

Political Economy

By

William Roscher

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From The Author's Prefaces. (2d to 11th Edition.)

The preface to the second edition is dated October, 1856; that to the third, April, 1858; that to the fourth, April, 1861; that to the fifth, November, 1863; that to the sixth, November, 1865; that to the seventh, November, 1868; that to the eighth, August, 1869; that to the ninth, March, 1871; that to the tenth, May, 1873; that to the eleventh (unaltered), December, 1873. Each successive edition, nearly, has been announced as an improved and enlarged one; and the tenth edition contains one hundred and fifty-six pages more than the first, although in places, a large number of abbreviations had been made from previous editions. There are many things in some of the previous editions which criticism induced me, long since, to change. I have considered it my duty to the public, who gave my work so warm and friendly a reception, to take into consideration, in each successive edition, not only my own new investigations, but those also of all others with which I became acquainted, and, whenever possible, to correct statistical illustrations from the latest sources. I have especially, in each following edition, enriched a number of paragraphs with here and there historical, ethnographic and statistical features. Plutarch is certainly right, spite of the fact that pedants may abuse him for it, when he says, that trifling acts, a word and even a jest, are often more important, as characterizing the life of a people or an age, than great battles which cost the lives of tens of thousands of men.

I have changed the titles "Ricardo's Law of Rent," and "The Malthusian Law of the Increase of Population," which [pg x]I formerly used, for others. But I would not be misunderstood here. I hold it to be a duty of reverence in the learned—as it has long been practiced

in the case of the natural sciences—in the sciences of the human mind to call the natural laws, methods etc., in acquainting us with which, some one particular investigator has won very distinguished merit, by the name of that investigator. In the case of the law of rent, the application of this rule would as unquestionably entitle Ricardo to this honor as it would Malthus in that of the increase of population, spite of the fact that Ricardo may not have succeeded in finding the best possible form of the abstraction, and although Malthus even, in a one-sided reaction against a former still greater one-sidedness, was not always able to steer clear of positive and negative errors. Recent science has endeavored, and successfully, to examine the facts which contradict the Ricardian and Malthusian formulations of the laws in question, and to extend the formulas accordingly. I have myself contributed hereto to the extent of my ability. But, in the interval, it is not hard to comprehend that, while this process of elucidation is going on, most scholars, those especially possessed more of a dogmatic than of a historical turn of mind, should estimate these two leaders more in accordance with their few defects than with the great merits of their discoveries. If, therefore, I now drop the title “Malthusian law,” it is to guard hasty readers from the illusion that §§ 242 seq. teach what the great crowd understand by Malthusianism; when they might, perhaps, omit that portion entirely. For my own part, I have no doubt that, when the process of elucidation above referred to shall have been thoroughly finished, the future will accord both to Ricardo and Malthus their full meed of honor as political economists and discoverers of the first rank.¹

[pg 001]

Preliminary Essay.

Preliminary Essay On The Application Of The Historical
Method To The Study Of Political Economy,

By M. Wolowski,

Member Of The Institute Of France.

“Nunquam bene percipiemus usu necessarium nisi et noverimus jus illud usu non necessarium. Nexum est et colligatum alterum alteri. Nulli sunt servi nobis, cur quæstiones de servis vexamus? Digna imperito vox.”—Cuj., vii, in titul. Dig. De Justitia et Jure.²

“Homo sum, humani nihil a me alienum puto.”—Terence.³

“Ista præpotens, ac gloriosa philosophia.”—Cicero, De Or., I, 43.⁴

I.

It is no foolish desire to make a vain display of citations, that induces us, at the beginning of this essay, intended to point out the results of the application of a new method to the study of Political Economy, to invoke the authority of a poet and moralist, of a juriconsult and of a philosopher. The writer finds in the words just quoted the loftiest expression of the thought [pg 002]which dictates these lines, viz.: that the impartial researches of history, a profound feeling of man's moral and material wants, and the light of philosophy, should govern in the teaching of a science, the object of which is to show us how those things which are intended to satisfy our wants are produced and

distributed among the several classes or individuals of a nation; how they are exchanged one against another, and how they are consumed.

The nineteenth century affords us something more than the admirable spectacle of the rapid and fertile development of mechanical power and natural forces. This is but one of the aspects, we might even say but one of the results, of the general progress of the human mind. The renovation of moral and intellectual studies has served as a starting point for the application to facts of the conquests of thought. Science has preceded art.

In the foremost rank of the studies just referred to is *philosophy*, which initiates us into the knowledge of human nature, the basis of right, and which translates its legitimate aspirations into a language which we can understand; *history*, that *prophetess* of the truth, as one of the ancients called it, which places before us the faithful picture of times past, not by simply putting together a skeleton of facts, but by following the living progress of events and the organic development of institutions. Such, at least, has been the work of those noble minds who have consecrated their energies to the resuscitation of ages past, in their true shape, and such is the service for which we are indebted to them for the successful accomplishment of the reformation of historical studies, which they attempted with such rare devotion and such marvelous sagacity.

