always accompanied, not by an equivalent, but by a much heavier tax on the foreign commodity which might be a substitute for it. And the necessary evils of the tax are augmented by making it a pretext for new restrictions on commerce. But if the duty be no more than a countervailing or equivalent one, it is, subject to the exceptions which I shall mention in a subsequent part of my lectures, not a departure from the principles of free trade but an application of them.

This argument, however, is often made use of to sanction the grossest violation of those principles. We have seen that free trade is founded on non-interference; on the unquestionable axiom, that the wealth of the whole nation is best promoted by allowing each indi-

vidual to employ himself in the way which he thinks most advantageous to himself, without the influence of motives artificially supplied by partial taxation. But taxation can supply such motives only while it *is* partial. When a tax is laid generally on all employments, it obviously can occasion no transfer of industry from one employment to another. An exclusion of foreign commodities founded on such a tax, must, of course, either be general, or a particular one. We have seen that such a general exclusion, if it were possible, instead of diminishing the necessary evil of the tax would be itself a fresh, and a far severer calamity. On the other hand, a particular exclusion would be an attempt to favour some particular class or classes of producers at the expense of the community. The first would be simply mischievous; the second mischievous and unjust.

The same answer is to be made to the demand by a particular class to be allowed a

monopoly in consideration of the injury which they suffer from the monopolies granted to others. It is true they are sufferers, and so is the whole community, but where would be the justice of an attempt to exempt them from their share of the general suffering by inflicting a new evil on the community at large?

As a fallacy cannot be clearly exposed without illustrations, I will venture to select a few examples from the debate in the House of Commons, in February, 1826, on the proposed admission of foreign silks. The Member who opened it, said “ It was utterly impossible to “ compete with French silks. With a load of “ debt, hanging like a mill-stone, around the “ neck of the nation, were they rational men “ who could propose a competition with a “ people whose debt was almost no burthen at “ all?”

The Member for Coventry asked, “ Could “ they go back to the rate of wages which pre- “ vailed in 1792? Could they introduce the

“ same scale of prices? If they could not,  
“ how could the manufacturer compete with  
“ the foreigner?”

The Member for Lincoln said, “ Let gods  
“ destroy time, taxes, and poor rates, and  
“ then let any newly enlightened minister open  
“ his eager arms to admit the unrestrained  
“ commerce of the world. But until that were  
“ done, to talk of free trade, what was it, but  
“ to propose that a man bound in fetters should  
“ try his strength and agility with one whose  
“ limbs were wholly free?”

Even Mr. Baring urged as an objection to  
the measure, the advantage possessed by the  
foreigner in the cheapness of labour; and  
thought “ this another proof, in addition to the  
“ many which already existed on the same  
“ subject, which in his opinion, proved beyond  
“ the possibility of a doubt, that it would be  
“ impossible for the English manufacturers  
“ ever to bring down their goods to such a  
“ price as would enable them to compete  
“ with the workmen of other nations.” He

went on to say, “ that the Right Honourable  
“ Gentleman was proceeding on wrong grounds  
“ with respect to his whole commercial system.  
“ He ought to begin with the Corn Laws.”

To every one of these arguments the answer is the same. The Poor Laws and the National Debt, or rather the taxation which they occasion, are tremendous evils. The Corn Laws are an evil, not so great perhaps as either of the former, but more galling from their injustice. But do any of these evils peculiarly affect the manufacturers of silk? If foreign silks were freely admitted must they not be paid for, directly or indirectly, with English manufactures, and if these burthens disable our silk manufacturers from competing with foreigners, must they not equally disable our other manufacturers? On this supposition, must not these burthens of themselves form the most effectual prohibition of foreign silks, by preventing the exportation of English equivalents? Again, because we are prohibited from obtaining bread on the best terms, are we,

therefore, to be prohibited from using the most advantageous means to obtain silk? Because public honour, and even common honesty require that every man should contribute a portion of his income to the public creditor, should he therefore be required to pay a larger sum than is necessary to his silk merchant?

The fallacy is, however, most striking when the pretext for monopoly is the high rate of English wages. It is, in the first place, open to the general answer, that not pressing peculiarly upon any one class, it gives to no one class a claim to peculiar privileges: and the force of this answer is, if possible, increased when high wages are used as a defence for the monopoly enjoyed by the producers of corn, a class of persons who obtain labour on cheaper terms than the rest of the community. But it is open to the additional answer, that high wages instead of preventing our manufacturers from competing with foreign countries, are, in fact, a necessary consequence of the very cause which enables us to compete with them,—of the very

cause which enables us to obtain in return for the produce of one Englishman's labour for a day, or a week, or a month, commodities produced by the labour of perhaps two Frenchmen, four or five Poles, and more than ten Hindoos; namely, the superior productiveness of English labour.

