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T O
A D A M S M I T H, L. L. D. F. R. S.
B E I N G A N
E X A M I N A T I O N O F S E V E R A L P O I N T S O F D O C T R I N E,
L A I D D O W N I N H I S
" I N Q U I R Y I N T O T H E N A T U R E A N D C A U S E S O F
T H E W E A L T H O F N A T I O N S."

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M D C C L X X V I .

The Reader is desired to correct the following Errata, which escaped notice in correcting the Pref-
Copy from the Manuscript.

P. 13, l. 3, for *more*, read *mere*.

P. 27, l. 26, for *think*, r. *thing*.

~~_____~~ *tend*, r. *tends*.

P. 28, l. 24, for *at first that*, r. *that at first*.

P. 34, l. 1, in the note, for *motion*, r. *money*.

P. 45, l. 25, for *great knowledge*, r. *information*.

There are also one or two errors in the pointing, which were not attended to, but which the
Reader will be so good to rectify.

A

L E T T E R, &c.

S I R,

WHEN I first saw the plan and superstructure of your very ingenious and very learned Treatise on the Wealth of Nations, it gave me a compleat idea of that system, which I had long wished to see the publick in possession of. A system, that might fix some first principles in the most important of sciences, the knowledge of the human community, and its operations. That might become *principia* to the knowledge of politick operations; as Mathematicks are to Mechanicks, Astronomy, and the other Sciences.

Early in my life I had begun an analysis, of *those laws of motion* (if I may so express myself) which are the source of, and give direction to, the labour of man in the individual; which form that reciprocation of wants and intercommunication of mutual supply that becomes *the creating cause of community*; which give energy, motion, and *that organized form* to the compound labour and operations of that community, *which is government*; which give source to trade and commerce, and are the forming causes of the instrument of it, *money*; of the effect of it in operation, an *influx of riches*, and of the final effect, *wealth and power*. The fate of that life called me off from study. I have however at times (never totally losing sight of it) endeavoured to resume this investigation; but fearing that the want of exercise and habit in those intellectual exertions may have rendered me unequal to the attempt, I am extremely happy to find this executed by abilities superior to what I can pretend to, and to a point beyond that which the utmost range of my shot could have attained. Not having any personal knowledge of the author, or of the part which I now understand he bears in the learned world, I read your book without prejudice.—I saw it deserved a more close and attentive application, than the season of business would allow me to give to it; I have since in the retreat of summer studied it: you have, I find, by a truly philosophic and patient analysis, endeavoured to investigate *analytically* those principles, by which nature first moves and then conducts the operations of man in the individual, and in community: And then, next, by application of these principles to fact, experience, and the institutions of men, you have endeavoured to deduce *synthetically*,

tically, by the most precise and measured steps of demonstration, those important doctrines of practice, which your very scientific and learned book offers to the consideration of the world of business.

Viewing your book in this light, yet seeing, as my reasoning leads me to conceive, some deviations which have misled your analysis, some aberrations from the exact line of demonstration in the deductive part; and considering any errors in a work of that authority, which the learning and knowledge that abounds in yours must always give, as the most dangerous, and the more so, as they tend to mix themselves in with the reasoning and conduct of men, not of speculation, but of business—I have taken the liberty, by stating my doubts to you in this Letter, to recommend a revision of those parts which I think exceptionable.

If these doubts should appear to you to contain any matter of real objection, I should hope those parts might be corrected, or that the bad consequences of those positions, which I conceive to be dangerous, may be obviated. When I first wrote these observations, I meant to have sent them to you, by the interposition of a common friend, in a private letter; but, as I think these subjects deserve a fair, full, and publick discussion, and as there are now in the world of business many very ingenious men, who have turned their minds to these speculations, the making this publick may perhaps excite their ingenuity, and thus become the means of eliciting truth in the most important of all sciences. It may animate even your spirit of inquiry, and lead to further researches. It is not in the spirit of controversy, which I both detest and despise, but in that of fair discussion that I address this to you.

When, in your investigation of those springs, which give motion, direction, and division to labour*—you state “*a propensity to barter;*” as the cause of this division: when you † say, “that it is that trucking business which *originally* gives occasion to the division of labour;” I think you have stopped short in your analysis before you have arrived at the first natural cause and principle of the division of labour. You do indeed ‡ doubt, “whether this propensity be one of those *original principles* in human nature, of which no farther account can be given; or whether, as seems more probable, it be the necessary consequence of the faculties of reason and speech.” Before a man can have the propensity to barter, he must have acquired somewhat, which he does not want himself, and must feel, that there is something which he does want, that another person has in his way acquired; a man has not a propensity to acquire, especially by labour, either the thing which he does not want, or more than he wants, even of necessaries; and yet nature so works in him, he is so made, that his labour, in the ordinary course of it, furnishes him in the line in which he labours, with more than he wants; but while his labour is confined in that particular line, he is deprived of the opportunity to supply himself

* B. I. C. II.

† P. 18.

‡ P. 16.

himself with some other articles equally necessary to him, as that which he is in the act of acquiring. As it is with one man, so is it with the next, with every individual, and with all. Nature has so formed us, as that the labour of each must take one special direction, in preference to, and to the exclusion of some other equally necessary line of labour, by which direction of his labour, he will be but partially and imperfectly supplied. Yet while each take a different line of labour, the channels of all are abundantly supplied.

Man's wants and desires require to be supplied through many channels; his labour will more than supply him in some one or more; but through the limitation and the defined direction of his capacities he cannot actuate them all. This limitation, however, of his capacities, and the extent of his wants, necessarily creates to each man an accumulation of some articles of supply, and a defect of others, and is the original principle of his nature, which creates, by a reciprocation of wants, the necessity of an intercommunion of mutual supplies; this is the forming cause, not only of the division of labour, but the efficient cause of that community, which is the basis and origin of civil government; for, by necessarily creating an inequality of accumulation, and a consequential subordination of classes and orders of men, it puts the community under that form, and that organization of powers, which is government. It is this principle, which, operating by a reciprocation of wants in nature, as well as in man, becomes also the source to that intercommunion of supplies, which barter, trade, and general commerce, in the progress of society, give. It is not in the voluntary desires, much less in a capricious "*propensity to barter*," that this first principle of community resides; it is not a consequence of reason and speech actuating this propensity, it is interwoven with the essence of our nature, and is there in the progress of, and as part of that nature, the creating and efficient cause of government; of government as *the true state of nature* to man, not as an artificial succedaneum to an imagined theoretic state of nature.

The pursuing of the Analysis up to this *first principle*, does not immediately, I agree with you, "belong to the subject of your inquiries;" for the doctrine contained in the second chapter of your first book, seems only noted *en passant*, but is no where, either in the course of your Analysis, used, nor applied in the subsequent explications. But as some thirty years ago, I had made this Analysis of the * *Principles of Polity*; and as I have, in the practical administration of the powers of government, found, that those powers on one hand do, as from the truest source, derive from these principles of nature, and

* A little Treatise which I wrote when I was very young, and which is very imperfect and incorrect in its manner and composition; but such in the matter and reasoning, as frequent revision and application of the principles to matters in fact, have confirmed me in the conviction of as true, although different from the common train of reasoning in those who follow Mr. Locke's phrases rather than his arguments.

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that the liberties of mankind are most safely established on them: and as I think that great danger may arise to both, in deriving the source of community and government from passions or caprice, creating by will an artificial succedaneum to nature, I could not but in the same manner, *en passant*, make this cursory remark.

Having established and defined this first operation of man in community, that of *barter*, you proceed to consider the *natural rules* by which this is conducted; what it is which gives *value*; what it is which *measures* the relative or *comparative value*, and hence the doctrine of *price*: and by the intervention of these, *the introduction of money and coin*. As in the former doctrine, I thought you had not pursued the analysis to the real sources of nature; so here, on the contrary, I think you have stretched your doctrine beyond the garb of nature. Some of your more refined doctrines have rather subtilised ideas, as they lie in your mind, than analysed those distinctions which lie in nature. On the first reading the eight first chapters of your first book, in which these matters are treated of, before I came to the use and application of your doctrines in the explication of practice and business, I began to apprehend, that some dangerous consequences in practice might be deduced from theory, instead of those sound and beneficial doctrines which derive through experience, by a true analysis of nature and her principles. I thought I saw, that many mischievous impertinent meddlings might take rise from a distinction between *a natural* and *a market price*. As I had been used to hold that only to be the measure of *exchangeable value*, which the world generally takes and uses as such, money formed of the precious metals; I could not but apprehend, that many extensively dangerous practices might arise from your laying aside, in your Analysis of Money, the idea of its being A DEPOSIT. I saw, that that *theory in metaphysics*, led to a destructive *practice in physics*; to the practice of creating a *circulation of paper*, and of calling such circulation, money; and of introducing it as such. In your doctrine, that “labour is the measure of “exchangeable value of all commodities,” connected with your mode of explanation of the wages of labour, the profit of stock, the rent of land, and the effect of the progress of improvements, I thought I saw great danger, that Theory, in the pride of rectitude, might harden its heart against the real, though relative, distresses, which the labourer and the landed gentry of a country do suffer, and are oppressed by, *during the progress* of improvement, in consequence of a *continuing influx of riches*; and might therefore depreciate, or even endeavour to obstruct, all those current remedies which give comfort and relief to these distresses, and alleviate even those which cannot be remedied.

