BOOK THIRD.

EXCHANGE.

CHAPTER I.

PRINCIPLES WHICH FORM THE BASIS OF EXCHANGE.

1. *Exchange is the mutual and voluntary transfer of the right of property held by different persons.* This definition implies three things: 1. That there is such a thing as *a right of property*. This right is universally acknowledged, except by a few extremists and doctrinaires. It arises from the creation of value through labor. The advantage thus achieved naturally belongs to the parties putting forth the labor, if it be the result of their labor alone. If this labor be united with capital in the production, then a proportionate part belongs to the laborer, and the remainder to the owner of the capital. Each owner has the right to transfer his ownership to another. 2. In order to an exchange, this transfer must be *mutual*. If only one of the parties makes a transfer, and there is no consideration, it is a gift. 3. It must also be *voluntary*. If one is forced to relinquish one's right, it may be robbery: it is not exchange.

2. The one great and essential want of man is *association*. We are created with divers abilities, tastes, and aptitudes. These constitute our *individuality*, which, as we have seen, is not only compatible with association, but necessary to it. It is the very diversity of human character which makes men dependent on one another, and thus renders association indispensable. It is this general principle which underlies exchange. It is the same as that which gives rise to the combination and division of labor in production. There are usually some very few kinds of labor to which each individual is adapted. Yet the variety of productive work is so great that each may easily find some place in which to exercise his particular gift. But, while man is thus limited in his individual productive capabilities, his desires and wants are almost limitless. Each can produce much more of one commodity than he can use; but he can and will, if possible, consume many more than he can produce. He can create a single kind of value: he desires a thousand kinds. Hence arises exchange. Herein we find one of the chief of the elements which constitute human society. Commerce is a necessity of man's nature: it is the means that binds up together, and holds in harmony, the multifarious elements and interests of a community.

3. The same general principles govern in exchanges between nations and remote communities. Yet it is to be noted and particularly considered, that the diversity existing between individuals must be greater than that between communities. The reasons for this have already been given. That the majority of individual occupations should exist in each community, rather than be distributed among several, is obvious. Yet God has so ordered, that there are natural diversities in nations, as well as in individuals. Every nation has some capability or facility which no other has.

4. The words *commerce* and *trade* are, in common conversation and by most writers, used as nearly synonymous and interchangeable. Mr. Carey makes a clear, and, as it seems to me, a reasonable distinction between these terms, and assigns to each a peculiar meaning. *Commerce* he defines as the intercourse of men with each other in the exchange of services, commodities, or ideas. *Trade* is the business of making exchanges *for* others. Commerce is the *object* sought

to be accomplished: trade is the *agency* by which it is accomplished.

There are certain obstacles to direct exchange, which cannot be surmounted except by some kind of intermediate agency, and this makes the trader necessary. In this respect and to this extent, trade aids instead of antagonizing commerce. It is certainly better for the community, that there be places of resort where every one is likely to find that of which he is in want, than to have to seek it among a variety of producers. Especially is this the case if the article is not produced in the vicinity. So, also, if one have an article of which he wishes to dispose, it is better to have some place where he is practically sure of finding a purchaser, than to spend days in the search for one. But the greater the number of commodities produced among themselves, and which are needed by members of the same community, the fewer will be the traders necessary to be employed, and the less costly will be the process of exchange.

CHAPTER II.

THE LAW OF EXCHANGE.

1. THE general law of exchange is *value for value.* This is implied in one of our previous statements concerning the essential nature of value; namely, that it is the quantity of one commodity which may be equitably exchanged for a given quantity of another. It will be still more clearly seen if we recall our final definition: *Value is our estimate of the sacrifice requisite to secure the possession of a desired object.* This sacrifice, as we have seen, usually involves both labor and abstinence. It is sometimes spoken of as the *cost of production,* though the meaning of this expression is somewhat modified in use. But the amount of labor implied in the production of a commodity is primarily and substantially what is meant by its cost.

Now, when two commodities come into the market, they will exchange for each other in quantities which will be inversely as the cost of production. If it require the labor of one day to produce a pair of shoes, and the labor also of a day to produce three bushels of oats, then the rule of exchange would be three bushels of oats for a pair of shoes. If it costs as much to produce sixty pounds of wheat, and bring it to the market, as it does to produce and bring to the market five pounds of beef, then the value of the latter is the same as that of the former; and they may be equitably

exchanged for each other. This is the natural rule, and this is what is meant by value for value.