This renovation of history has exerted the most fertile influence in the region of philosophy, in that of law, and we believe that it will prove no less useful in that of Political Economy. It has served to put us on our guard against being easily misled by *a priori* notions.

[pg 003]

By exhibiting to us the results of the life and of the experience of centuries, by teaching us by what steps the human mind has risen to its present eminence, and what the education given it in the past has been, it has enabled us to ascend from phenomena to the principles which

preside over them; from facts to the law; and it has substituted for arbitrary assumptions and purely ideal systems, the slow but progressive work of the genius of nations. Not that it turns a deaf ear to the exalted lessons of philosophy, nor that it denies the *eternal relations resulting from the nature of things*. Far from it. On the contrary, it supplies a solid basis to intellectual investigations, and, so to speak, an answer for all the moral sciences, to this saying of Røederer: "Politics is a field which has been traversed thus far only in a balloon; it is time to put foot on solid ground."

Neither does history, as thus understood, confine itself to mere description; it also assumes the office of judge. While it pulls down much that passion and inaccuracy have reared, and thus restores respect for the past, it does not turn that past into a fetish. It looks it boldly in the face and questions it, instead of prostrating itself before it and worshipping it with downcast eyes. Thus, by plainly showing us the many bonds which tie us to it, it escapes at once both the rashness of impatience and the wearisomeness of routine.

The impartiality it inculcates is not indifference; and there is no danger that the justice it metes out to past ages shall degenerate into a vain scepticism or a convenient optimism.

The study of history, thus understood, has another advantage; it accustoms us to those patient and disinterested investigations, to those lengthy labors, the positive result of which at first escapes us for a time, only to burst on our eyes, with so much more brilliancy, when rigorous research has succeeded in discovering it. It frees us from the deadly constraint of immediate utility.

There is nothing more fatal to science than the feverish impatience for results which obtains only too much in our own [pg 004]days, and which induces people to run after

him who is in the greatest hurry, and which leads to hasty conclusions.

“Research undertaken from a disinterested love of science,” says the learned Hugo, one of the masters of the historical school of law in Germany,⁵ “that research which at first promises no other advantage but truth and the culture of the mind, is precisely that which brings us the richest rewards. Would we not be behind, in all the sciences, if we had clung only to those principles, the utility of which in practice was already known? Do we not, to-day, from many a discovery, reap advantages of which its author never dreamed?”

Doubtless this tendency, unless restrained by other demands, is not exempt from danger. We may be carried away by the attraction peculiar to these noble studies, withdraw into antiquity and fall into a species of historical mysticism which ends in the affirmation, that whatever has been is true, absolutely, and which, instead of confining itself to the explanation of transitory phenomena, invests them with all the dignity of principles. We shall endeavor to avoid the peril pointed out by Mallebranche. “Learned men study rather to acquire a chimerical greatness in the imagination of other men, than to acquire greater breadth and strength of mind themselves. They make their heads a kind of store-room, into which they gather, without order or discrimination, everything which has a look of erudition,—I mean to say everything which may seem rare or extraordinary and excite the wonder of other people. They glory in getting together, in this archæological museum, antiques with nothing that is rich or solid about them, and the price of which depends on nothing but fancy, chance or passion.”

A display of erudition may obscure the truth, and bury it under its weight, instead of bringing it out into relief. By concentrating the mind on the material vestiges of the past, it may withdraw it from the intellectual movement of the present, and give us a race of scholars, of great merit,

doubtless, [pg 005]but who move about like strangers among their contemporaries.

Without a sense for the practical, and without ideas of an elevated nature, a person may, indeed, be a man of erudition—he cannot be a historian. As the proverb says, the forest cannot be seen, for the trees. That this noble study may bear its best and most useful fruit; that is, that it should preserve us against ambitious *formulas* and destructive chimeras, we must pursue another way.

“The world,” says Montaigne, “is incapable of curing itself. It is so impatient of what burthens it, that it thinks only of how it shall rid itself of it, without inquiring at what price. A thousand examples show us that it cures itself ordinarily at its own cost. The getting rid of the present evil is not cure, unless there be a general amendment of condition. Good does not immediately succeed evil. One evil, and a worse, may follow another, like Cæsar's assassins, who brought the republic to such a pass, that they had reason to repent the meddling with it.” Such, too frequently, is the lot of those who, abandoning themselves to their imagination, and without consulting the past, mix together promises of liberty and the despotism of Utopias which they would impose on nations under pretext of enfranchising them. Despising the work of the ages, they think they can build upon a soil shaken by destruction and crumbled, until it may be likened to moving sand.

