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01

Political Economy.

CHAPTER I.

Definition of a few Terms employed in the following Essay.

It is generally admitted that political economy is a science not yet fully understood. In which case, nothing is more natural than to suppose that terms may be required to express discriminations of meaning, which, in fact, may never before have been made. I trust, therefore, that there can be no objection to my adopting language to express such distinctions, as it may appear in the course of this Essay either necessary or desirable to establish, or even, for the sake of precision, to define for myself the meaning in which I may employ words already in use. The following are a few terms that I shall take the liberty of using in the sense which they are explained to convey :

VALUE, in common language, has two meanings: it either refers to the price of a commodity, or its usefulness. Water, though not worth money, is valuable; such a person is also a valuable man, &c. In this sense it has no reference to price. On the other hand, it is usually said, that the value of a thing is what it will bring: we value our goods at the price for which we think they will sell. In this case it is synonymous with price. Value, in use, however, is not a term required in political economy, which treats only of the exchangeable value of commodities, while price expresses exchangeable value as well as any other term. I shall, therefore, use the term value, to express the cost of a commodity, in labour, materials, profit of capital, &c.; the price at which it can be produced to indemnify the cultivator or manufacturer, after paying for the labour, rent, profit, and other charges incident to it; or in speaking of any thing not the produce of materials and labour—such as land, I shall employ it, as it commonly is used, to express its price at par, or its average value according to the interest of money, or by whatever general principles its value is determined. A person will sometimes give more for an estate than it is worth, or may sometimes purchase it for less. Its value, however, by judges, is estimated according to the current

price of land. If a person choose to give more, or take less for an estate than it is worth, that does not alter its real value. Also in mentioning money, value is used. We never speak of the price, but always of the value of money.

PRICE.—Commodities are very seldom sold for their precise value in the market, according to the foregoing definition; though they may be so upon the average. They are continually fluctuating, like the pendulum of a clock, on one side of their value or the other, and yet constantly gravitate towards it. The market value of a commodity we shall, therefore, term its price; thus distinguishing it from value, the cost of its production: the price and value being the same only when the commodity is at par, and sells for the fair remunerating price necessary to pay its producer. By the same rule, the price of an estate is what it sells for; its value, what it is worth; and only when it sells at its value, is its price and value the same.

COMMERCIAL CONSUMPTION.—It is of no importance to the manufacturer or grower of a commodity what becomes of it after he sells it. It is, so far as regards the commodity sold, as much consumed to him if put into a warehouse as if it were put into the fire; consequently all commodities in the hands of merchants, shopkeepers, &c. so far as he is affect-

ed, are consumed. That demand which influences his production has taken place; and to distinguish this from *actual*, I have termed it *commercial consumption*.

PRE-EXISTING MATERIAL PRODUCE.—The materials of which the manufactures and commodities that we consume are composed, are of two descriptions: those which are the produce of the soil, and those which pre-exist in nature, and are abstracted from it by labour or art. All experience points out that the former is the basis of wealth, and the latter its superstructure. The richest mineral productions are of no value in a country with a barren soil, except in so far as they will exchange for the productions of one more fruitful. In political economy their value is of course determined by different principles; hence it will not be improper to give them separate designations. Those materials, therefore, which pre-exist in nature, and are by some mechanical or chemical application of labour or art, extracted from it, are termed *pre-existing materials*, or *pre-existing material produce*.

VICTUAL PRODUCE.—The produce of the soil may be divided into two descriptions: that which is used for food—such as corn, beef, rice, coffee, sugar, fruit, &c. and those materials which form the basis of manufactures, and other articles of convenience—such as hemp,

flax, cotton, wool, wood, &c. In speaking of the former, it is not unusual for political economists to express them under the general head of corn. In doing this, however, a particular explanation is always necessary, to avoid which, the term *victual produce* is employed.

MATERIAL PRODUCE consists of those materials, the produce of the soil, which form the base of manufactures as above described, and which are thus distinguished from victual produce on the one hand, and pre-existing material produce on the other. Material produce also naturally divides itself into animal and vegetable. This distinction, however, is not necessary for the purpose of our argument.



CHAPTER II.

Use of Money.