Although * the demand for those who live by wages must naturally increase with the increase of national wealth; and consequently the price of wages rise in proportion to the rise of every thing else; so as that the labourer will in the

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and partake of the general riches and happiness of the publick. Although * the rise in the price of all produce is in the end no calamity, but the *forerunner* of every publick advantage : Yet as those prices do *forerun*, and must, during the progress of improvement, *always forerun* ; wages and rent must always continue *at an under-value* in the comparison. They will indeed rise also, but as this foreruns, they can only follow, *sed non passibus æquis*. The labourer, and he who lives on rent, therefore, must always, though improving, be unable to improve so fast as to emerge from a continued distress : if this distinction, that a flowing encrease of wealth, although it is the forerunner of every advantage to the publick in general, and *in the end* to every individual, yet is the continuing cause to the continued distress of the labourer, and of him who lives by rent, is not carefully attended to. If the state of the circumstances of distress, which continues to oppress those classes of the community, are not constantly adverted to with feeling, and with exertions of precaution and benevolence, we shall, in the triumph of our general prosperity, be the constant oppressors of those who have the best title to share in this prosperity.

Under these ideas and apprehensions I did very carefully and repeatedly, before I proceeded to the applied doctrines contained in the latter book, revise the analytic part of the former. When I came to the doctrines applied to practice, and the businesses of the world, I found that my cautions had not been unnecessary, and that my apprehensions, that some such consequences might be drawn from it, were grounded : I found also what I did not from the principles expect (nor as yet do I see how they derive from them, as any part of the chain of reasoning) that in the course of the doctrines you hold, you are led to disapprove the law giving a bounty on corn exported ; and also to think, that the monopoly, which we claim in the American trade *, “ like all other mean and malignant expedients of the mercantile system,” without in the least increasing, doth on the contrary diminish the industry of the country, in whose favour it is established ; and doth, although it may have the seducing aspect of a *relative advantage* †, subject the nation, its trade and commerce, to an absolute disadvantage. I hope you will not think, that I misunderstand, or mean to mis-state, your position. You allow, and very fully explain the great advantages of the colony trade, but think that the monopoly is the reason why, great as it is, we do not derive so great advantages from it to the nation and to the landed interest, and to the community in general, as we might have done, had it not been cramped and perverted by the monopoly.

In the many occasions which I have had to view this monopoly, I own, although I have seen some errors in the extension of the *measure*, further than is expedient or necessary, yet I do not see the malignancy of the principle of a monopoly ; nor while I have lived amidst the daily proofs of the *relative advantage* which it gives to the mother country, by its colonies, over all other
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* Pag. 286.

† B. IV. C. VII. P. 201.

foreign nations, I have not been able to discover, nor have your arguments, although so methodically and so clearly drawn out, been able to explain to me, that absolute disadvantage which you think it subjects us to.

Although I agree entirely with you, having also previously read the same opinion in Mr. Necker's Treatise, *sur la Legislation & le Commerce des Graines*, that the bounty which our law gives to the exportation of corn, has not been the sole cause which hath rendered corn cheaper than otherwise it would have been; but, on the contrary, hath, in each direct instance, given it some small advance in the general scale of prices: Yet, considering that so far as it does this, and gives relief to the relative oppression which the landed interest must continue to feel under a *continued influx of riches*, and an advancing rise in the prices of every thing else; I think it one of the wisest measures for a country like England that could be devised.

I think with you, that many of our laws and regulations of trade are practical errors, and mischievous. I think that, while they seem to be founded on our navigation act, they mistake the spirit of it, and no less mistake the real interest of the nation: yet I cannot but hold these to be errors only, as they deviate from the true principle of the act of navigation, which is a different thing from the acts of trade.

Having prefaced thus much as to the several doctrines on which I have conceived some doubts, I will now, following the order of your work, state those doubts. When I found you discarding *metallic money*, that intervening commodity which having, by common consent, acquired a value of its own, hath been hitherto esteemed a common known measure of the value of all other things, from being any longer such common measure, and by a refinement of theory, endeavouring to establish in its place "an abstract notion," *that labour was the common measure of all value*; I did not only doubt the truth of the position, but, looking to the uses that might be made of the doctrine, hesitated on the principle. If labour be the only real and ultimate measure of value, money is but the instrument, like the counters on the checkquer, which keeps the account; if this be all the use of money, then *circulation*, or even *an account opened with a banker* (according to a practice in Scotland, as described by you) is to all uses and ends as good as money. If it is not necessary, that the common measure should have some known permanent value in itself, so as to be a deposit of that absent value which it represents, as well as measures, so as to convey to all who possess it an absolute power of purchase, then indeed the circulating instrument, the machine that circulates, whether it be a paper or a leather one, or even an account, without any *deposit*, is equal to all the uses and end of money, is that which we may safely receive for the future. As I have been mixed in the business of a country, where the evils of this doctrine and practice have been severely felt, and where it was my duty to watch, that nothing was imposed upon the publick as money, but what was either in it-
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self a deposit, or was established on a fund equal to a deposit, and what had *all* the uses of a permanent known measure in all cases of circulation; I could not but read this leading doctrine of your's with great caution and doubt. I must doubt, whether it be labour simply which creates and becomes the measure of value, when I find other component parts mixed in the most simple idea of value: I cannot conceive, that equal quantities of labour are absolutely of equal value, when I find the value of labour both in use and in exchange varying in all proportions, amidst the correlative values of these component parts; I cannot suppose labour to be the ultimate measure, when I find labour itself measured by something more remote.—You say very properly in the major of your syllogism, that when the division of labour has once thoroughly taken place, it is but a very small part of the necessities and conveniences of life, with which a man's own labour can supply him. But when we come to the minor proposition of it, we must consider also the objects on which labour is employed; for it is not simply the *labour*, but the *labour mixed with these objects*, that is exchanged; it is *the composite article, the laboured article*: Some part of the exchangeable value is derived from the object itself; and in this composite value, which is the thing actually exchanged, the labour bears very different proportions of value, according to the different nature of the object on which it is employed. Labour, employed in *collecting the spontaneous produce* of the earth, is very different in the composite exchangeable value of the fruit collected, from that which is employed in raising and collecting the *cultured fruits* of the earth. Labour, employed on a rich, cleared, subdued and fruitful, or on a poor and unkindly soil, or on a wild uncleared waste, has a very different value in the composite object produced in the one, from what it bears in the composite value of the other. As the object then makes part of the composite value, we must consider, in the exchangeable value, the object also, as a component part. Whose then is the object? Who has acquired, and does possess, the object or objects on which the labour may be employed? Let us take up this consideration under these first scenes of man, which are usually called a state of nature, somewhat advanced in the division of labour and community. Previous to the employing of labour, there must be some acquisition of objects whereon to employ this labour; a strong and selfish man, who will not labour, sits, we will suppose, idly under a tree, loaded with the spontaneous fruits of nature; an industrious, but weaker man, wants some part of those to supply his necessity, the idler will not let him collect the fruit, unless that other collects also enough for both. Or if, still more churlish and more selfish, he will not let him who is willing, by his labour, to collect a sufficiency for *his* use, unless the labourer collects also more than sufficient for the idler's present use, sufficient for his future use also. Does the labourer here command or exchange, by his labour, any part of the labour of the idler? Certainly not. In this state *a division of*
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the objects on which labour must be employed, and with which it must be mixed, as well as a division of labour hath taken place; and therefore the labourer must be able, by his labour, to command in exchange a certain portion of these objects which another hath, as well as a certain part of that other's labour. It will not relieve this doubt by saying, as Mr. Locke (treating of right) says, that there can be no *right of possession*, but by a man's mixing his labour with any object; because we are here not considering the matter of right, but the matter of fact: nor will it answer to say, that the acquisition itself is an act of labour, because I have here stated the case of a churlish fluggard idler, strong enough to maintain himself in idleness, by commanding not only the actual labourer, but certain *greater or lesser quantity of that labour*, according as his selfish churlish temper leads him to press upon the necessity of the weaker. Suppose the same idler, in this division of the objects of labour, to have got possession of a fishing lake, or a beaver-pond, or in a sandy desert of a spring; or of a spot of fruitful ground, amidst a barren country; or of a ford, or particular position, which commands a fine hunting-ground, so as to exclude the labourer from the objects whereon his labour must be employed, in order to form that laboured article which is to supply his wants. You see, that the means of commanding the *objects of labour*, as well the labour of another, make part of the supply whereby a man must live, whereby he may be said to be rich or poor. Even you yourself (I hope you will excuse the expression under which I quote it) say, with rather some degree of confusion in terms, "that every thing is really *worth* to the man who has *acquired it*, and who "wants to dispose of it, or exchange it for something else; the toil and trouble "which it can save to himself, and which it can impose upon other people." This expresses the conclusion which I draw from the case I have stated, and not your position, that labour is the *measure*, and that it is labour which is exchangeable for *value*: it is, on the contrary, the mixture of the labour, and the objects laboured upon, which produces the composite value. The labour must remain unproductive, unless it hath some object whereon to exert itself, and the object is of no use unless laboured upon. The exchange therefore is made by A keeping a part of his labour mixed with a part of the object, and B using a part of his objects rendered useful by the labour of A mixed with them. The consequence therefore in your syllogism cannot fairly conclude, that the value of any commodity to the person who possesses it, and who means not to use or to consume it himself, but to exchange it for other commodities, *is equal to the quantity of labour*, which it enables him to purchase or command. On the contrary, it is a composite value of the object and labour mixed, and takes part of its value from each of the component parts. It is not therefore labour (which is but one of the component parts of the exchangeable commodity) which gives the exchangeable value, but *the labour and the object mixed*, the compounded laboured article, in which the labour bears all possible