Contempt for the past is associated with a passion for reform. Men think of destroying that which should only be transformed. They condemn everything that has been, unconditionally, and launch out towards a new future. The suffering which has been gone through irritates and troubles the mind. The work of pulling down is so easy, it is supposed that the work of building up is equally so. Hence systems rise, as if the world were to begin anew. The pride of liberty and of human action becomes the principle of science; and, like all new principles, it pretends to exclusive and absolute dominion. Rationalism governs; abstract philosophy [pg 006]ignores the

traditions and the requirements of the life of nations; and finds now in it, as in geometry, nothing but principles and deductions. The memory of recent oppression causes us to act as Tarquin did, and to level down the higher classes instead of elevating the inferior. Liberty and equality then govern by their negative side, instead of exercising the positive and beneficent influence they should have, to develop all forces to their utmost, to ennoble the mind, to give more elasticity to the soul and greater vigor to thought, to give birth to those varied forms and to that moral energy, which should bring us nearer to final equality in the bosom of God.⁶

We forget that no one is born *free*, and that every one ought to endeavor to become so,

Feindlich ist des Mannes Streben

Mit zermalmender Gewalt

Geht der Wilde durch des Leben

Ohne Rast und Aufenthalt,

—*Schiller*.

and make himself worthy of liberty, by the exercise of manly virtue! Because the form has been changed, we believe that we have changed human nature.

It is easy to understand, why, where these ideas prevail, the study of the past should be neglected and despised. Efforts are made to avoid it. Why, it is asked, revive memories of oppression and misery? The old world is wrecked. It is annihilated. Peace to its ashes! Or else, after it has been destroyed, it is sought for again; and, under pretext of eradicating the evils existing in it, an attack is made on the eternal basis on which human society rests, on the laws not made by man, and which it is not given to man to change. The world becomes one vast laboratory, in which the rashest experiments are multiplied in number, in which mankind is but clay in the hands of the potter which every pretended “thinker” may mould at will, by giving him the false appearances of independence and of an emancipated being.

[pg 007]

And, indeed, if the will of man be all-powerful, if states are to be distinguished from one another only by their boundaries, if everything may be changed like the scenery in a play by a flourish of the magic wand of a system, if man may arbitrarily make the right, if nations can be put through evolutions like a regiment of troops; what a field would the world present for attempts at the realization of the wildest dreams, and what a temptation would be offered to take possession, by main force, of the government of human affairs, to destroy the rights of property and the rights of capital, to gratify ardent longings without trouble, and provide the much coveted means of enjoyment. The Titans have tried to scale the heavens, and have fallen into the most degrading materialism. Purely speculative dogmatism sinks into materialism.

All is changed, both men and things. Yet we hear the same old style of declamation. There are those who wish to plough up the soil which the harrow of the revolution went over yesterday; and they believe they are marching in the way of progress. They do not see that they have mistaken their age, and that the bold attempts of the past have now come to possess a directly opposite meaning. Without stopping to inquire to what side the new world inclines, they repeat the same words, and swear *in verba magistri*, and go the road of destruction, believing themselves to be creating the world anew!

Nothing is more natural than that these excesses should produce other excesses, in a contrary direction. Moved by hatred or fear of revolutionary absolutism, nations seek an asylum in governmental absolutism, or they retrograde towards the middle ages, and consider the mutual bond of protection and dependence of that period as the ideal and the realization of true liberty. History is no longer the organic development of social life, and man, like a soldier that thoughtlessly and capriciously has gone beyond his place of supplies, is obliged to retrace his steps. The

reaction is clearly defined. The past is opposed to the present, not as a [pg 008]lesson to be turned to advantage, but as a model which must be hastily accepted; and men become revolutionary in a backward direction.

However, history, rigorously studied, knows neither these complaisances nor these weaknesses. It does not descend to the apotheosis of a past which cannot return again. The real historical spirit consists in rightly discerning what belongs to each epoch. Its object is, by no means, to call back the dead to life, but to explain why and how they lived. In harmony with a healthy philosophy, it assigns a limit to the vagaries of arbitrary will, beyond which the latter cannot go. It unceasingly calls us back, from the heights of abstraction, to positive facts and things.

In the creation of systems, only one thing was wont to be forgotten, men, who were treated, in them, like so many ciphers; for intellectual despotism has this in common with all despotic authority. History teaches us that we can reach nothing great or lasting, but by addressing ourselves to the soul. If the soul decays, there can be no longer great thoughts or great actions. Society lives by the spirit which inhabits it. It may, for an instant, submit to the empire of force, but, in the long run, it hearkens only to the voice of justice. It was thus that the greatest revolution which history records, that of Christianity, was accomplished. It addressed itself only to the soul; but by changing the hearts of men, it transformed society entirely.

The violent struggle between an imperious dogmatism and an unintelligent and mistaken attempt at a retrogressive movement is resolved into a higher view, which permits the union of conservatism and progress. Violent attempts and rash endeavors made, threatened to bring contempt on the noblest teachings of philosophy, and to make them repulsive to man; and, on the other hand, a blind respect for the institutions consecrated by history threatened to stifle all examination and all freedom of judgment.