MONEY is not wealth. It only conveys the power of obtaining those things which compose it. Wealth consists in the necessities, comforts, conveniences, and enjoyments of life. This nation is the richest in the world, yet the principal part of its money consists of a paper currency, which is intrinsically not worth the ten-thousandth part of the value it represents. When in its greatest prosperity, it had the least amount of the precious metals in circulation. Paper, however, answered the purpose quite as well, and proves, if proofs were wanting, that wealth does not consist in gold and silver. This country was never more rich and flourishing than a few years ago, when it had the least of them. If wealth had consisted in gold and silver, instead of the richest, we must then have been one of the poorest nations in the world. No nation, not entirely barbarous, had at that time less of them than we had. We still, however, have an itching palm for gold; we parted with what we had reluctantly, and

are extremely desirous to have it back, though we are certainly not the richer since it became more plentiful.

The wealth of a country consists in the abundance which it may possess, of those necessities and conveniences, the produce of land and labour, which furnish the support, and contribute to the enjoyments of life. That part of the aggregate wealth of a nation which forms the wealth or income of each individual, consists of some particular description of the labour or produce, of which the whole is composed. The income of one person is derived from land which produces corn, another from land which produces cattle. One has a tin mine, another a mine of coal, one man makes nails, another shoes, &c. Thus the income of each individual is generally derived from contributing to some particular want of a great many different persons. On the other hand, the necessities and luxuries which each individual requires, take some portion of the labour and produce of as great a variety of persons to supply. And it is necessary for him to exchange that in which his income consists, with all those who may desire a part of it, in order that he may procure from them that portion of each of their labour or produce which he requires for himself. In order to facilitate these exchanges, money is necessary. "When

“ the division of labour” (says Smith, in his Wealth of Nations) “ has been once thoroughly established, it is but a very small part of a man’s wants, which the produce of his own labour can supply. He supplies the far greater part of them by exchanging that surplus part of the produce of his own labour which is over and above his own consumption, for such parts of the produce of other men’s labour as he has occasion for. Every man thus lives by exchanging, or becomes in some measure a merchant, and the society itself grows to be what is properly a commercial society.

“ But when the division of labour first began to take place, the power of exchanging must frequently have been very much clogged and embarrassed in its operations. One man, we shall suppose, has more of a certain commodity than he himself has occasion for, while another has less. The former consequently would be glad to dispose of, and the latter to purchase a part of this superfluity. But if the latter should chance to have nothing that the former stands in need of, no exchange can be made between them. The butcher has more meat in his shop than he himself can consume, and the brewer and the baker would each of them be willing to purchase a part of it. But they have nothing

“ to offer in exchange except the different productions of their respective trades, and the butcher is already provided with all the bread and beer which he has immediate occasion for. No exchange can in this case be made between them. He cannot be their merchant, nor supply them, and they are all of them thus mutually less serviceable to one another. In order to avoid the inconveniency of such situations, 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 a 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.

“ Many different commodities, it is probable, were successively both thought of and employed for this purpose. In the rude ages of society, cattle are said to have been the common instrument of commerce; and though they must have been a most inconvenient one, yet, in old times, we find things were frequently valued according to the number of cattle which had been given in exchange for them.

“ The armour of Diomede, says Homer,

" cost only nine oxen; but that of Glaucus
 " cost an hundred oxen. Salt is said to be the
 " common instrument of commerce and ex-
 " changes in Abyssinia—a species of shells in
 " some part of the coast of India—dried cod
 " at Newfoundland—tobacco in Virginia—su-
 " gar in some of the West India colonies—
 " hides, or dressed leather, in some other coun-
 " tries; and there is at this day, a village in
 " Scotland, where it is not uncommon, I am
 " told, for a workman to carry nails instead of
 " money to the baker's shop, or the alehouse."
 " In all countries, however, men seem at
 " last to have determined, by irresistible rea-
 " sons, to give the preference, for this employ-
 " ment, to metals, above every other com-
 " dity. Metals can not only be kept with as
 " little loss as any other commodity, scarce
 " any thing being less perishable than they
 " are; but they can likewise, without any loss,
 " be divided into any number of parts, or, by
 " fusion, those parts can easily be united again,
 " a quality which no other equally durable
 " commodities possess, and which, more than
 " any other quality, renders them fit to be the
 " instruments of commerce and circulation.
 " The man who wanted to buy salt, for exam-
 " ple, and had nothing but cattle to give in
 " exchange for it, must have been obliged to
 " buy salt to the value of a whole ox, or a