possible proportions to the correlative value of the two component parts, according as the possessor of the object, or the exertor of the labour, or the common general course of the estimation of mankind shall settle it. Real value, if any such thing there be different from market value, is *the mixed composite laboured article*, not labour simply.

You have, Sir, made a very proper distinction of *value in use*, and *value in exchange*. That labour which varies in its productive power, according as it is differently applied, and according to the object it is employed upon, must certainly vary in its use, and equal quantities of it must be in such different circumstances of very unequal value to the labourer. *Labour in vain, lost labour—Labour which makes itself work*, (phrases which, to a proverb, express some species of labour,) cannot be said to be of *any use* to the labourer. He who would shave a block with razor, will labour in vain. He who sows on a rock, or on a barren sand, or in a drowned morass, will lose his labour. He who sheers his hogs, will have great cry and little wool, and only make himself work : but labour will still vary more in its *exchangeable value* ; equal quantities of labour will receive very variable degrees of estimation and value. In the first operation of barter of labour (the value of the objects being, for the sake of argument, laid aside) we will suppose A to say to B, you shall have as much of the surplus of my labour on the article \circ , as you will exchange for the surplus of your labour on the article Δ . By this, A “ means to save “ as much of his toil and trouble to himself, and to impose as much upon B, “ as he can.” B means the same. What then is to be the real standard of measure ? Not labour itself. What is to give the respective estimation in which each holds his labour ? Each alternately will be disposed to estimate his own most valuable, and to each “ the labour of the other will sometimes appear to “ be of greater and sometimes of smaller value*.” This value cannot be fixed by and in the nature of the labour ; it will depend upon the nature of the feelings and the activity of the persons estimating it. A and B having, by equal quantities of labour, produced equal quantities of two of the most necessary articles of supply, whose values, in the general scale of things, vary the least ; each having a surplus in the article which his labour has produced, and each likewise having an equal want of what the other has produced. This *quantity* of labour, although stated as *equal*, will have very different *exchangeable values* in the hands of the one or the other, as A or B are *by nature* formed to make a good bargain in the common adjustment of the barter. He who has not an impatience in his desire on one hand, or a soon-alarmed fear on the other of losing his market ; who has a certain firmness, perseverance and coldness in barter ; who has a certain *natural* self-estimation, will take the lead in setting the price upon the meek and poor in spirit ; upon the impatient and timid bargainer. The higher or lower value of these equal quantities of labour,

* Pag. 39.

labour, will follow the one or the other spirit. The value is not equal, and is not fixed in, nor depends upon, the equal quantity of the labour; it is unequal and differs, and is fixed by, and derives from, the different *natures of the persons* bargaining. The exchangeable value of equal quantities of labour, stated equal in all circumstances, is not only not equal in this first instance, between that of A and B, but may, in other comparisons, vary both in A and in B individually. The exchangeable value of B, although inferior in barter with A, may acquire an ascendant value, and be superior in barter with C. This difference and this variation will run through every degree in the utmost extent of the markets: nay, the same person will, in different habits, relations and circumstances of life, estimate that labour (which shall be stated to be absolutely equal) as of very different value; he will, on different occasions, estimate his "ease, liberty, and desire of happiness" differently. Equal quantities of labour, equal, I mean absolutely, and in every respect, will acquire and derive very different values both in use, and in exchange both in respect of the person by whom such is exerted, as well as in respect of the person who barter for it, from the objects with which it is mixed. Respecting the person by whom it is exerted, if a day's labour always produces a day's subsistence, the value in use is always the same; if it doth not, the value in use must vary. In respect of exchangeable value, labour will sometimes give value to things which, in themselves, had little or no value: in others, it will derive value from the things with which it is mixed; it will itself have an exchangeable value from its compounded value; that is, from the proportion of value which it bears in the composite laboured article.

What is thus varying in a relative value, must require some correlative, which, while this measures other things, in return will measure it; that which is itself measured by something more remote, cannot be the final measure or standard. It cannot * therefore be "alone the ultimate and real standard by which the value of all commodities can, at all times and places, be estimated and compared: it is not their *real price*." I must therefore conclude, in a proposition which I quote from yourself, where I wish you had let the business † rest; "That there can be no accurate measure, but that exchangeable value must be settled by the higgling and bargaining of the market, according to that sort of rough equality, which, though not exact, is sufficient for the carrying on the business of life."

You confess, that this proposition of your's, "*That labour is the measure of the value, and the real price of all commodities,*" is "*an abstract notion.*" As such I should not have taken any notice of it; but you endeavour to establish it as a leading principle, whereby I think a *practical one*, which mankind hath universally and generally acted upon, may be in dangerous speculations distinguished away. If the common forensick idea, that money which,

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* Pag. 39.

† Pag. 37.

in the common acceptation of it, hath actually been used to measure, doth in strict truth measure as “a common intervening commodity,” both labour and all other things, and their relations, is to be considered as a more practical notion, and we are in reasoning to look to some abstract notion, as the real standard. What do we, but pervert our reasoning from distinct notions in practice, to “abstract notions,” and subtleties in theory: as I apprehend that these theories have been, and fear they may and will again be used, if admitted into the reasoning of the world, to very mischievous and destructive schemes; as I think that they remove old bounds, and erase old and solid foundations, and may be applied to the building paper castles in the air; as they lead to speculations, which swerve from the idea of *pledge and deposit in money matters*, and tend to create *an imaginary phantom of circulation*, erected on the foundation of credit and opinion of trust only, I have taken the liberty of stating my doubts upon it.

While I have thus doubted, whether labour is the ultimate measure and standard of the exchangeable value of all commodities, I should be willing with you to admit, that corn will not universally answer as such a measure, had not you yourself*, in another part of your book seemed to think, that “the nature of things has stamped upon corn, *a real value*, which no human institution can alter; and that *corn* is that regulating commodity, by which “the real value of all other commodities must *be finally measured* and determined.” Gold and silver, you say, varying as it doth in its own value, can never be an accurate measure of the value of other things. There is then, according to what I have always been used to think, and what from your Treatise I find myself confirmed in, no one commodity that will measure all others, but that all are to one another in their reciprocal value *alternate measures*; and that *gold and silver* is only the common and most general, almost the universal, measure, so found to be, and so used by the general experience and consent of mankind, as *that intervening commodity* which will most uniformly become *a common measure*, at the same that it doth (as being a deposit of value, which all mankind have agreed to receive) *give universal power of purchase*.

As I think that there is no real measure of value, so I think there is no fixed natural rate of value, or real price distinct from the market price. I think, that the doctrine which states the two definitions as an actual existing truth, and as a practical distinction formed for business, not true on one hand, but on the other a dangerous proposition.