But a healthier doctrine has permitted us to understand, that [pg 009]we are continuing the work of preceding generations; that we are developing the germs which they successively sowed; that we are perfecting that which they had only sketched, and that we are letting drop that which has no support in the social condition of man. Every thing is connected; each thing is linked to every other; nothing is repeated. The hopes of sudden and total renovation, based on absolute formulas, vanish before the touch of this solid study. This shows us how firm and unshaken are those reforms which have begun by taking hold of the minds of men, the precise spirit of which had penetrated into the souls of whole nations before they had manifested themselves in facts.

Law and Economy constitute a part of the life of nations in the same way that language and customs do. The power of history in no way contradicts the supremacy of reason.

II.

These two tendencies, the rationalistic and the historical, are everywhere found face to face. They carry on an eternal warfare, which is renewed in every age, under new names and new forms. Accomplished facts and renovating thought divide the world between them. They at one time moderate its speed, and at others, spur it on its way. But these two forces, instead of compromising the destinies of humanity by their opposing action, maintain and balance them, as the contrary impulses given by the hand of the Great Architect has peopled the universe with worlds which gravitate in space.

Victor Cousin, a very competent authority on the subject, has said that the history of philosophy is the torch of

philosophy itself. The remarkable works which have enriched it in this direction are well known. History, on its side, is enlightened by philosophy. Thus, it teaches us not to despise facts, but at the same time not to be slaves to precedent. It does equal justice to the incredulous and to the fanatic, to too supple practitioners and to intractable theorists.

[pg 010]

We may doubtless say with Henri Klimrath, who, in connection with a few others, had undertaken the work of the restoration of historical study in its application to French law, that there is an absolute, true, beautiful, good and just, the *ratio recta summi Jovis*,⁷ the supreme reason founded in the nature of things.⁸ The eternal truths taught by philosophy constitute the higher law, a law which dates not from the day on which it was reduced to writing, but from the day of its birth; and it was born with the divine intelligence itself. “*Qui non tum denique incipit lex esse, cum scripta est, sed tum cum orta est. Orta autem simul est cum mente divina.*”⁹ And Troplong rightly adds: “There are rules anterior to all positive laws. I cannot grant that the action of conscience and the idea of right are the work of the legislator. It is not law that made the family, property, liberty, equality, the idea of good and evil. It may, indeed, give organization to all these things, but in doing so, it is only working on the foundation which nature has laid, and it is perfect in proportion as it comes nearer to the eternal, immutable laws which the Creator has engraved on our hearts. What changes is not the eternal law, the revelation of which comes to man incessantly and by a necessary action, but the form in which humanity clothes it, the institutions which man builds on its immutable foundation.”¹⁰

We therefore believe in the law of nature, and regret that our opinion is not shared by Mr. Roscher, at least that he does not explicitly enough express his faith in it, nor apply it broadly enough in the beautiful work which we are

happy to render accessible to the French public.¹¹ We believe in it in its [pg 011]philosophical sense, and not simply in the juridical sense attached to it by Ulpian. "Let us not," observes Portalis, "confound the physical order of nature, common to all animated beings, with the natural law which is peculiar to man. We call *natural law*, the principles which govern man considered as a moral being, that is, as an intelligent and free being, intended to live in the society of other beings, intelligent and free like himself."¹² Ulpian's famous tripartite division, of natural law, the law of nations, and the civil law, is proof, from the meaning he attaches to them, either of a misunderstanding or of the imperfect idea which the Stoics had conceived of the essence of natural law. In vain Cujas exhausted all the resources of his noble intellect to explain it.¹³

[pg 012]

It is necessary to draw a distinction between physical law and the law (*droit*) of intelligent beings. Doubtless the existence of men as well as that of animals is limited by time. They both live and die; but the soul escapes the necessities of material nature.

The moment there is question of *right*, intelligence governs, reason comes into play, and the science of right and wrong is appealed to as a guide. Hence the *natural law* of the human species is not the physical law which all creatures obey.

It was necessary for us to insist upon these principles. It was necessary for us to show that there is a law independent of positive and local law, a law which is not the expression of an arbitrary will, but an emanation from the nature of things.¹⁴

Hence come the features in common which we meet with everywhere, and the variable forms which develop law in harmony with the special conditions of each civil society.

We must descend into the very depths of human nature to discover these eternal and permanent laws; and if the mere

effort of the mind should not reach them directly, they might be discovered in the phenomena of the life of nations. History affords us the counter-proof and confirmation of the philosophical doctrine.

The development of society does not afford a mathematical expression of these higher truths. It gives them a form which is unceasingly modified in the written law. The person who discovers in them nothing but an absolute rule, looks upon the changes as evidences of caprice and error. He alone understands the revolutions of things who knows their cause and the necessity which produces them.

[pg 013]

Solon was right when he gave the Athenians not the most perfect laws, but the best which they could bear.