I am aware that this proposition may be to many of my readers paradoxical. A statement at this place, of the arguments which have convinced me of its truth, would be an inconvenient digression, besides involving many other propositions which are far from elementary. Indeed, I have introduced it here, though unnecessary to my reasoning, only to suggest to those among my hearers who are anxious to extend the limits of the science, an important and very neglected subject of inquiry,—namely, the differences in the amount of money wages in different countries, and the causes of those differences.

With these remarks I might close all that I have to say on the mercantile theory of wealth,

and on the practice which that theory has occasioned; but I have discussed it at so much length, and there is such difficulty in following a long discussion in the form of Lectures, that I should wish to conclude by a recapitulation of the heads of the argument. Fortunately, I can do this, and that in language far better than my own, by reading to you the most important document on the science of trade which has ever been made public,—the Petition of the British Merchants presented to Parliament in May, 1820. That Petition conveys the deliberate judgment of the first commercial members of the greatest commercial country that exists, or ever has existed. It conveys their judgment upon facts constantly before their eyes; complains of evils by which they must have been principally affected; and points out remedies of which the experiment was to be tried on themselves. Besides its merits as a composition, besides its fulness, perspicuity, and precision, besides the conviction which its conclusions must have carried if their force had depended,

like that of my own, solely on their premises, it has all the weight of the most powerful testimony;—of the testimony of persons who could not easily be deceived, since they were stating the results of their own long and daily experience, and could have had no motive to deceive others, since they would have themselves been the earliest and most extensive sufferers, if their conclusions had been erroneous.

As the object of the petitioners was to obtain the removal of existing evils, not to account for their origin, they have not traced the restrictive system to the mercantile theory of wealth. In every other respect their reasonings will be found to differ from those which I have addressed to you only in the superiority of their expression.

The Petition states—

“ That foreign commerce is eminently conducive to the wealth and prosperity of a country by enabling it to import the commodities for the production of which the

“ soil, climate, capital and industry of other  
“ countries are best calculated, and to export  
“ in payment those articles for which its own  
“ situation is better adapted.

“ That freedom from restraint is best calcu-  
“ lated to give the utmost extension to foreign  
“ trade, and the best direction to the capital  
“ and industry of the country.

“ That the maxim of buying in the cheapest  
“ market and selling in the dearest, which  
“ regulates every merchant in his individual  
“ dealings is strictly applicable, as the best  
“ rule for the trade of the whole nation.

“ That a policy founded on these principles  
“ would render the commerce of the world an  
“ interchange of mutual advantages, and dif-  
“ fuse an increase of wealth and enjoyments  
“ among the inhabitants of each state.

“ That, unfortunately, a policy the very re-  
“ verse of this has been, and is, more or less,  
“ adopted and acted upon by the government  
“ of this and of every other country; each  
“ trying to exclude the productions of other

“ countries, with the specious and well-meant  
“ design of encouraging its own productions ;  
“ thus inflicting on the bulk of its subjects,  
“ who are consumers, the necessity of sub-  
“ mitting to privations in the quantity or qua-  
“ lity of commodities ; and thus rendering  
“ what ought to be the source of mutual  
“ benefit and of harmony among states, a con-  
“ stantly recurring occasion of jealousy and  
“ hostility.

“ That the prevailing prejudices in favour of  
“ the protective or restrictive system may be  
“ traced to the erroneous supposition that every  
“ importation of foreign commodities occasions  
“ a diminution or discouragement of our own  
“ productions to the same extent ; whereas it  
“ may be clearly shown, that although the par-  
“ ticular description of production which could  
“ not stand against unrestrained foreign com-  
“ petition, would be discouraged, yet as no  
“ importation could be continued for any  
“ length of time without a corresponding ex-  
“ portation, direct or indirect, there would be

“ an encouragement, for the purpose of that  
“ exportation, of some other production to  
“ which our situation might be better suited ;  
“ thus affording at least an equal, and pro-  
“ bably a greater, and certainly a more bene-  
“ ficial, employment to our own capital and  
“ labour.

