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-

" ver at Canton, in China, may command a
" greater quantity both of the labour and of
" the necessaries and conveniences of life than
" an ounce in London. A commodity, there-
" fore, which sells for half an ounce of silver at
" Canton, may there be really dearer, or of
" more real importance to the man who pos-
" sesses it there, than a commodity which
" sells for an ounce at London, is to the man
" who possesses it at London. If a London
" merchant, however, can buy at Canton for
" half an ounce of silver a commodity which he
" can afterwards sell at London for an ounce,
" he gains a hundred per cent. by the bargain,
" just as much as if an ounce of silver was at
" London exactly of the same value as at Can-
" ton. It is of no importance to him that half
" an ounce of silver at Canton would have
" given him the command of more labour, and
" of a greater quantity of the necessaries and
" conveniences of life, than an ounce can do
" at London. An ounce at London will al-
" ways give him double the command of all
" these, which half an ounce would have done
" there, and this is precisely what he wants.

" It is the nominal or monied price, there-
" fore which finally determines the prudence
" or imprudence of all purchases and sales."

The profits of trade, however, are equal upon the average, and are determined by the

capital employed, in importing the commodity, which is again determined by its original cost in money. If commodities, therefore, sell for little money at home, they sell proportionably low all over the world.

The Trade of Nations, upon the Average, balances.

The commodities which go out of a country pay for those which come in. The value of its exports and imports are equal; when they are not so, the balance is paid in money. By this means, as we have already stated, the price of commodities is raised in the country by which the balance is received, and reduced in that from which it is sent.

The prices of commodities influence their consumption; when they are high, their consumption is reduced; when low, increased. Consequently by the diminished value of money and increase of prices on the one hand, and increased value of money and decrease of prices on the other, the demand is reduced on one hand, and increased on the other, until computed in money, they become equal. To illustrate this principle we shall imagine an extreme case, by way of example.

Suppose a nation was to forbid, entirely, the importation of foreign goods, but to allow the exportation of its own, for payments in money; and the nations trading with it were still, under these circumstances, to allow the trade, on their parts, to be continued, the effect, it is obvious, would be, that, in time, the prices of all commodities would rise so high in the exporting country, that the trade would be put a stop to by their mere exorbitancy.

The policy or impolicy of admitting a trade under such circumstances, would never enter into the calculations of the merchant. So long as the goods which could be bought in one country for money, could be sold for money in the other with a profit, he would continue the trade. While he could gain money by any one commodity, he would continue to export it from one country to the other.

Such a trade, however, must come to an end at last, or in time the whole money of the one nation would be sent to the other.

By the operation of this principle, the trade of all nations is brought to a balance. Should a country possess manufacturing superiority, and a greater demand exist for its commodities than it has for those of other nations, it creates a balance of trade in its favour. This balance is paid in money, by which a rise is produced in the price of its manufactures, and this rise progressively continues until they are sufficiently high to reduce the demand for them to a le-

vel with that demand, which it has for the commodities of other nations. Thus the manufacturing superiority of this country elevates its prices above those of every other. Our consumption of foreign commodities is restricted to the wants of our own population, while the demand of all the world for our manufactures can hardly be said to have limits except those which are imposed by price.

The general state of prices at which the foreign trade of a nation balances, we shall term its *National Prices*, in contradistinction to *Market Prices*. The average market price of a commodity is of course its national price. But according to the scarcity or abundance of the supply, the market price continually diverges from, and gravitates towards the national price, which has reference to the quantity of money in the country, and not to superabundance or scarcity in the markets.

The Accounts of Nations, and their National Prices, have only Reference to Metallic Money.

When the trade between countries balances, or those payments, when that is not the case, which are not made with the precious metals, are settled by means of bills of exchange, a merchant of one country, who ships goods to his correspondent in another, if he does not order his correspondent to ship for him goods to as great an amount in return, draws a bill upon him for the value of the commodities which he ships. This is sometimes done by the merchants of both nations. Bills are drawn indiscriminately at both ends, as with this country and Holland; and sometimes it is the practice to draw from one end only, as in the trade with America.

In the former case, there are foreign bankers or dealers in foreign bills, at both places, who have correspondence with each other. To these bankers the bills at both ends are sold, and remitted by them to each other to be received. If the bills drawn at both ends are of the same amount, saving the banker's profit for his trouble, they are worth the value in money for which they are drawn, and the price of bills, or exchange as it is called, is at par. But if the bills drawn in one country are of greater amount than those drawn in the other, the banker who purchases them will have to receive the balance in money. The expence of transporting this money, however, will amount in freight, insurance, &c. to 4, 5, 6, or 7 per cent. Independent, therefore, of the regular discount for his trouble, he cannot purchase the bills, without he has them for as much less

as will cover the expence of importing the money to be received for them. The variation in the exchanges or price of bills can never, of course, much exceed the expence of transporting money from one country to the other. When there are, to any extent, more goods ordered of a nation than by it in return, bills upon it usually attain this premium. The exchanges are stated to be in its favour, and money is remitted in settlement of the national balance, until from the increased price of commodities, a check is given to that demand for them by which it was created, and bills fall below that price at which money can be remitted.