It is not in the attempts contemporary with the infancy of society, or nearly so, that we are to look for the complete realization of the precepts of the natural law; for principles obey the rule laid down by Aristotle. "The nature of each thing is precisely that which constitutes its end; and when each being has attained its entire development, we say that that is its own proper nature."¹⁵

The ideas of natural law are purified in proportion as society grows enlightened and free; but the truth appears only successively in the phases it passes through. It allows us to grasp one aspect of itself after another, but does not surrender itself entirely, at any one moment, to the investigations of the historian or the juriconsult.

History and philosophy interpenetrate and complement one another.

III.

The two schools, that of philosophy and that of history have met in our day, in the field of law. Who is there that does not remember the great and noble contest carried on, about the beginning of this century, between two descendants of Frenchmen who had sought a refuge in Germany, and who united in their own persons, and in so marvelous a manner, the different aptitudes of the country they owed their origin to, and of the land that gave them birth,—between Thibaut and Savigny?

It would be difficult to find a scientific question of a higher character, debated by champions more worthy to throw light upon it.

The *Code Napoléon* had appeared. It had, to use Rossi's happy expression, transferred into law the social revolution [pg 014]produced by the destruction of privilege. It was the practical formula expressive of the conquests which had been made.

The philosophy of the eighteenth century had previously inspired the Prussian Code. And yet, it was on the question of codification that this memorable controversy was carried on. The two principal combatants, while manfully battling, the one against the other, continued to hold each other in high esteem, and the profound study of law was developed in the midst of the *melée*.

We cannot delay long on this subject, nor analyze the arguments advanced by Thibaut¹⁶ and Savigny.¹⁷ What interests us at present is not so much the question debated, as the intellectual movement to which it gave birth. Savigny sustained the ancient law, Thibaut attacked it. Numerous and distinguished jurisconsults ranged themselves on the one side and the other. A new school grew up which, with the most brilliant success, made law throw light on history and history on law.

The application of the historical method to the study of law was productive of the most happy results.

Without acknowledging it to themselves, the chiefs of the contending parties were each obeying a political impulse. Savigny was by his birth and his tastes carried into the camp of conservatism; Thibaut, led by his convictions, into the liberal ranks. Nevertheless, the natural elevation of their genius preserved them from all exaggeration. The glorious defender of tradition preserved a liberal spirit, and the ardent advocate of reform desired no upheaval.

In what more nearly concerns the question with which we are now occupied, Savigny—while he maintained that law was something contingent, human, national; and while he brought out into relief the practical and exalted character of its successive developments which introduced reform and guarded [pg 015] against revolution—developments which, not confiding in the letter of the written law, unceasingly feed the living and created law, that law called in the energetic language of a great jurisconsult, a law *écrit es coeurs des citoyens*—is far from denying the importance of a high and healthy philosophy which directs man in the uninterrupted labor to which he is called, in the sphere of jurisprudence.

Men can no more renounce law than language, the forms of which last they have gradually modified in order to better translate their thoughts into words. The legislator's task is the successive elaboration of obligatory provisions. He will sometimes oppose and sometimes second the natural progress of law; but, in doing so, it will ever be necessary for him to ascend to the nature of things, and grasp their relations, if he would not go astray in practice, or lose himself among the successive and partial changes to which the illustrious Berlin professor would confine the legitimate ambition of legislative power. To go beyond this, in an age like ours, seemed to him to be a work of destruction. However, far from denying the influence of thought, and therefore of philosophy, acting within its sphere, Savigny invokes its fertile aid.

Thibaut, on the other hand, with more confidence in the powers of the spirit of modern times, did not believe a good codification to be impossible. His starting point had been a cry for national independence. He well knew how much veneration was due those institutions which were the slow and progressive work of national genius, and what was the power they possessed. He wished, therefore, to reform, not to abolish them. He well understood that the greatness of the *Code Napoléon* itself, and the respect which it inspired were due to the fact that its roots ran deep into the soil of the past, even while the modern idea it contained shone like a bright light in the world of things. Hence, without contesting the value of history, he refused to acknowledge its right to exclusive reign.¹⁸

[pg 016]

The life and activity prevailing in the study of law, and the brilliant successes that study has recently achieved, are due, in great part, to the illustrious representatives of the historical school. We may add, here, that the French historical school, which has so worthily inherited the spirit of Montesquieu, has not achieved less in this direction than the older German school. It has reconciled the opposing but not mutually hostile, [pg 017]tendencies of Savigny and Thibaut. It has conscientiously scrutinized facts to show their concatenation, and to allow their meaning and bearing to be clearly grasped. A French jurisconsult, who is at the same time our highest authority in the natural law, opened the way by his excellent essays on the necessity of reforming the historical studies applicable to law; on the influence of the legists on French civilization¹⁹ etc.; and by his prefaces, equal in value to whole works, on hypothecation, sales, loans, partnership, charter-parties etc. He may truly be said to have renewed the ancient and prolific alliance of history and law.