2. There are, however, various conditions which modify the operation of this law. The chief of these arises from the relations of supply and demand to normal value. Of these I shall speak hereafter. At present, let us recall the fact that value is a relative term. For this reason, there can be no such thing as a *general rise or fall of values.* If the value of any one thing rises or falls, that of something else must do the opposite. If all commodities are put in two classes, the value of one being expressed in terms of the other, they cannot both lose or gain at the same time, any more than the two arms of a balance can ascend or descend at the same time. If the value of the one is increased, the value of the other is diminished in an exactly corresponding ratio. So, if the value of thirty or forty or a hundred articles change, there must be a corresponding opposite change in the value of some other article or articles. If the value of the aggregate of all commodities save one be diminished, the value of that one will be increased in the exact corresponding ratio. It makes no difference whether this be leather or cloth or wheat or *money.*

3. We now come to consider *supply and demand* in relation to value. The natural value of a commodity is that which corresponds with the cost of its production: it is the central value, or that toward which the market value is "constantly gravitating, and any deviation from which is but a temporary irregularity, which, the moment it exists, sets forces in motion tending to correct it. On an average of years sufficient to enable the oscillations on one side the central line to be compensated by those on the other, the market value agrees with the natural value; but it very seldom agrees with it at any particular time. The sea everywhere tends to a level, but it never is at an exact level. Its surface is always ruffled by waves, and often agitated by storms. It is enough that no point, at least in the open sea, is permanently higher than another. Each point is alternately elevated and depressed; but the ocean preserves its level."[1]

In attributing to supply and demand the cause of this fluctuation of values, is implied the necessity of explaining these terms, not merely in their intrinsic signification, but in their relation to each other. To define them superficially, as applied to commercial affairs, is not difficult. Thus *supply* may be regarded as the total amount of any particular commodity which is in the market, and *demand* as the total amount which the community desires to purchase. If there is more than the usual amount offered for sale, there will ordinarily be a competition among the sellers; and, as each would sell at something less than the usual profit, or, if it be a speedily perishable article, at no profit, or even at some loss, rather than lose the whole, there will be a diminution of prices, that is, of value expressed in money. On the other hand, if there be, for any reason, in the community an enlarged desire to purchase the commodity referred to, while the amount offered for sale remains the same, there will be a competition among the buyers; some, at least, being willing to give more than the ordinary price rather than forego its possession. Hence prices will rise.

The law of supply and demand derived from the foregoing observation is very simple. Other things being equal, 1. The greater the supply, the less the price; 2. The smaller the supply, the greater the price; 3. The greater the demand, the greater the price; 4. The smaller the demand, the less the price; and, generally, the price will vary directly as the demand, and inversely as the supply.

[1] Mill's Principles of Political Economy, vol. i. p. 557.

4. But, in order to a thorough understanding of the subject, more careful examination is required. In the superficial statement previously made, supply represents a *quantity*, and demand a *desire*. But the quantity represented by supply is not always the quantity in existence, but the quantity in the market. Now, not only does the quantity in the market affect the price, but the price affects the quantity in the market. If a farmer bring a load of wheat to market, expecting to sell it at a dollar a bushel, but finds that the price is only ninety cents, he may on that account withdraw it from the market, thus diminishing the supply. In other words, so long as the price is one dollar, the farmer's load is a part of the supply; but at ninety cents the supply is smaller by the amount of that load. Here diminution of price has diminished supply.

So, by the statement previously made, the prominent element in demand is *desire*. But, obviously, mere desire for a commodity does not constitute commercial demand for it. In a town of five thousand inhabitants, there may be a thousand persons who desire diamonds. But there is no demand to this extent; since probably not a hundred, and perhaps not a score, have the ability to purchase diamonds. Hence the meaning of demand is modified to *desire with ability to purchase*. This is sometimes called "effectual demand."

5. But here another phenomenon presents itself. Let us suppose a commodity of such cost that only persons who have an income of two thousand dollars a year can afford to purchase it. By some improvement in the facilities of production, the supply is doubled. According to the general law, the price will fall. Possibly it falls so much as to come within the reach of those whose income is one thousand dollars. Here, evidently, the demand is increased by the diminution of the price. But by the general law the increase of demand increases the price. In this case, as in that of supply, the law is met by a counter law. Another interesting fact emerges here. The diminution of the price has increased the demand to the extent that not only those with an income of two thousand dollars can purchase it, but also those with an income of one thousand dollars. As the latter class is several times more numerous than the former, it follows that the demand is several times larger than when the higher price ruled. This will again increase the price, which will ascend till it reaches a point where only those having an income somewhere between one and two thousand dollars can afford to purchase. This, then, is the general law of prices: they tend to seek the level of the cost of production. When demand and supply from any cause become unequal, the natural competition of both labor and capital immediately operates to restore the equilibrium.