" whole sheep at a time. He could seldom
 " buy less than this, because, what he was to
 " give for it, could seldom be divided without
 " loss; and if he had a mind to buy more, he
 " must, for the same reasons, have been obli-
 " ged to buy double or triple the quantity, the
 " value, to wit, of two or three oxen, or of two
 " or three sheep.
 " If, on the contrary, instead of sheep or
 " oxen, he had only metals to give in ex-
 " change for it, he could easily proportion the
 " quantity of the metal to the precise quantity
 " of the commodity, which he had immediate
 " occasion for. Different metals have been
 " made use of by different nations for this pur-
 " pose. Iron was the common instrument of
 " commerce among the ancient Spartans—
 " copper among the ancient Romans—and
 " gold and silver among all rich and commer-
 " cial nations."
 " By a modern improvement, however, in com-
 " merce, a paper currency, founded upon pub-
 " lic confidence, is found to answer the same
 " purpose as the precious metals, and in this and
 " other countries has been principally substitu-
 " ted for them.
 " The comparative value of commodities is de-
 " termined through the medium of money, on
 " the axiomatic principle, that things which are
 " equal to the same thing are equal to each

other. Thus if my labour or commodity be worth a pound, it is of equal value, and will, through the medium of the pound for which I sell it, exchange for any other commodity worth a pound, which I may require. The object of every individual, therefore, is to get as much money for his labour or commodity as he can, not that the money is of itself of any value, but that the exchangeable value of his commodity or labour is thereby determined. If it is equal to, or worth, a given sum of money, it is equal to, and will command any other quantity of labour or commodities of the same value in money, whether such quantity be great or small. Hence, as most people have a general idea of the present value in money, of such commodities or luxuries as they require, by ascertaining the value in money, of their own produce or labour, they can form a tolerably correct estimate of the share of the general wealth of society which they possess.

Money is thus a scale by which wealth is estimated, and though it is not wealth, more than a barometer is weather, yet it is our only mode of computing it, and nothing, perhaps, is more natural than that the shadow should sometimes have been over-valued, or even taken for the substance.

The Money in the World is always sufficient for the Use of it.

If there were twice the quantity that there is at present, it would not purchase more commodities than the amount now in circulation; or if there were but half the quantity, it would not purchase less. No alteration in the amount of money in the world, can alter its total value in that which composes wealth, the necessaries, comforts, and conveniences of life. If there were twice the quantity, the nominal price of commodities would be altered; they would be twice the price all over the world. It would take double the sum of money to purchase the same quantity of wealth; but that being the case, the whole money in circulation would only then be worth the same commodities as now. By the same rule, if there were but half the present money in the world, commodities would be half the price, and it would still command precisely the same amount of the enjoyments of life. The world, in neither case, would in the slightest degree be either richer or poorer.

What is the case with the world at large, is also the case with any particular nation, in so far as the commodities of that particular nation are

concerned. As the quantity of money increases, the value of it depreciates, and the prices of the national commodities rise; the additional quantity of money brought into circulation, merely altering its nominal value. In countries, also, where the quantity is reduced, its nominal value is increased, and its total value, with respect to the commodities of the country, is the same.

In neither case are the respective nations richer or poorer by the stock of money increased or reduced, in so far as the value of the money itself is concerned.

Such alterations, however, continually take place. They are generally produced by the foreign trade of nations, and though with respect to the produce of the respective countries in which such changes take place, the effect is a mere alteration of prices, yet it is attended with important consequences, in regulating the trade of nations with each other, which will form the subject of the next chapter.

CHAPTER III.

Balance of Trade.

THE monied price of the produce of a nation determined by the quantity of money in it, not only affects the price of that which is consumed at home, but that which is sent from home and consumed by foreign nations. In trading with each other, nations compute the value of their respective commodities in money the same as individuals. The commerce of nations is, indeed, merely a number of individual transactions. In the international account, the value of commodities, whatever the respective quantities may be, is only known by their monied price.

Dr Smith says, "though at distant places there is no regular proportion betwixt the "real" (which he establishes to be their value "computed in labour) "and the money price "of commodities, yet the merchant who carries goods from one to the other has nothing "to consider but the money price, or the difference between the quantity of silver for "which he buys them, and that for which he "is likely to sell them. Half an ounce of sil-