“ That of the numerous protective and pro-  
“ hibitory duties of our Commercial Code it  
“ may be proved, that while all operate as a  
“ very heavy tax on the community at large,  
“ very few are of any ultimate benefit to the  
“ classes in whose favour they were originally  
“ instituted, and none to the extent of the loss  
“ occasioned by them to other classes.

“ That among the other evils of the restrictive  
“ or protective system, not the least is, that  
“ the artificial protection of one branch of in-  
“ dustry, or source of production, against  
“ foreign competition, is set up as a ground  
“ of claim by other branches for similar pro-  
“ tection ; so that if the reasoning upon which  
“ these restrictions or prohibitory regulations

“ are founded were followed out consistently, it  
“ would not stop short of excluding us from all  
“ foreign commerce whatsoever. And the same  
“ train of argument which, with corresponding  
“ prohibitions and protective duties, should  
“ exclude us from foreign trade, might be  
“ brought forward to justify the re-enactment  
“ of restrictions upon the interchange of pro-  
“ ductions (unconnected with public revenue)  
“ among the kingdoms composing the union,  
“ or among the counties of the same kingdom.

“ That an investigation of the effects of the  
“ restrictive system at this time is peculiarly  
“ called for, as it may, in the opinion of your  
“ Petitioners, lead to a strong presumption that  
“ the distress which now so generally prevails,  
“ is considerably augmented by that system ;  
“ and that some relief may be obtained by the  
“ earliest practicable removal of such of the  
“ restraints as may be shewn to be most in-  
“ jurious to the capital and industry of the  
“ community, and to be attended with no com-  
“ pensating benefit to the public revenue.

“ That a declaration against the anti-com-  
“ mercial principles of our restrictive system  
“ is of the more importance at the present  
“ juncture, inasmuch as in several instances of  
“ recent occurrence, the merchants and manu-  
“ facturers in foreign states have assailed their  
“ respective governments with applications for  
“ further protective or prohibitory duties and  
“ regulations, urging the example and authority  
“ of this country, against which they are al-  
“ most exclusively directed, as a sanction for  
“ the policy of such measures. And, certainly,  
“ if the reasoning upon which our restrictions  
“ have been defended is worth any thing, it will  
“ apply in behalf of the regulations of foreign  
“ states against us. They insist upon our  
“ superiority in capital and machinery, as we  
“ do upon their comparative exemption from  
“ taxation, and with equal foundation.

“ That nothing would tend more to counter-  
“ act the commercial hostility of foreign states  
“ than the adoption of a more enlightened and

“ more conciliatory policy on the part of this  
“ country.

“ That although as a matter of mere diplo-  
“ macy, it may sometimes answer to hold out  
“ the removal of particular prohibitions or high  
“ duties, as depending upon corresponding  
“ concessions by other states in our favour, it  
“ does not follow that we should maintain our  
“ restrictions in cases where the desired con-  
“ cessions on their part cannot be obtained.  
“ Our restrictions would not be less prejudicial  
“ to our own capital and industry because  
“ other governments persisted in preserving  
“ impolitic regulations.

“ That upon the whole the most liberal  
“ would prove to be the most politic course  
“ on such occasions.

“ That independent of the direct benefit to  
“ be derived by this country on every occasion  
“ of such concession or relaxation, a great  
“ incidental object would be gained, by the  
“ recognition of a sound principle or standard,

“ to which all subsequent arrangements might  
 “ be referred; and by the salutary influence  
 “ which a promulgation of just views by the  
 “ legislature, and by the nation at large, could  
 “ not fail to have on the policy of other states.

“ That in thus declaring, as your Petitioners  
 “ do, their conviction of the impolicy and in-  
 “ justice of the restrictive system, and in de-  
 “ siring every practicable relaxation of it, they  
 “ have in view only such parts of it as are not  
 “ connected, or are only subordinately so,  
 “ with the public revenue. As long as the  
 “ necessity for the present amount of revenue  
 “ subsists, your Petitioners cannot expect so  
 “ important a branch of it as the Customs to  
 “ be given up, nor to be materially diminished,  
 “ unless some substitute, less objectionable,  
 “ be suggested. **BUT IT IS AGAINST EVERY**  
 “ **RESTRICTIVE REGULATION OF TRADE NOT ES-**  
 “ **SENTIAL TO THE REVENUE, AGAINST ALL DU-**  
 “ **TIES MERELY PROTECTIVE FROM FOREIGN COM-**  
 “ **PETITION, AND AGAINST THE EXCESS OF SUCH**  
 “ **DUTIES AS ARE PARTLY FOR THE PURPOSE OF**

“ REVENUE AND PARTLY FOR THAT OF PROTEC-  
“ TION, THAT THE PRAYER OF THE PRESENT  
“ PETITION IS RESPECTFULLY SUBMITTED TO THE  
“ WISDOM OF PARLIAMENT.