6. So far we have been considering cases where the supply is not restricted, and the production interrupted, by extraneous causes. There are cases, however, where such limitations do exist so that there can be either no immediate increase, or really no increase at all. As an instance of the former, suppose a community in which the crop of grain has been cut off so that there is only one-half or one-third the usual amount, which usual amount was just adequate to the wants of the people. If the community is so separated from the rest of the world that importation is out of the question, it is plain, there can be no increase of the quantity till the next year. In such a case, there would be a great rise of prices, with no corrective principle to restore the natural level.

There is another case where the supply is absolutely limited, not for a season only, but forever. There are certain commodities, to the number of which there can be no possible addition. Such are works of art by famous masters now dead, antique coins, rare volumes long out of print and impossible of imitation, and manuscripts of ancient documents. Of such, the cost of production furnishes no standard of value whatever. If two or three pictures by Raphael or Murillo or Titian were offered for sale in one of our great cities, thousands of persons might desire to possess one of them; but only a very few could do so. If put up at auction, the prices offered by the mass of those who would like to secure them would soon be surpassed by those offered by a small number. This number would be quickly reduced to fifty, then to thirty, to twenty, to ten, and finally to a number equal to the number of pictures for sale; that is, to a number where the supply was just equal to the demand at so high a price.

7. Supply and demand operate in still other ways, and are affected by other causes, than those already mentioned.

1. If there be a suddenly enlarged demand for a commodity not readily admitting of increased production, the price will be likely to rise more rapidly, and to a higher point, than in cases of continuous production and readily multiplied facilities for enlarging the supply. There are articles of which only a limited quantity is kept on hand and for sale in a community of moderate numbers, and which are produced at some distance from the place of consumption. Thus, in a small way, we may have seen this exemplified, when, in the late autumn or early winter, there is but little wood in a village or town, and the roads are so bad that for weeks scarcely any can be hauled from the country. The price will increase more, and more rapidly, than when the scarcity is one the anticipation of which would bring considerable quantities to the market.

2. It also makes a difference whether the article be a

necessary or only a luxury. If it be the former, the price will rise higher and more rapidly than if it were the latter. A man will double and treble his payment for bread, rather than go hungry; but, if diamonds are scarce, one can get on tolerably without them.

3. So, on the other hand, if there were to be a greatly increased supply of a perishable article, the price will fall more rapidly than in case of a more durable commodity. In the early autumn, there may be, in a market-town, two or three times as many peaches as are ordinarily consumed: as these will quickly decay, prices will go far below the natural value, since it will be better for the seller to get back even a part of their cost, than to have them perish on his hands. But if instead of peaches the commodity be cloth or iron or leather, the difference of price occasioned by an overstocked market is comparatively small. There are other cases of variation; but these illustrations are, perhaps, all that are necessary.

CHAPTER III.

THE PROMOTION OF COMMERCE.

1. WHATEVER tends to promote association conduces to human prosperity. Every obstruction to this is a damage. If men are kept apart so that they cannot combine, production will be scanty, and man, in the struggle with nature, will be at great disadvantage. Whatever brings men into such relations that all can minister freely to each, and each to all, furnishes increments of power. We have seen what are the conditions of high productiveness in a community, and that all these are in some way related to association. The same is true in the promotion of commerce.

2. Commerce will be promoted in general by such conditions as will render exchanges easy, frequent, and rapid. It is an advantage to the producer, to be able to dispose of his product as soon as possible after he has completed it. Whatever compels him to retain it on his hands for an indefinite period, or makes the opportunities of exchange remote and expensive, is detrimental to commerce and to all the interests it is designed to subserve. This is more obvious in the case of some commodities than in that of others. Many agricultural products must be sold within the year; others within a briefer period, or not at all. Certain garments and articles of personal decoration must also be sold within a moderate time after their manufacture, or they will become valueless through a change of the fashion.

The more readily a man can sell his own products, the more readily can he purchase those of others. Herein is implied that vigorous societary circulation which is characteristic of prosperous communities. Some of the particular conditions upon which this depends will now be set forth.