Instead of pursuing a pure abstraction, this historical school has confined itself to the knowledge of the life of man and the evolution of society. It has applied to law, with what success is well known, the principle which has

regenerated the social sciences, philosophy, letters, history, Political Economy,—sciences which are, so to speak, different provinces of one intellectual empire, which interpenetrate one another without being confounded one with another, between which no jealous barrier should be raised, and between which reciprocity of exchange should be encouraged by the suppression of factitious duties, which have existed only too long.

[pg 018]

IV.

We need not dwell any longer on the character of the historical method as applied to law, nor on the services it has already rendered. On this point, there can be no two opinions. And, if any one wonders that we should speak of it at all, in a work on Political Economy, we can only say to him, that we have done so to call his attention to an instructive precedent, and for the further reason that the same method is peculiarly well adapted to the study of Political Economy. Its advantages are the same here, its tendencies the same, and the same motives exist to induce us to use it here. In describing the successive phases of the question in the case of law, we have performed an important part of the task we had imposed upon ourselves, of vindicating the employment of the historical method, in the sphere of Political Economy.

The study of history is the best and most powerful antidote against social romances and ideal fancies. François Beaudouin was right when he said: "*Cæca sine historia jurisprudentia;*" and we are very sure that, without history

as an element in it, Political Economy runs a great risk of walking blindfold.

The human mind has need of being able to know where it is at any moment, surrounded, as it is, by so many roads, running in so many different directions. It ought to account to itself for its progress, its deviations from the right path, and for its mistakes.²⁰ History alone can throw any light on questions which are not simply intellectual curiosities, but which, rather, are most deeply concerned with the vital interests of society. It confirms the noble teachings of philosophy, by showing how our life is made up of one unchanging tissue of relations, and how man, even if he may vary their colors, and change their design, cannot renew their texture.

It teaches us to admire nothing, and to despise nothing, beyond [pg 019]measure. It enlightens us concerning questions of a very complicated nature. Witnessing the evolutions of humanity, following the development of social facts and theories, we better discern principles, and grow wary in relation to the alchemists of thought, who imagine that society may be made to undergo a transformation between the rising and the setting of the sun.

As there is a natural law, so, too, there are certain principles of Political Economy which emanate from philosophy, and may be reduced to one supreme principle; that of liberty and responsibility. The domain of Political Economy is the *labor* of generations. But we reject with all our strength, the materialistic doctrine which, inexplicably confusing matters, endeavors to assimilate ideas so distinct as intelligence and things; and which would descend so low as to employ the dynamometer to measure the creative force of man and its results, and which sees only figures where there is a living soul.

Man is an intelligent being, served by organs,²¹ by *personal* organs, with which the Creator has endowed him, by giving him a body provided with marvellous aptitudes, by *external* organs which he finds in

nature subjected to his power. Man was created in the image of God, say the Scriptures, and these words contain a deep meaning. He alone, of all terrestrial beings, possesses a spark of divine intelligence. He alone has been called to pursue the magnificent work of creation, by giving a new face to a world to which he cannot add so much as an atom.

Labor is nothing but the action of spirit on itself and on matter.²² Hence its dignity and grandeur. Hence, also, the difficulties in the way of economic studies; since, to consider them only as concerned with questions of material production, is to forget that the products of industry are made for man, not man for industrial products; to ignore the close relationship [pg 020]between their fruitful investigations and the whole circle of the moral sciences; to debase them and to mutilate them.

From the moment that science concerns itself with man only, and the action of the mind; from the moment that its end becomes not simply material enjoyment, but moral elevation, the questions it discusses become indeed more complex, but the answer, when found, is more prolific in results. Wealth, then, is treated only as one of the forces of civilization. Other interests than purely material ones occupy the first place. This matter-of-fact philosophy which, according to Bacon's precept, seeks to improve the conditions of life, bears in mind, that the most fruitful source of material development lies in intellectual development. It humbly recognizes that it is not the first-born of the family, and draws new strength from this avowal. From the moment that it is the mind which *produces* and which governs the world, intellectual and moral perfection become the cause and effect of material progress. "But seek ye first the kingdom of God and his righteousness, and all these things shall be added unto you."

The increase of production, then, appears an instrument of elevation in the moral order.²³ It is energy of soul, intelligence and manly virtue which constitute the chief

source of the wealth of nations; which create it, develop it, and preserve it. Wealth increases, declines, and disappears with the increase, decline and disappearance of these noble attributes of the soul.

Labor is the child of thought. Nothing happens in the external world which was not first conceived in the mind. The hand is the servant of the intellect; and its work is successful, beautiful or useful in proportion to the activity and development of the intellect, and in proportion as the just, the beautiful and the good exert their power over it.

Production is, therefore, not a material, but a spiritual, work. How, then, can acts and their morality be separated? How not understand that the market of labor has its own distinct [pg 021]laws, and that education, even from a material stand-point, becomes the highest interest and the most important duty of society, since on it depends the efficiency of labor?