“ Your Petitioners, therefore, humbly pray,  
“ that your Honourable House will be pleased  
“ to take the subject into consideration, and  
“ to adopt such measures as may be calculated  
“ to give greater freedom to foreign commerce,  
“ and thereby to increase the resources of the  
“ state.”

I cannot resist the temptation of adding, though it must be unnecessary, to the testimony of the Petitioners, that of one of the wisest and most patriotic statesmen whose services this country has ever enjoyed,—of that excellent and enlightened man whom disease has now so recently snatched from the national councils. Before this Petition was presented to Parliament it was submitted to Lord Liverpool, by a deputation of the most eminent of the Petitioners. Lord Liverpool read it aloud to them, probably to mark that no part of its

contents could have escaped his notice, and then added—"THAT, WITH EVERY SENTIMENT  
"AND EVERY PRINCIPLE CONTAINED IN THE PE-  
"TITION HE FULLY AND UNRESERVEDLY AGREED,  
"AND THAT IF HE WERE THEN TO FORM A COM-  
"MERCIAL CODE THOSE WERE THE PRINCIPLES  
"ON WHICH HE WOULD ESTABLISH IT."

I have to apologize for having detained you so long, and that at the very outset of my Lectures, on a single point. A view of the mercantile theory of wealth was essential, but the symmetry of my course would have been improved if I had disposed of it, as I certainly might have done, more briefly,—if I had contented myself with exposing the absurdity of that theory, and omitted all consideration of its practical consequences. My reasons for going into it at so much length were, first, that the mercantile theory is a detached subject in Political Economy more capable than any other of being submitted to those who are not familiar with the science, or, what is the same as far as my Lectures are concerned,

with the view which I take of it. And, secondly, because the question whether the mercantile system shall be abandoned or shall be aggravated and extended ; or, in other words, the question of free trade is, next to the Reformation, next to the question of free religion, the most momentous that has ever been submitted to human decision.

If the unhappy prejudices that now exist on this subject should continue, and if the extension of representative governments should increase the power of public opinion over the policy of nations, I fear that commerce may not long be enabled to retain even that degree of freedom that she now enjoys. Much, perhaps every thing, depends on the example to be set by this country. I have perfect reliance on the knowledge and good intentions of our present ministers ; but very little on the knowledge possessed by the country at large. And if ministers are unsupported by the community at large, if each class in turn is to be permitted a complete or a partial monopoly, and bribed

by this sacrifice of the general and permanent interest of the public, to its own partial and immediate advantage, to allow others to clamour for the power to exercise a similar oppression,—if ministers are not aided by the public voice in their struggles against individual rapacity,—we shall tread backwards and with greater rapidity the few steps which we have so laboriously gained. Slowly and reluctantly, and as if parting from our dearest friend, we have begun to withdraw from the restrictive system. If once we begin to re-approach it, I am justified by all experience in the fear that in our retrograde motion we shall not stop at the point at which we originally set out. It will have been an unsuccessful rebellion against popular prejudice, and like all unsuccessful rebellions, strengthen and consolidate the ruling power. We shall again adopt, and with more skill to enforce it, the third of Edward IV. as the fundamental law of the customs, and consider, with Mr. Daines Barrington, a system of general and absolute

prohibition to be founded on the wisest principles of commerce—a system, which, to borrow the words of Mr. Huskisson, proclaims that, “ All interchange of their respective commodities between the different nations of the world is a source of evil to the one or to the other; that each country ought to shut itself up within itself, making the most of its own resources, refusing all commerce with any other country, barbarously content to suffer wants which this commerce might easily supply, and to waste its own superfluous productions at home, because to exchange them for the superfluous advantages of that other country would be ruinous to both.”