When there are no regular bankers established in countries trading with each other, the bills are all drawn one way. In the trade between this country and America, bills are all drawn upon England. In that case, one bill settles two transactions. A. in New York, ships a quantity of flour to A. in Liverpool, without ordering goods in return. B. in Liverpool, also, without receiving goods in return, ships an equal value of British manufactures to B. in New York. The established practice being for all bills to be drawn upon England, A. in New York draws on Liverpool for his flour, and sells the bill to his neighbour B. who remits it to Liverpool, in payment for his goods. If bills are scarce, B. in New York might have to remit money at a certain expence, in payment of his goods; he will, therefore, rather give as much extra price for a bill as this expence amounts to, than incur the trouble of sending money. If they are plentiful, and cannot be sold, A. may have to be at the expence of transporting the money from Liverpool to New York, for which his flour sells. Rather than do this, he will also take as much less for his bill, as the expence of transporting the money amounts to. If, however, the shippers at both ends were to draw bills, and there were no bankers to buy them, neither of the bills would sell. Wherever, therefore, bankers are not regularly established, all bills must necessarily be drawn only one way.

Thus the exchange is the price of bills, and, the weight and fineness of the coins of different countries being determined, it is at par when a bill will sell in the country where it is drawn, for as many pieces of money of whatever denomination, as shall be equal or equivalent in weight and fineness, to the number of pieces of money for which it is payable in the country upon which it is drawn. Thus we shall say, if six silver rix dollars, current in St Petersburgh, have as much value of silver in them as one pound sterling, a bill drawn in St Petersburgh upon England for £100, will sell, when the exchange is at par, for 600 rix dollars. Should, however, the coin of St Petersburgh become

clipped or defaced, and reduced in weight by wear, it may take 6½ or 7 rix dollars to make one pound sterling; consequently, before a remittance of such money could be made to England, bills upon England must not only be at such a price as would cover the expence of transporting the money with a profit, but make up this deficiency in the weight of the rix dollar also. The real par of exchange would be 650 or 700 rix dollars for £100, as it would take that quantity coined into English money to make one hundred pounds sterling. The par of the exchange, however, having been previously determined, before the rix dollars were defaced, at six to the pound sterling, in all tables of exchanges, the exchange would nominally appear to be in favour of England, by the amount of this depreciated value of the Russian currency. The same is the case when the bills are drawn payable in a paper currency, which does not bear the value it represents. During the existence of the bank of England restriction act, bank notes, in which all payments were then made, became considerably depreciated in value, compared with metallic money. The consequence of course was, that a bill upon England, drawn in St Petersburgh, would sell in St Petersburgh for as much less in metallic money, as the paper currency, in which it was payable, was depreciated below the value of metallic money in England.

By these means, the original par, as determined in books, tables, &c. often ceases to be any measure of the actual par of exchange, and only serves to embarrass and confuse the subject. The proper way to come at the true state of the exchange, is to ascertain what weight of gold and silver a bill is really worth in the country where it is drawn, and the weight of gold and silver it is worth where it is payable; and the comparison of its value will exhibit how the exchange really stands. In determining also the national prices, it is necessary to ascertain whether the currency, if paper, is worth the metallic money it represents, or if gold and silver, whether it contains its original weight in bullion, and if not, to make an allowance accordingly.

The Effect of an Importation of Money into a Nation being merely to raise the Price of Commodities in that Nation, until the Demand for them is checked, and the Trade brought to a Balance, this might be just as well done by the Price of Commodities being raised in any other Way.

The Money of a country may altogether consist of a paper currency, though convertible into gold. As banks increase, the issue of their paper

they diminish the value of money generally. If a guinea note will answer the purpose of one guinea, two guinea notes will answer the purpose of two; and if there are two guineas in paper and gold in circulation before, by adding another, the value of money would be depreciated, and prices increased above the national standard, just the same by the issue being paper as if it were gold. A reduced foreign demand for commodities would follow, and the balance of payments would be determined against the country, which would continue until prices were again brought down to the national level, by gold being sent out of the country, equal to the increased issues of paper that had taken place. This might continue until almost all the gold was sent out of the nation; but when it had nearly disappeared, the banks would be compelled to make their advances with greater caution. Any demand which their issues might create for gold to be sent abroad, for want of gold they would be unable to supply. While there was plenty of it in the country, they might increase them with confidence. But when the principal part of the gold had left it, any increase of issues, which would elevate prices above the national level, would create a demand for gold in exchange for their notes, which they could not answer without loss, and which would render a contraction of their issues, so as to reduce the prices to the national standard, necessary.