You say, † “That there is in every society or neighbourhood *an ordinary or average rate* both of wages and profit, in every different employment of labour and stock;” these average rates you call “the *natural price*, at the time and place in which they commonly prevail.”

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* B. IV. C. V. Vol. II. P. 101.

† B. I. C. VII. P. 66.

The actual price at which any commodity is *commonly sold*, is called its market price.

I clearly see the distinction in definition; but I do not learn how the ordinary average rates, or price paid for labour, or for the use of land or stock, or for any commodity in the neighbourhood, where it comes from the first hand, in the first act of bargain and sale, is any more natural than the price which it finds and bears in any other succeeding act of bargain and sale, at the time and place wherever it is sold. What is it, in the first instance, which settles these average rates, which you call natural, but the competition of the effectual demand, compared with the supply, and founded on some proportion whereby the price paid for labour, stock or land, will enable the seller to purchase an equivalent quantity of those necessaries and conveniences which his state of life requires? If, from this first operation of bargain and sale, the commodity, by means of carriage, and the collection, storage, and distribution of the middle man, goes to a succeeding and more complicated value with these adventitious articles of expence added to it: Is not the price which is here, also the price at which it here commonly sells, and which is in like manner precisely determined equally, that ordinary average rate and *natural price* as the former? Or rather, is not the price in the first operation of bargain and sale *equally a market price* as the latter, settled by that higgling and barter which doth and must finally regulate it in all times and in all cases? The refinement which, using different expressions, as in one case calling it "the ordinary average rate," and in the other, "that price at which it is commonly sold," is a distinction of words without scarce a difference in idea, certainly none in fact and truth. If there be any such thing as a natural price, both are natural; if not, which I rather think both are the artificial market price, such as the act of higgling and barter can settle on the reciprocation of wants and mutual supply. What else is it in *nature* which settles the ordinary average rates, which you call the natural price? This price "*naturally* increases," as adventitious circumstances mix with the commodity brought to sale. The increased market price increases by the adventitious circumstances of labour in carriage, of risque, storage, and the middle-man's profit. This increase is *naturally* regulated by the ordinary and average rates of these added circumstances in their time and place; and on these the competition, compared with the supply, doth as naturally in one case as in the other create the market price; which may be called, if you choose to call the former so, a natural price; but both are, in fact, equally in their time and place the market price. When therefore you say, * "that the natural price is the *central price*, to which the prices of all commodities are perpetually gravitating;" I must own that I receive the metaphor of the proposition with great apprehensions of the uses in practice, which the doctrine may lead to. If any one, who

* B. I. C. VII. P. 70.

who has got a lead in business, should adopt your distinction of *natural and market price*; and, following the delusion of your metaphor, should think, that, as in nature, all market prices do perpetually gravitate to the natural *central price*, so the circuiting motion of all market prices should be made to take and keep this direction round their center; (perfectly satisfying himself, that as he ought not, so he does not, meddle with the *natural prices* of things:) he may, through a confusion and reverse of all order, so perplex the supply of the community, as totally to ruin those who are concerned in it, and intirely to obstruct it. He may render trade almost impracticable, and annihilate commerce. That the succeeding prices of the secondary operations of bargain and sale are regulated by the same rules and laws of barter as the first; and that the outset of the first will give direction of motion, as well as motion to all succeeding operations, regulated by the same laws of this motion, is certainly true; and that it will (while in the ordinary course of things) keep this motion equable by the respective average rates in their time and place: that the violence and artifices of man will ever and anon try to warp and misrate it, is certainly true; and a truth well worthy of constant attention—not with a view to interfere and intermeddle with the *market prices*, under any theory of regulating them by some supposed natural *central price*, but to obstruct and oppose all interference and meddling whatsoever; and upon this truth to maintain in the market an universal freedom, choice and liberty.

Although, as I have stated my opinion above, I think, that the general course of all prices, or that correlative value between commodities must depend upon, and derive from the reciprocal higgling of bargain and sale, and are not measured by labour: Yet so far as they depend upon, or are mixed with labour, there is some natural scale below which they cannot go; which scale takes its level from the quantity of subsistence which such labour will procure. The plain and home-spun wisdom of our ancestors, therefore, did not attempt to measure the prices of things by any *abstract notion of labour being that measure*, but they measured labour itself * “by the plenty or dearth of provisions,” or the subsistence, according to the laboured productive effects of nature from time to time. Although therefore I agree with you, † “that the *common wages* of “labour *depends* every where upon the *contract* made between two parties, “whose interests are by no means the same;” yet in that, ‡ “a man must “always live by his work, and that his wages must at least maintain him.” There is a scale of rate below which the price of labour cannot by any contract or bargain be lowered.

That the prices of wages do continually increase with the advancing prosperity of any community, and that they are the highest in those communities, who are advancing with the most rapid velocity, is a truth, a comfortable and an encouraging truth: yet as prices of wages follow but with slow and loaded

* Vide the several statutes of labourers.

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† B. I. C. VIII. P. 81.

‡ P. 83. steps,

steps, in proportion to the quick motions of the rise of the prices of all other things, if some care and attention is not given to aid the motion of the rise of wages, in some measure to keep it above the lowest scale, which it can subsist by; we may, in the triumph of prosperity, and in the pride of rectitude, see the poor labourer, of the lower classes, under a continued state of helpless oppression, amidst the prosperity of the community in general; but of the nature, and of the manner of regulating these, I shall have occasion to treat in another place, and on another occasion.

As value or price is not any fixed *natural* thing, but is merely the *actual* correlative proportion of exchange amongst all commodities; so that *intervening commodity* which does in fact most commonly, or on common result, and by common consent, *express this correlative proportion, is the common measure* of this value: It is not an abstract notion of *labour*, “but *money* * (as “Mr. Hume says) which is *by agreement* the common measure.” This common measure does not barely express the proportion of value between commodities when brought together in the act of exchange, but is that something, that most common intervening commodity, which mankind hath generally and universally agreed shall not only express this act of exchange, and the relation of reciprocal value under which it is made, but which is in fact an universal equivalent deposit of value, which gives, in all places and at all times, with all persons, a power of purchase, and is in fact and truth that intervening commodity, which, as a common measure, exchanges without actually bringing the things exchanged into barter. The thing which we thus express in abstract reasoning by the word *money*, is *by use* universal, by general and common consent, *the precious metals applied as this practical common measure*, the uses which it hath, and the purposes to which it is applied amongst the acts and things of the community, gives it *a value in its exchangeable operations*. This idea of money is fixed by *old bounds* of common consent and universal practice; and as I am not willing *to remove old bounds*, fixed in a real foundation, to follow an abstract notion † “on Dædalian wings through the air;” I will here next take the liberty to state the reasons which make me hesitate to follow you in those regions of theory. Although you tell me, that it is not the metallic money which is exchanged, it is the *money's worth*; that money may be the *actual* measure of this exchange, but that it is the labour which the money represents and sells and purchases, which is the *real measure*. Yet when my ideas lead me in the very line of your analysis to conceive, that labour is not, no more than any other commodity, the ultimate measure, but is the thing measured; that when measured against subsistence, it is actually measured by that subsistence. When I consider, that although it is the money's worth which is exchanged, yet it is the money which measures and exchanges it. I cannot but think it nearest even to abstract truth, and safest in practice,

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* Essay on Money, P. 321.

† B. II. C. II. P. 289.

to abide by *the old bounds* of that idea which mankind hath generally and universally fixed, *that money* IS THE COMMON MEASURE, to be which adequately, and in all its *uses*, it must be a DEPOSIT also.

In your account* of the origin and use of money, you very properly state, that “every prudent man in every period of society (after the first establishment of the division of labour) must naturally have endeavoured to manage his affairs in such manner, as to have at all times by him, besides the peculiar produce of his own industry, a certain quantity of some one commodity or other, such as he imagined few people would be likely to refuse in exchange for the produce of their industry.” If in the doing this, all, led by any thing in the nature of any commodity itself, or by some coincidence of reasoning and consent, should agree upon any one commodity in general, which would be thus generally and universally received in exchange, *that*, in the most refined strictness of abstract reasoning, as well as in decisive fact, would become that † *intervening commodity* which would measure the exchangeable value, and be the real instrument of actual exchange in the market. It would not only be that *measure*, but it would become a *real* as well as *actual deposit of value*, and would convey to whomsoever possessed it, a general, universal and effective power of purchase.