It is not enough to say that such a state of things (and it is a state to which between our own prohibitions and restrictions and the retaliatory measures of other countries, we were rapidly approaching,) would be mischievous to this country; it would carry with it total and irremediable ruin. The inhabitants of coun-

tries of vast extent, possessing every variety of soil and climate, like Russia and China, though their enjoyments might be much increased by foreign commerce, can yet exist without it. And there are other countries which, from their poverty or their situation, the small value of the equivalents which they have to offer, or their difficulties of access, are unable to enjoy it. But both natural causes and the course of events, while they have admirably fitted Great Britain for extensive commerce, have rendered her totally dependent on it. Nature has placed her in the centre of civilization, between the two worlds, but nearer to the more opulent hemisphere, has surrounded her with sea ports and intersected her by navigable rivers. She has given to her a climate eminently favourable to continued exertion of body and mind, and enriched her with minerals more abundant, more varied, and better adapted to one another, and to the wants of mankind, than those of any other country of equal extent. But there the profuseness of her generosity has ceased. Our

territory is of limited extent, and still more limited fertility. Our climate confines us to a narrow range of vegetable productions, and what we have are not distinguished by their excellence, or their abundance. What would be the food, and what would be the clothing of even our poorest population, if they were formed only of indigenous materials? What houses or what ships could we build from our internal resources?

On the other hand the absence of unnecessary religious restraint, the security of person and property, the freedom of internal trade, our immunity from hostile invasion, and the non-existence of privileged orders, or of artificial obstacles to the ambition of the humblest individual, all these negative advantages, which it might have been supposed that every nation would secure to itself, but which, in fact, have never been fully enjoyed by any extensive country except Great Britain, and the nation which Great Britain has founded, all this absence of artificial evil has enabled us during

the 140 years that have elapsed since the Revolution perfected and secured it, to more than double our numbers, and more than quadruple our wealth. If we had done only one of these things, if we had only increased our wealth, preserving our numbers unaltered, we should certainly have suffered severely from the privation of foreign commerce, our circle of enjoyments, and our power would have been much diminished, but we might have existed as a backward and second-rate nation, on the products of our own soil, worked up by our own manufacturers. Or if our numbers had increased without any addition of our wealth, the mass of our population would have been in nearly the same situation, in respect to wealth, in which the mass of the Irish population is now. They would have been eaters of potatoes instead of wheat, clothed in the rough manufactures of the country, and enabling a race of overgrown landlords to waste in coarse profuseness the cheap labour of their retainers. We should have felt little the want of foreign

commerce, as little could have been obtained from it in return for the produce of our ill-directed labour.

But the course which we have run, has combined increased numbers with more varied wants and greater powers of production; an increased taste for those comforts and luxuries which our own soil and climate deny, and still more increased means of purchasing them. The well-directed labour of an Englishman is worth twice as much as that of any other inhabitant of Europe, it is worth four or five times as much as the labour of the less advanced European districts: it is worth twelve or fifteen times as much as the labour of the most civilized Asiatic nations. It is true that the long course of perverse commercial legislation from which we are but beginning to emancipate ourselves, has prevented us from turning these advantages to the best account. Cramped, however, as we have been, we have so far made use of them, that a very large portion of our labouring classes are employed directly, or indirectly,

in obtaining foreign commodities; that we scarcely make a meal, or put on a dress, or enter a house formed solely of domestic materials. We are dependent on foreign countries, not merely for what is agreeable, but for what custom has rendered necessary. Do I regret this dependence? Far from it, for it is the necessary consequence of two great benefits, the increase of our numbers and the increase of our wealth. It is the necessary dependence of the rich on the poor, of a metropolis on the surrounding country. The half-naked subjects of Caractacus were doubtless independent of foreign supplies, and so is the semi-barbarian who burrows in the ruins of Persepolis, and cultivates his dates among the remains of palaces. Every approach on our part to a similar independence must be obtained by an approach to a similar condition. But if we only consent to use and improve to the utmost our natural and acquired advantages, if we only consent to buy what our neighbours are willing to sell, if we cease to refuse what they offer us on the

ground that they offer it too cheaply, if, to use the words which the Member for Lincoln intended for irony, we open our eager arms to the unrestricted commerce of the world, I see no definite term to the course of prosperity before us. I see no cause that, for ages to come, need check the progress of our wealth and our population. I see no reason why England, which now supports in virtue and in happiness more human beings than any other district of equal extent, should not contain a much larger population with still greater moral and physical advantages.

THE END.

LONDON:  
PRINTED BY C. ROWORTH, BELL YARD,  
TEMPLE BAR.