From the time that, after a long series of years, the doctrine of Christianity had permeated the law of the civilized world; from the time that the teaching of Paul, that all men are children of one Father, took form and body, and that the principle of the equality of all men before their Maker, was supplemented by the doctrine and by the practice of that equality before the laws, the thinking masses have endeavored to discover the wherefore of their actions, and the why of their sufferings. They have called the past to account, and inquired why they have obtained so limited a share.

The people, therefore, think; and it is, therefore, a matter of importance that they should think aright. It is of importance, that they should be guarded against fallacious Utopian promises. Henceforth, there is no security for the stability of the world but in the contentment of minds. There is no rest for mankind, unless men will understand the conditions of their destiny; unless, instead of running,

“Toujours insatiable et jamais assouvis,”
after the intoxicating cup of material enjoyment—for
wants not governed by the intellect and the heart are
infinite in number, and the gratification of one gives birth
to another—they submit to the law of sacrifice, and give
play to the noblest faculty with which the Creator has
endowed us, moral empire over self.

We shall meet on this road, hard of ascent, not only peace
of soul, but goods, more real and more numerous, than
those with which the allurements of error would dazzle our
eyes. The greatest obstacles to be overcome are not
material ones, but moral difficulties. As Franklin says, in
substance, he that tells you you can succeed, in any way
but by labor and economy, is a quack.

But labor is more productive in proportion as it is more
intelligent, [pg 022]as hand and mind keep pace with each
other, as good moral habits generate order and voluntary
discipline.

Economy is sacrifice, binding the present to the future,
widening the horizon of thought, inspiring foresight,
lengthening the lever of human activity, by providing it
with new instruments.

Life ceases to be a worry about how the body shall be
sustained, and the material world becomes the shadow of
the spiritual. The former is made to serve the latter, and
man's free effort lifts him into a higher region of thought,
and into a larger field of action. The more mind there is
put into a piece of work, says Channing, the more it is
worth.

We, men of to-day, are lookers-on at a marvelous
spectacle. Steam furrows the earth. Industry has taken an
immense start. Mechanical force bends the most rebellious
materials. Chemistry, physics and the natural sciences are
discovering a new world. But whence all this? What is the

principle of this new life? We answer: intellectual and moral progress. Mind has grown; the soul has been expanded. God has permitted man to be free, and furnished him with the means to be so.

Thus man, as Mignet has said, becomes that mighty creature to whom God has given the earth for the vast theater of his action, the universe as the inexhaustible object of his knowledge, the forces of nature for the growing service of his wants, by allowing him, by ever increasing information, to obtain an ever increasing amount of well-being.

Man is free.—1789 put in action the sublime precept of the gospel. He holds his destiny in his own hands. But the rights which he enjoys impose new duties on him. If *equality* be the sentiment which predominates in our day, we should take care not to confound it with the leveling of Communism. Nor is it externally to us, but within ourselves, that it should be developed, by intellectual and moral culture.

History preserves the student from being led astray by a too servile adherence to any system. It exposes the folly of the [pg 023]“social contract,” and of the idyllic dreams of the advantages of savage life. It shows that nature, instead of being prodigal of her treasures, distributes them with a niggardly hand, and that it is necessary to conquer her by labor, intelligence and patience before we can control her. It shows us human liberty growing stronger every day, thanks to moral and intellectual progress, supported by the two powerful props of property, the complement of man, the material reflection of his spiritual power; and capital, the fruit of abstinence, the symbol of moral power and the result of enlightened activity.

History walks with a firm step, because it feels secure in a knowledge of the laws of human nature, and in its experience of the successive manifestations of social life.

Instead of the vagueness of ideal conceptions, it allows us to grasp and to appreciate what is real in life. It does not confine itself to the study of man. It makes us acquainted with *men*, whose wants extend and are ennobled in proportion to the perfection of their faculties. The feelings and the intellect are simultaneously developed in man. The savage is the most egotistical of men.

Hence, we believe that Political Economy cannot dispense with the services of morals and philosophy, of history and law; for these are branches of one common trunk, through all of which the self-same sap circulates.

V.

The isolation of the theory of Political Economy is peculiar to our own day. In more remote times, we find this study confounded with the other moral sciences, of which it was an integral part. When the genius of Adam Smith gave it a distinct character, he did not desire to separate it from those branches of knowledge without which it could only remain a bleached plant from the absence of the sunlight of ethics.

[pg 024]

We must renounce the singular idea,²⁴ that thousands of years could pass away without leaving any trace of what enlightened men had thought and elaborated in the matter of Political Economy, among so many nations, and that people should never have thought of cultivating this rich intellectual domain, while in every other direction, it is easy for us to ascend by a road already cleared up to the most remote antiquity.

It has already been acknowledged, that the *classic domain*, fertilized by intellectual culture on a large scale and on a

small one, was exceedingly rich in valuable indications, although they do not present themselves under the distinct form, which later affected the different branches of public life.

As to the pretended *primitive simplicity* of the middle ages, which it is claimed, prevailed during that period, a species of economic vegetation, those who maintain it forget the long series of communistic theories which, at near intervals, found expression in many a bloody struggle, and whose repression required the combined efforts of Church and State.