When next then I inquire, what this intervening commodity is—I find, ‡ that metallic money, or rather “silver, is that which, by the general consent of mankind, has become that deposit, which is the common measure; this is a general effect of some general cause. The experience of its degree of scarceness, compared with its common introduction amidst men, together with the facility of its being known by its visible and palpable properties, hath given this effect. Its degree of scarceness hath given it a value proportioned to the making it A DEPOSIT; and the certain quantity in which this is mixed with the possessions and transactions of men, together with the facility of its being known, has made it A COMMON MEASURE amongst those things. There are perhaps other things which might be better applied to commerce as a *common measure*, and there are perhaps other things which might better answer as a *deposit*; but there is nothing, except [the precious metals, or rather] silver, known and acknowledged by the general experience of mankind, which is a *deposit and a common measure*. Paper, leather, or parchment, may, by the sanction of government, become a common measure, to an extent beyond what silver could reach; yet all the sanction and power of government never will make it an *adequate deposit*. Diamonds, pearls, or other jewels, may, in many cases, be considered as a more apt and suitable deposit, and may be applied as such to an extent to which silver will not reach: yet their scarcity tends to throw them
“ into

* B. I. C. IV. P. 28. † C. V. P. 37. ‡ Vide administration of the Colonies, C. V. Vol. I.

“ into a monopoly ; they cannot be subdivided nor amassed into one concrete ;
 “ and the knowledge of them is more calculated for a mystery, or trade, than
 “ for the forensic uses of man in common, and they will never therefore be-
 “ come a common measure.

“ The quantity of this deposit, and the general application of it to several
 “ different commodities, in different places and circumstances, creates a cor-
 “ relative proportion between it and other objects, with which it stands com-
 “ pared, and from this proportion forms *its own scale* ; this scale derives from
 “ the effect of natural operations, and not from artificial imposition. If there-
 “ fore silver was never used but by the merchant, as the general measure of
 “ his commerce and exchange, *coin* would be (as it is in such case) of no use ;
 “ it would be considered as bullion only. Although bullion is thus sufficient
 “ for the measure of general commerce, yet for the daily uses of the market
 “ something more is wanted in detail ; something is wanted to mark to com-
 “ mon judgment its proportion, and to give the scale : government therefore
 “ here interposes, and by forming it into COIN gives the scale, and makes it
 “ become to forensic use AN INSTRUMENT in detail, as well as it is in bullion
 “ A MEASURE in general.”

It is here, Sir, that I think your Analysis, subtilised by too high refine-
 ment, deviates from the path in which the nature of things would have led you.
 Quitting the idea of money being A COMMON MEASURE, and totally leaving
 out all idea of its being a DEPOSIT, your Analysis leads you to conceive no
 other idea of it but as CIRCULATION, or, as you distinctly expresses it, a CIRCULATING MACHINE ; and of course, according to these principles, considering it as an instrument, you state it in your account *amongst those instruments which form the fixed capital of the community*. The result of which in fair reasoning is, that as these machines cost an expence (which must be either drawn from the circulating capital of the community, or from its revenue by savings) both to erect them and to maintain them ; so every saving which can be made in the erection or maintenance of such a machine, will be advantageous to the circulating capital, the source of materials and wages, and the spring of industry. In this line of deduction you come to the result in practice, and say, * that “ the substitution of paper, in the room of gold
 “ and silver money, replaces *a very expensive instrument* of commerce with one
 “ much less costly, and *sometimes* equally convenient ; *circulation* comes to be
 “ carried on by *a new wheel*, which it costs less both to erect and to maintain
 “ than *the old one*.”

As my reasoning hath many years ago impressed it strongly on my mind that money is a COMMON MEASURE, and must be a DEPOSIT, and *in coin an instrument* of the market ; and as many years experience in a country of paper hath convinced me, that if any instrument of the exchange of commodities,
 other

* B. II. C. II. P. 350.

other than that which, while it measures the correlative values in circulation, is founded on a DEPOSIT, equivalent at all times to the conversion of it into money, shall be introduced, it will be a source of fraud, which, leading by an unnatural influx of riches to luxury without bounds, and to enterprize without foundation, will derange all industry, and instead of substantial wealth end by bankruptcies in distress and poverty.

So far as *circulation* can carry on the exchanges of commodities in the community, so far paper bills of credit, or even accounts opened, may do in the room of the metallic money; but without a deposit, which is adequate and equivalent in all times and places, and with all persons, to this conversion of it, I have no sure foundation, that I do possess, in all times and places, and with all persons, *the power of purchasing or of accumulating as I like*. Although I have all the trust and confidence in the world in the credit of this circulating machine of paper, yet it has not the universal extent in, nor the operation of all the uses of money, although therefore it may be "*sometimes equally convenient*;" it is not that intervening commodity which hath *all the uses of money*,* universally and adequately. Circulation, even where no paper money or credit exists, must always much exceed in its total of exchange the sum total of the money deposit, how much that is, experience in the fact can alone determine: paper may certainly, without any danger, encrease this power of circulation, if it does not exceed what the deposit will answer while it is in circulation, and is created *on such a fund, as will finally convert it into money*. So far as paper, by the extent of the uses, and the absolute security and exchangeable conversion of it into metallic money, *can be and is made a deposit*, so far it may safely measure as money, and become a convenient instrument; but in that this security is always more or less uncertain; in that it depends on the prudence and probity of the money-makers, it is always liable to exception, abuse and failure. So far forth as it is defective in its fund, the creation and use of it must be always hazardous, and hath been generally ruinous; and however distant and remote the end may be, *must* be a fraud in the end. In a world of enterprize, where *trust and credit* is substituted *in the stead of fund* and prompt change, paper money loses the very essence of a deposit; unless I have *a deposit*, which gives me an absolute actual power of purchasing, in all times and places, in all events, to all intents and uses; or that which is absolutely ready and immediate change for such deposit. The bill which I have, may or may not, here or there, now and then, *sometimes* not always, maintain in me *the power of purchasing*, or of real hoarding or banking as I like. General, universal, permanent consent of all mankind, has from *actual experience* of its uses, given to *metallic money* a permanent and absolute value: partial, local, temporary agreement, founded *in opinion of trust and credit*, can give to paper but a partial, local, temporary ideal value, which never will

* P. 359.

will be a real and universal deposit; it may become to certain local temporary purposes a *circulating machine*, but money is something more: this paper is not that intervening commodity, which all mankind hath universally agreed to be *that common measure which is a deposit*; such alone is money in the strict as well as common acceptation of the word and idea.

So far as paper money can be so contrived as to have, while it is in circulation, *all the uses* of money; or is so founded, that it can in all moments and in all places be taken out of circulation by conversion into metallic money at its nominal value, so far it will be equal to money both as a measure and as a deposit. But so far as it is defective in any one use, however much it may excel in any other use, it will and must depreciate below the real value of the metallic money, which it is supposed to represent; so far as in any point of time or place the power of converting it into metallic money is remote, so far is it ideal, unsubstantial, and no deposit. Although with a fund of 20,000*l.* a banker, or the treasury of a government, may circulate 100,000*l.* yet as whenever, for any reason, or by any event, it becomes necessary to take that 100,000*l.* out of circulation, the banker or the treasury can but pay 20,000*l.* or four shillings in the pound, that circulation must end in a fraud.

Where, in the circulation of capital, paper money is substituted instead of metallic money, you allow, that it will not answer in its uses to foreign trade. I, for the same reason, add, it will not *pay taxes*, so far as those taxes are to *supply expences incurred or laid out abroad*. If great variety of *reabsorbing glands* did not in Scotland take up, in the course of circulation, the amount of the taxes levied on that part of the kingdom, their paper money could not pay that amount.