With such a tendency in the banks to increase their issues as far as could be done with safety, a balance of trade, in favour of the country, would not be the means of bringing much money into it. The effect would be to allow the banks the opportunity of increasing their issues without producing a balance the other way. By elevating the standard of the national prices, it would admit and produce an increase of local currency. Prices would rise more rapidly, and the trade would be brought to a balance without any considerable, if any, addition to the precious metals in circulation; or if such addition were made, in the first instance, it would be forced out of the country again, by a subsequent issue of bank paper, which would raise prices still higher. The same tendency in the banks to increase their issues, which would render gold unnecessary to the circulation of the country, would also expel it.

If in this manner the trade might be brought to a balance without the aid of the precious metals, or without their continuing in circulation, it might be much more easily done by the state of the exchanges. We will suppose, for example, that with all nations, the transit of money is so effectually prohibited,

that it could not be exported from one country to another.

This being the case, any balance of trade would produce an excessive demand for bills. No transportation of the metals being allowed, the national prices would remain, in both nations trading with each other, unaltered. The respective demands, therefore, of the two countries for the goods of each other, so far as their original cost determined it, would preponderate as before. This preponderance, however, would be checked, and the trade brought to a balance by the price which the bills would attain; and as any reduction in the price of bills, by which this check was produced, would again create the original preponderance of demand, the bills would remain at the price to which they had risen.

Thus if, in the trade between this country and Russia, we suppose the demand for British manufactures to far exceed our demand for Russian produce, instead of bills drawn in St. Petersburgh upon England being worth, upon the average, six silver roubles per pound sterling, they might rise to perhaps twice that, and remain at that price, so that a merchant in St. Petersburgh, importing goods which cost £100 in England, would have to sell them for twelve hundred silver roubles in St. Petersburgh, independent of what would cover his profit and expences, in order to enable him to purchase a bill upon England with which to pay for them. In this transaction there would be nationally no more gain or loss than with an interchange of payments in a metallic money ; for, if the inhabitants of Russia, or other parts of the world, would rather give such prices for British goods, as this state of the exchanges would bring them to, than want them, the national prices in Great Britain, from the balance of payments, produced by such a demand, would necessarily rise to precisely a corresponding level.

While by this state of the exchanges British goods would be double the price in St Petersburgh which they cost in England, Russian produce would be half the price in England which it cost in St Petersburgh. A merchant shipping Russian produce to England, would be enabled to sell the bill he drew for it, for twice the money which the goods cost him. Consequently, if he got half the price in England which they cost in Russia, besides what was necessary to cover his profit and expences, it would pay him.

In the case thus supposed, the national prices would not be altered, while the price of foreign commodities would. Instead of the national prices doubling in this country, the prices of foreign commodities would be reduced one

half. Whereas in Russia the consumers would, perhaps, know no perceptible difference, and it would be perfectly immaterial to them whether the high price of British goods arose from the price of bills upon England, or the general state of prices in it.

When the national prices of any particular country are raised by an importation of gold and silver, they will be met by a corresponding reduction in the price of commodities in the countries trading with it. But, as with England, which trades with all the world, its national prices might be raised very high, by the importation of the precious metals, without any perceptible reduction in the prices of all the world. Hence, it is probable, that in the case supposed, there would be no perceptible difference between the prices at which British goods would be sold in Russia, whether they arose from the metallic currency of the rest of the world being poured into Great Britain, or from the state of the exchanges.

If, by any improvement in the monied systems of Europe, paper currencies were altogether substituted for metals, the commerce of the respective countries would be brought to a balance in the manner described. The national prices would remain steady, and the fluctuations of foreign trade would merely affect the prices of foreign commodities.

By the foregoing, it at least clearly appears, that the foreign trade of nations always, upon the average, balances. The exports of every country pay for its imports.

Now, if I were to make a piece of cloth, which took me the labour of a month, and exchanged it with another person for any other commodity, having made the best exchange I could, it would be of no importance to me whether the commodity I purchased took six months, or six days labour, to produce it. Its cost to me would be one month's labour. The same with the produce of land. Were I to exchange a given quantity of the produce of my land for a given quantity of any other produce of land, the cost to me would not consist in the land and labour which the commodities I purchased took to produce them, but of the land and labour which it cost me to produce those commodities which I gave in exchange for them. Did I make these exchanges through the intervention of money, it would be the same as if by direct barter of commodity for commodity.

What is the case with individuals is also the case with nations. The original cost of foreign commodities, in the land and labour which it took to produce them, is no part of their cost to the nation importing and consuming them. Their cost, to it, is the produce of its own land

and labour, with which they have been purchased. Consequently, in consuming foreign commodities, a nation does but indirectly consume its own.

The expenditure of a country is regulated by its income in money, and every individual in this country who consumes one pound's worth of foreign commodities, consumes one pound's worth of British land and labour, which was given in exchange for them.

Hence, in the reasonings of political economy, it is unnecessary, in computing the expenditure and consumption of the income of a nation, to refer to its consumption of foreign produce, which is only an indirect consumption of its own. In speaking, therefore, of the expenditure of British income, we speak of the consumption of British produce, which, though indirectly, is, in reality, as much consumed when we consume foreign commodities as if we had no foreign trade and foreign luxuries, but consumed the produce of our own land and labour at home.