3. Commerce is promoted by the *close proximity of producer and consumer*. The first and most burdensome tax which the producer has to pay is that of *transportation*. This is more especially the case with the producer of raw material and of heavier and coarser commodities. It bears with particular weight upon the agriculturist. "If we estimate wheat at one dollar, and corn at fifty cents, a bushel, the value of the former will disappear, or become equal to zero, at two hundred and twenty miles, and the latter at a hundred and ten, if they must be conveyed by teams on common highways. Beyond those distances they will respectively become worthless for the purposes of sale, and the producer can have no pecuniary inducement to raise any larger quantity than suffices for his own consumption. The bulkier products — like potatoes, turnips, cabbages, etc. — become valueless at a still smaller distance. At twenty-five cents a bushel, potatoes cease to afford any remuneration to the grower fifty miles by common roads from markets, even if land were gratuitous, and the labor devoted to their cultivation could be procured for nothing." [1]

All so far said has reference to transportation by common roads. Every means by which this expense is diminished is a means of facilitating commerce. In the earlier periods of society, where there are no roads, and men have not even learned to avail themselves of beasts of burden, it is easy to see that there can be but little association, and the exchanges must be few. When these are brought into use,

[1] E. Peshine Smith, Manual of Political Economy, p. 196.

commerce will increase. When the iron railway supersedes the common road, and when resort is had to canals and water-courses, the obstacles are further diminished. But, under any system of transporting raw commodities great distances, their value is much less than if they were needed for consumption in the neighborhood. A bushel of corn raised in Nebraska will sell for a dollar in Massachusetts; but the producer must pay seventy-five cents to get it there. He may take his pay in cotton or woollen cloth, but he must pay something for their carriage; so that perhaps, counting the expense both ways, he scarcely realizes one-eighth as much for his product as if there were a Lowell or Manchester near by, instead of thirteen hundred miles distant. Cotton is raised in Alabama, and carried to England, four thousand miles away. Cloth is manufactured from this cotton, and carried back to Alabama. Now, the Alabama planter must sell his cotton for as much less than it will bring in England, as is required to pay not only the freight, but also insurance, brokers' commissions, and profits of merchants. He must pay a correspondingly additional price for his cloth. Some one has said, that, as it is cheaper to transport cloth than cotton, the planters would make a large saving if they would build factories in Alabama, convert the cotton into cloth, transport the cloth to England, and then bring it back to Alabama! It is impossible to estimate the diminution of expense when transportation is reduced to its lowest limits by bringing the several classes of producers into the closest possible proximity.

Nor is this all. There is a very large amount of both actual and possible product which cannot be exchanged at all when the producers are at remote distances from one another. We have already seen, that when local centres, in the form of manufacturing towns, are maintained in the midst of agricultural regions, there is, in addition to the great transportable staples, a vast variety of untransportable produce which finds a ready market. This requires comparatively little additional labor and capital. The value of it sometimes amounts to nearly as much in the aggregate as that of the main staples. There is thus not only a much greater productiveness, but a greater variety as well as larger facilities of exchange.

4. Closely connected with the advantage of the proximity of producer and consumer is that of *a large diversification of industries*. Indeed, in an important sense, the former depends upon the latter. It is only when one produces much of a single commodity, that one has the means to purchase many other commodities. As association or commerce depends on differences among individuals; the more numerous the differences, the more frequent and more extensive the exchanges. "In every community, the more numerous are the producers and the more various the productions, the more prompt, numerous, and extensive are the vents for those productions; and, by a natural consequence, the more profitable are they to the producers, for prices rise with the demand. But this advantage is to be derived from real production alone, and not from forced circulation of products; for a value once created is not augmented in its passage from one hand to another." [1]

Just in proportion to the diversity of character and capability in a community, will that community approximate perfection; for the perfection of society consists in the presence and combination, in proper proportions, of all the really different natural elements of humanity embodied in the various individual members, so that each will meet some want which another cannot supply. In a greatly heterogeneous

[1] Say's Political Economy, American edition, p. 81.

society, the development is greater, and there is a higher education, and more skill, invention, and enterprise, than in the opposite. Such a society will devise new industries peculiar to itself, and will thus furnish occasions for exchange with other communities, far more than would otherwise be the case.

There are two other topics which are intimately connected with the commercial prosperity of a community; but they are of such great importance and of so complicated a character, that they need to be discussed at considerable length. I refer to the questions of *free trade and protection*, and the subject of *finance*.