Just as much gold, as paper circulation becomes a substitute for, may be spared from circulation, and will become, as you truly say, a new fund for commerce, and will go abroad in foreign trade: if it is employed in a commerce of luxury or consumption, it is in every respect hurtful to society; so far as it purchases raw and rude materials, or provisions or tools, and instruments to work with, it may be beneficial. You think that, however individuals may run into the former, bodies and societies are more likely to actuate the latter. Yet in countries where a superabundant quantity of paper money hath taken place, where the power of creating this money hath advanced faster in its creation and emissions than the labour, industry and abilities of the inhabitants would have produced it. This *artificial plenty* hath always encouraged a commerce of luxury; an over-trading; a multitude and disproportionate number of shop-keepers; extravagant expences in idle land-holders; more building than can be supported; and all kinds of ambitious and dangerous projects. “ * The commerce and industry of a country, you must acquire knowledge, and do candidly confess, though they may be somewhat augmented, cannot be altogether *so secure*, when they are thus, as it were, suspended

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“ ed upon the *daedalian wings of paper money*, as when they travel *on the solid ground of gold and silver*. Over and above the accidents to which they are exposed from the unskilfulness (*I would here add the fraud also*) of the conductors of this paper money, they are liable to several others, from which no prudence or skill of the conductors can guard them.”—You indeed reason from the *abuse*, but all these arguments do equally derive from the *defect* of this paper money. As it creates an *influx of riches*, which does not spring from industry, which is not the effect and produce of useful labour; it creates, with aggravated circumstances, all that distress which the real useful labourer and real man of property, the land-owner, must feel, even under an influx of real riches; it gives motion and velocity to this influx, without producing any real *deposit* whereon the *riches*, which it pours in to circulation, *may be funded as WEALTH*. The land-holder lives for a while under oppression and distress; he then, raising his rents beyond what the real stock will bear, lives in a delusive abundance of luxurious expence, but is finally ruined. The successor, who purchases him out, succeeds by the same disease to the same ruin. The labourer, and all who live on fixed stipend, are under a continued series of oppression. The false wealth only of adventurers, jobbers, and cheats, become the riches of the country; that real deposit, which would be a fund of real wealth and real supply in case of distress, will be chased away. The phantom of circulation, which is substituted in its place, will, instead of coming in aid, fail, and vanish on the first alarm of distress.

“ * An unsuccessful war, for example, in which the enemy got possession of the capital (*who does not tremble as he reads?*) and consequently of that treasure which supported the credit of paper money, would occasion a *much greater confusion* in a country where the whole circulation was carried on by paper, than in one where the greater part of it was carried on by gold and silver. The usual instrument of commerce *having lost its value*, no exchanges could be made but by barter or upon credit. All taxes having been usually paid in paper money, the prince would not have wherewithal either to pay his troops or to furnish his magazines; and the state of the country would be much more irretrievable, than if the greater part of its circulation had consisted in gold and silver. A prince, anxious to maintain his dominions in a state in which he can most easily defend them, ought, upon this account (*and I add upon all others*) to guard not only against the excessive multiplication of paper money, which ruins the very banks that issue it, but even against that multiplication of it, which enables them to fill the greater part of the circulation with it.”

I was willing to oppose, in your own words, this fair description which you give of the dangerous state of a country which abounds in *circulation of riches*, instead of a deposit, which is *wealth*, as an antidote against the delusions of this

this powerful temptation : and as I think the doſe ought to be repeated, I will repeat it in the words of the very clear-minded and ingenious Mr. Hume*.

“ He has entertained (*he ſays from ſimilar reaſons as above ſtated*) a great doubt concerning the benefit of banks and paper credit, which are ſo generally eſteemed advantageous to every nation. That provisions and labour ſhould become dear, by the encreaſe of trade and money, is, in many reſpects, an inconvenience, but an inconvenience that is unavoidable, and the effect of that publick wealth and proſperity, which is the end of all our wiſhes. It is compenſated, however, by the advantages which we reap, from the poſſeſſion of thoſe *precious metals*, and the weight which they give the nation in all foreign wars and negotiations. But there appears no reaſon for the encreaſing that inconvenience by a *counterfeit money*, which foreigners will not accept in any payment, and which *any great diſorder in the ſtate will reduce to NOTHING.*”

It is for theſe reaſons, becauſe I am not for *removing old bounds*, and that I wiſh to preſerve the old general eſtabliſhed opinion, that money is a *common meaſure*; becauſe I am unwilling to receive that *new and deluſive friend* CIRCULATION, inſtead of *the old and ſteady one*, MONEY, which being a DEPOSIT, will ſtick by us in all times, that I have taken the liberty to examine this part of your Analyſis, and to wiſh, if you ſhould be perſuaded to reviſe it, that you would enquire, in the real track of nature, whether that commodity, by the intervention of which the exchanges of all commodities may in all times and caſes be actuated, muſt not, *in truth as well as fact*, be that common meaſure, in the uſe of which all mankind have univerſally agreed, and muſt not be a depoſit, which the metallic money alone is : and whether, where paper circulation is not ſo proportioned to the depoſit as that, that depoſit is always ready to exchange it during its circulation; is not eſtabliſhed on ſuch a *fund* as will *absolutely exchange it*; whether, I ſay, ſuch paper circulation is not a deluſion that muſt finally, however remotely, lead to a fraud.

By what I have ſaid above I do not mean to ſay, that paper is not uſeful; I think, that under ſuch due regulations reſpecting the FUND, which is to exchange it, the USES to which it is to be applied, and the QUANTITY in which it may be ſafely iſſued, as will make it a common meaſure and a DEPOSIT, it is not only generally beneficial, but that the greateſt advantages may be derived from it to the publick.

If now, Sir, by theſe principles, as I have ſtated them, as they are found in the FUND and the USES, you examine all the ſchemes of paper circulation from that of the bank of Amſterdam, founded on a real depoſit, to that of the Scotch banks, founded on † truſt and confidence, without any actual depoſit; if you examine the paper money, and the operations of that wiſe and prudent inſtitution, the loan-office of Penſylvania, examine the foundation and the ſucceeding

* Hume's third Eſſay on Money.

† B. II. C. II. Vol. I. P. 351.

ing operations of the bank of England, you will find, that you have a fixed canon, by which you may precisely mark what are real, what delusive; what may be beneficial, what will be ruinous in the end. Whereas, if no other idea but that of *circulation* enters into our notion of money; if it be conceived to be nothing more than a *circulating machine*, under that conception every delusive fraudulent credit, which every adventurer can establish *on a deceived and betrayed confidence*, may set in motion a circulation, that may on every ground be justified even in the moment of its bankruptcy. And even those just and wise precautions, with which you have endeavoured to guard this circulation against fraud, may tend to give an opinion of confidence to this circulation, when it shall be so guarded, which in any case it ought not to have, unless it can be so framed as to have *all the use* of money in circulation, and be so *funded* as in the end to be a real deposit.

It is impossible to pass over those parts of your learned work, wherein you treat of labour, stock, and land; of wages, profit, and rent; of the monied prices of commodities, and especially your very curious and scientifick Treatise on the Precious Metals applied as Money; it is impossible to read those parts respecting the effects of the progress of improvement in the community, of the nature, accumulation, and employment of stock, without reiterating the idea and the wish expressed in the beginning of this letter, of seeing your book considered as INSTITUTE OF THE PRINCIPIA of *those laws of motion*, by which the operations of the community are directed and regulated, and by which they should be examined. In that part, however, which explains the different effect of different employment of capital, wherein you seem rather to have engrafted some foreign shoots, than to have trained up, in the regular branchings of your Analysis, to propositions fully demonstrated, I will beg to arrest your steps for a moment, while we examine the ground whereon we tread; and the more so, as I find these propositions used in the second part of your work as data; whence you endeavour to prove, that the monopoly of the colony trade is a disadvantageous commercial institution.

After having very justly described the four different ways in which capital stock may be employed—first, in drawing from the elements of earth and water the rude, the spontaneous or cultured produce; next, in working these materials up for use; next, the general exchange or trade of these commodities, conveyed from place to place as they are wanted; and, lastly the retail distribution of them to the consumer. After having divided by fair analysis the general trade or commerce, described under the third head, into three different operations—that is, the home trade; the foreign trade of consumption, and the carrying trade. After having shewn the just gradation of beneficial employ of capital, which these different operations produce, and how truly beneficial each in its respective *natural* gradations is, * “ When the course of
“ things,

* B. II. C. V. P. 453.

“ things, without any constraint or violence, naturally introduces it ;” you lay and prepare a ground of contraſt, from whence in your fourth book to prove, that the eſtabliſhment of a monopoly in the colony trade, by perverting this *natural order and gradation of operations* in commerce, hath rendered the commerce of ſuch colonies leſs beneficial than they might otherwiſe in general have been ; I am here marking only the order of your argument, not trying the force of it. In the order of this argument, I think I diſcover an eſſential miſconception of that branch and operation of commerce, which is in nature *circuitous*, and as ſuch beneficial ; but which you conceive to be and call *a round-about commerce*, and as ſuch of courſe, and in the nature of things, diſadvantageous. Your argument goes to prove, that the monopoly, inſtead of leaving the direct trade to its full and free operation, inſtead of ſuffering the round-about trade (as you call it) to take up the *ſurplus only* of capital which that produces, and next the carrying trade naturally to abſorb what the others diſgorge, doth force capital, which might have been more beneficially employed in a direct trade, into a round-about trade ; which is too commonly miſtaken for the carrying trade of Great Britain.

I mean, in its place, to examine this your argument, in your application of it to the actual ſubject. I will here, in the mean time, with your leave, make an aſſay of the truth of its combination ; for it appears to me, that in treating *a circuitous commerce* as a *round-about trade*, you confound two things the moſt diſtinct in their nature, and the moſt different in their effect of any two that could have been put together.

A CIRCUITOUS TRADE or commerce is that by which receiving, *with the due profits of return of capital*, ſome article of trade or ſome commodity, *which is better to go to market with than money*, I go to market with that commodity ſo received ; and perhaps again with ſome other in like manner received ; and perhaps again with a third, making by each operation my due profits, annexed to each return of my capital ; and finally a greater ſuperlucration of profit than I could have done by the ſame number of direct trades ; and conſequentially either a greater revenue, or a greater accumulation of capital, that may again employ more productive labour.

A ROUND-ABOUT TRADE, on the contrary, with loſt labour, with waſte of expence, and unprofitable detention of capital, ſends to market ſome commodity (as the proverb well expreſſes it) *by Tom-Long the carrier*.

We will ſuppoſe, that the Britiſh merchant or factor hath ſold his Britiſh manufactures in Virginia, in which he veſted his capital ; and that he has it in ſpeculation, whether by taking money, a bill of exchange, or ſome commodity, which is ready money's worth in the Britiſh market, he ſhall make a direct return of his capital, and its ſimple accretion of profit ; or whether by taking ſuch commodities, as by an intermediate operation in his way home, he may

may derive an intermediate adventitious profit from, before the same is again reinvested in British goods for the Virginian market.

In the first case, his capital may be said to return with its profit directly; in the second, although it may make a circuit, and be detained awhile in its way home, yet it is not detained, nor goes out of its way *unprofitably* to Great Britain; for by the superlucration, arising from the intermediate operation, it gives proportionably either a greater revenue, or as an encreased capital employs more productive labour.

We will suppose a second case taken up on this speculation, that he either receives corn by barter, or by purchase invests what he has received in that commodity, with which, instead of coming directly home, he calls in his way at Cadiz or Lisbon; the sale of his corn there returns him his capital with a second accretion of profit. Here again he speculates in like manner, and determines to invest this accumulated capital in wines, fruits, &c. which at the home market will again return his capital, with farther accretion of profit. Has not every movement of this circuitous trade been a different operation? Has not each operation made a distinct return of capital? Has not each return given its peculiar profit? Has any expence been wasted? Any labour lost? Has there been any detention of capital unprofitably to Great Britain, while, at its return, it affords either more revenue, or, as capital, employs more productive labour than otherwise it would.

Let us in another line suppose, that this merchant or factor receives tobacco, rice, indigo, or peltry, which he brings directly home; with these commodities at the British market he speculates, whether he shall take ready money there for them, which, vesting in British manufactures, or foreign manufactures bought with British produce, he will return directly to Virginia again with. Or whether these commodities, which represent his capital, with its accretion of profit, might not still more encrease it, if he himself sent them to that market where they are purchased for consumption. We will suppose, that his prudence directs him to the latter conduct. He sends them then to Russia or to Germany. They there return him his capital, with another accretion of profit. We will suppose, that he re-invests his capital with hemp or flax for the British, or in linnens for the American market. He is by this operation enabled to go back again to America, either with Russian or German manufactures, bought with British commodities, or selling what he bought of Russia or Germany in the British markets, with a still more increased quantity of British manufactures than what any direct trade between America and Great Britain could have purchased. Here again the same questions may be asked, and must receive the same answers.

On the contrary, wherever there is a *round-about trade*, there the commercial operations are obstructed, and the advantages greatly defalcated, if not,
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in many instances, entirely lost. The obliging the merchant to bring rice from the southern latitudes northward to Great Britain, which rice must go back again south to its market in the southern parts of Europe and the Straights, was a round-about trade, it was labour lost, it was a waste of expence, an unprofitable detention of capital, and the commodity was sent by *Tom Long the carrier* to market. The monopoly therefore, in that case, where it created a round-about trade, hath been relaxed. Sugars are in the same case; and a like relaxation, under peculiar regulations relating to that peculiar article, have been recommended, and might be safely and beneficially given. There are some parts of the tobacco crops, which, in the assortment, might be admitted to somewhat a similar liberty without danger, but with benefit. Nay, *that intermediate operation of the circuitous trade*, mentioned above, which obliges the Virginian tobacco to come to England before it goes to Germany, and the German linnens also to come to England before they go to America, *is a round-about trade*, a needless and very disadvantageous operation, in which some relaxation ought to be made. I can see, that the English merchant may lose a commission, but labour and expence would be saved to the community. In like manner the obliging the West India ships, which, since the interruption of the American trade, load staves, lumber and corn in England, which articles are brought from foreign parts, is obliging them to take up these things by a round-about trade; whereas, if they were permitted to ship, in British shipping only, these articles at the foreign markets directly for the West Indies, many inconveniencies, which the British part of the community experiences, might be avoided, and both labour and expence saved to the community at large. If salt fish, which is intended for the southern markets, was obliged to be brought northward first to England, and so go round about to the south, its proper market, it would create a round-about trade. If these ships loading with salt for their back carriage were obliged to come round by England, it would create a round-about trade, and in either case would waste labour, and might lose all the profit of the capital employed. The monopoly therefore does not take place in this.

The permitting, in certain cases stated, and under certain regulations specified, the Americans who go with fish directly to the Straight, Spain, or Portugal, to purchase there, if purchased of British merchants, certain articles, and to carry the same, so purchased, directly back to America, so far as it would avoid the round-about trade, persevering, and even extending at the same time the British market, has been for twelve or fourteen years successively recommended.

I think in general on this subject, that wherever the monopoly would create a round-about trade, it should not take place; and that wherever it hath occasioned any such round-about operation, it should be relaxed; always

ways however keeping in view this object and end, namely, that so far as our colonies are to be considered as an institution, established and directed to encrease the naval force of our marine empire, and so far as that force derives in any degree from the operations of their commercial powers, so far that monopoly, which engrafts them upon our internal establishment, is indispensable, and ought never to be departed from or relaxed. The sovereign power, which hath the care of the defence and strength of the empire, ought never to permit any the most flattering idea of commercial opulence to come in competition with the solid ground of strength and defence. In this way of reasoning I find myself joined by you, who reason in the same way, and almost in the same words, when speaking of the act of navigation you say, that, “ al-
 “ though it be not favourable to foreign commerce, or to the growth
 “ of that general opulence which might arise from it, yet, as defence
 “ is of much more importance than opulence, it is the wisest of all the
 “ commercial regulations of England”. On the ground and deriving my reasoning from the same principle, I say, that the monopoly is of the same spirit; is not only wise, but is also necessary, and that it is not the monopoly, but the injudicious undistinguishing application of it, without that reason which alone can justify it, and in channels where it necessarily creates a round-about trade, which renders it disadvantageous, not only to the colonies, but to the general community of the empire.

As no round-about trade, unless where the obliging the colony trade to submit to such, is necessary to the system of defence, should be occasioned, but should even, where it has taken place, be relaxed, so, on the contrary, * I have always thought, that a circuitous operation in the colony trade, as the think which of all others tend most to increase and extend the American markets for British manufactures, should be allowed and encouraged, provided that trade in its circuition keeps its course *in an orbit that bath Great Britain for its center.*

Having thus shewn, simply to the point of stating the case, not arguing it, that a circuitous commerce and a round-about trade are two very different and distinct things, having very different operations and very different effects: having shewn that the circuitous trade is very advantageous, while a round-about trade is always detrimental, but that the circuitous commerce of the colonies is not that hurtful round-about trade which you treat as occasioned by the monopoly, I will now proceed to examine, under their several heads, your application of the principles which you lay down in your analysis, as what directs your synthetic reasonings on the commercial institutions which have taken place in the British œconomy.

* Vide Administ. of the British colonies, Vol. I. C. VIII.

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Although I perfectly agree with you, that the *restraints on the importation* of such foreign goods as can be produced cheaper at home are useless; and that the laying restraints on the importation of such as cannot be made so cheap at home, answers no good end, but may be hurtful; although I allow, that these measures, as a kind of institution of monopoly in favour of internal industry in preference, or to the exclusion of the produce of foreign industry coming to it, does not always tend to encourage the home industry, but, on the contrary, gives a false turn to it, puts it on a false ground and profit, and may have the effect of forcing an unprofitable labour: yet I am unwilling to quit the principle of encouraging the first efforts of home industry, if employed on home commodities in the home market, as I think the principle, applied only in cases where it is wanted, may be very beneficial; I had rather, in my notions of political œconomy, abide by the principle, and examine, upon each application of it, how it does or does not operate to encourage a profitable industry, skill and habit in peculiar branches of labour, which the society has to learn, and which learnt will be profitable. If a society, which once used to send abroad its rude produce to purchase manufactures made of that very rude produce so sent out, and which it knew not how to work up, had never been, by some adventitious aid, over and above what the sources of the first efforts of its industry could have given, encouraged to begin in trials of its skill; if the individual is not, while he is learning his trade, and the skill of working profitably in it, supported in part, he can never attempt to learn it; if the society does not pay for the learning, it can never have it; although it be true at first that the *apprentice* (for by that name I will express the first efforts of a manufacture) is not employed to the greatest advantage, because he might buy the articles which he is learning to make, cheaper than he can make them; although the community pays this difference; although these efforts, thus artificially forced, are at first disadvantageous and unprofitable to the community: yet by his industry being so directed to, and so supported in a line of labour, which he could not naturally have gone into, nor could have supported himself by, these first efforts, which the community pays for, do by repeated exercise produce skill, which in time will work as well, and enable the home manufacturer (if his labour is *employed on native home rude produce*) to sell as cheap, and soon cheaper, than the foreign workman and manufacturer; his labour then will become profitable to himself, and advantageous to the community of which he is a part. It was thus our woollen and hardware manufactures were first encouraged and supported; but the very same principle, and the same reasoning upon it, hath always led me to a persuasion, that no aids of a monopoly in the home market, nor no bounties, can ever force a manufacture founded and *employed on foreign rude materials*. It is an attempt, by robbing Peter to pay Paul, to establish a trade,
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the natural profit of which cannot support the establishment, and the loss of which must be made up to it by payments from the society at large. Against such your principle, in the full force of its arguments, stands unanswerable. Such is the linnen manufacture wrought on foreign line and flax; such is the silk in some degree; this last, however, so far differs, as that rude material may be imported full as cheap as any rival country in Europe can raise it.

You think, the restraints upon the importation of live cattle and corn an unreasonable and ungenerous monopoly, for that the grazing and farming business of Great Britain could be but little affected by a free importation of these, and not in the least hurt. As, on the contrary, I think, any change in this part of our system might be attended with the most important consequences, especially to a class of people who bear the chief burthen of all the taxes, and are the support of the state of the community. I own, I tremble for the change, and should hope this matter may be a little more thoroughly explored, in all the effects of its operation, before any such idea becomes a leading doctrine.

You have with clear and profound reasoning * shewn, that in an improving state of the community, the prices of cattle and of butchers meat, and the lesser articles of the supply must start, and continue to rise until they come to such a rate, as shall make it worth the farmer's while to cultivate the land, which he rents, to the purposes of breeding and feeding such cattle, and to the raising these other articles for the market; this you properly call *the natural progress of improvement*, and these rising values *the natural course of prices*. If a free importation of cattle and of these lesser articles should be allowed, this *adventitious supply* coming from countries which have great wastes for breeding cattle, which do not pay such heavy taxes, and which are not arrived at that degree of improvement in which this country is found, such importation *must derange this scale of natural prices, and must arrest this progress of improvement in its course*. If such foreign-country can breed and feed, and afford to import and bring to market cattle and these lesser articles cheaper than our grazer can, the grazing business at home must cease. Well—but say you, if under these circumstances grazing will not answer, the land will be broken up for tillage. But here again, if a free importation of corn, on a like plan, derived from such reasoning on these principles, is, as you recommend, permitted, that branch of business, not capable of farther extension, and met at market by such importation, will be at a stand, and finally become retrograde; we shall be obliged to give up all our improvements, and return to our wastes and commons. In order to obviate in some measure these objections, a kind of distinction is made between the importation of lean and fat cattle.

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* B. I. C. II. Part III.

The importation of lean cattle would not, says the argument, hurt, but benefit the feeding farms. The breeding farms, however, would be ruined; and there is a link of connection, which so allies the whole progress of country business in one chain of intercommunion, that all in the end would suffer and be undone.

A second palliative used to obviate these objections, which naturally arise against this idea of giving up our system of restraints on importation of cattle, * is, that the importation of *salt provisions* could never come in competition with the fresh provisions of the country. To try how this would operate, let us suppose that the Victualling-Office, as the law now stands, is in the ordinary course of taking great quantities of cattle, and in the extraordinary demand which war occasions, takes off a proportionate increased number; this of course raises the price of the grazers sales, and countervails, in some measure, with the landed interest, the burthen of the increased taxes. But if a free importation of salt provisions is to take place as a settled system, the English grazer, while the war increases his burthens, and raises the price of every article which he purchases, is himself met at the market by a competition brought against him from a country that does not bear this increased burthen; and he cannot therefore find that *natural scale of price*, which the maintenance of his business and relative state in the country requires; he must be ruined, and the land soon rendered incapable of paying its rents, and of raising those very taxes.

In the same train of reasoning you think, that a free importation of corn could very little affect the interest of the farmers of Great Britain, because the quantity imported, even in times of the greatest scarcity, bears so inconsiderable a proportion to the whole stock raised. From this argument, founded in fact, you think the farmers could have nothing to fear from the freest importation; and you reproach them on the account of the system of restraint against free importation of corn, as forgetting the generosity which is natural to their station, in demanding the exclusive privilege of supplying their countrymen. If here, Sir, you had weighed well a distinction which Mons. Necker † has, with exquisite precision, explained, you would have spared this reproach. It is not the ratio of the quantity of corn exported or imported, and the quantity of the whole stock raised, but the ratio between the *surplus* and this quantity exported or imported, which creates the effect; it is not a ratio of $\frac{1}{577}$, but a ratio of $\frac{1}{15}$, which acts and which operates on the market; it is not the $\frac{1}{577}$ part, but the $\frac{1}{15}$ th part which would operate to the depression of the market and the oppression of the farmer.

Chearful under the burthen of the taxes, and spiritedly willing to pay them in support of his country, he only wishes to enable himself to do so from his industry, and the natural profits of it at his own market, without having that
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* Vol. II. P. 41.

† Sur la Legislation & le Commerce des Graines.

market loaded from an external supply, and depressed by a competition from countries which are not in that state of improvement, and do not pay those taxes, which he must add to his price, if he is to live and pay them; he does not desire the *exclusive* supply, but a fair and equal market on the natural scale of prices, which shall give vent to his supply; this surely he may do without reproach. On the contrary, were it possible to suppose that the country gentleman could be persuaded to change the system, and give up the security which the restraint on importation gives him in his interest, he would deservedly incur the real reproach of having lost that practical sense, which the country gentlemen have always hitherto been found to have, when they come to real business.

But I think you rather misrepresent our system of restraint on importation of corn; it does not absolutely prohibit corn from being brought into the country, and does not establish *an exclusive supply* in the country land-owner; it only restrains such an importation as may either in quantity or price injure the free and fair vent of our own supply in our own market, at such prices as the general state of the improvement of the community and the scale of prices, which is the natural consequence, require.

From the consideration of our restraints on importation of corn, whose operations act as a bounty, you proceed to the consideration of the direct BOUNTY which our system gives *on the exportation of corn*, to which you make the like, but stronger objections. As you seem on this subject to have adopted the reasoning which * Mr. Necker uses, and to have copied it closely; and as his book, as well as your's, will carry great authority with it, I will in this place examine both your objections *ensemble*.

Contrary to the common use made of the popular argument in favour of the measure, you both say, the measure has a direct tendency *in the instant* to raise the price of corn in the interior market, and to enable the merchant to introduce it into the foreign market at a lower price. What you say is fact, and the truth rightly understood; and yet while this measure encourages a plenty, overflowing with a constant succession of surplusses, it hath a tendency, *in a series of times taken together*, to lower the price. That our measure of the bounty has not been the sole cause of lowering the price of corn, Mr. Necker gives a decisive proof in fact, which you † copy. That the general lowering of the price of corn is not owing to the English measure of *the bounty on exportation*, is (he says) plain, because the same general lowering of the price has taken place in France in the same period, where a direct contrary system, *a total prohibition of exportation*, hath invariably prevailed till very lately. You add to his argument an assertion, “ that it raises however *not the real but nominal price only*, “ and is of no use to the landed interest.” There is perhaps (you say) but one
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* Sur la Legislation & le Commerce des Graines.

† Vol. I. P. 248.