Doubtless, it is not in their modern forms that the elements of politico-economical science are to be found, in the past. But when we succeed in reuniting the scattered and broken parts; when we have made our way into the customs, decrees, ordinances, capitularies, laws and regulations of those times; when, so to speak, we come, unaware, upon the life of nations, in the most ingenuous and confidential documents which reflect it most faithfully because most simply, we may well be astonished at the results obtained. Where we expected, perhaps, to find only erudition, we reap a rich harvest of lessons which are all the more valuable for being disinterested.

Legislative and administrative acts frequently develop real economic doctrines. It is easy to discover in them the onward course of a theory which plunges directly into practical applications.

What results might we not expect from these efforts, if the [pg 025]genius of investigation and of divination, which has so elevated historical studies in our day, should have an observing and penetrating eye in this direction! How limited was the field on which Guérard erected the scientific monument which he has left us in his *Polyptique d'Irminon*; and how precious are the lessons he leaves us, since we have here to do, not with the history of professed doctrines or unlooked-for events, but with the historical

development of economic society which shows us the living march of principles.

VI.

Political Economy is not, as we have just said, a new science. It has been a distinct science only a short time. Until the eighteenth century, it was confounded with philosophy, morals, politics, law and history. But it does not follow, that, because it has grown so in importance, as to deserve a place of its own, its intimate relationship with the noble studies which had until then absorbed it should cease. There is another consequence also to be deduced from this. From the moment that Political Economy ceases to be considered a new science, it finds a long series of ancestors behind it, since it is compelled to investigate a past to which so many bonds unite it. This duty may increase its difficulties, but, at the same time, it singularly adds to the attractions of a study which, instead of presenting us only with the arid deductions of dogmatism, comes to us with all the freshness and all the color of life.

We may allow those who make Political Economy simply a piece of arithmetic to ignore these retrospective studies and their importance; for mathematics has little to do with history. But it is otherwise with the life of nations. These would discover whence they come, in order to learn whither they are tending.

They are not obeying a vain interest of curiosity, as J. B. Say supposed, when, in sketching a short history of the progress [pg 026]of Political Economy, he said: "However, every kind of history has a right to gratify curiosity." It is a thing to be regretted, that this eminent

thinker could thus ignore one of the essential elements of the science to which he rendered such great and unquestioned services. A sense for the historical was wanting in him. "The history of a science," he writes,²⁵ "is not like the narration of things that have happened. What would it profit us to make a collection of absurd opinions, of decried doctrines which deserved to be decried? It would be at once useless and fastidious to thus exhume them in case we perfectly knew the public economy of social bodies. It can be of little concern to us to learn what our predecessors have dreamed about this subject, and to describe the long series of mistakes in practice which have retarded man's progress in the research after truth. Error is a thing to be forgotten, not learned." As if that which was once to be found in time is not to-day to be found in space; as if there ever was an institution that did not have its *raison d'etre* and had not constituted a resting place in the search after a higher truth or of a more intelligent and salutary application of an old one! There are a great many actual systems and a great many present facts which can be understood only by the help of history; and how frequently would not an acquaintance with history serve to keep us from taking for marvelous inventions the antiquated machinery of other ages, whose only advantage and only merit are that they have remained unknown. How much of the pretended daring of innovators has been old trumpery which the wisdom of the times had cast off as rubbish. Besides, as Bacon has said: "Verumtamen sæpe necessarium est, quod non est optimum."

[pg 027]

VII.

It is not the result of mere chance that the greatest economists have been both historians and philosophers. We need only mention Adam Smith, Turgot, Malthus, Sismondi, Droz, Rossi and Léon Faucher. It is too frequently forgotten that the father of modern Political Economy, Adam Smith, looked upon the science as only one part of the course of moral philosophy which he taught at Glasgow, and which embraced four divisions:

1. *Universal theology*.—The existence and attributes of God; principles or faculties of the human mind, the basis of religion.

2. *Ethics*.—Theory of the moral sentiments.

3. *Moral principles relating to justice*.—In this, as we learn from one of Adam Smith's pupils in a sketch preserved by David Stewart, he followed a plan which seems to have been suggested to him by Montesquieu. He endeavored to trace the successive advances of jurisprudence from the most barbarous times to the most polished. He carefully showed how the arts which minister to subsistence, and to the accumulation of property, act on laws and governments, and are productive of advances and changes in them analogous to those they experience themselves.

In the first part of his course, as we learn from the same authority, he examined the various political regulations not founded on the principle of justice but in expediency, the object of which is to increase the wealth, the power and the prosperity of the state. From this point of view, he considered the political institutions relating to commerce, finance, the ecclesiastical and military establishments. His lectures on the different subjects constitute the substance of the work he afterwards published on the wealth of nations. A pupil of Hutcheson, Adam Smith always applied the experimental method, "which, instead of losing itself in magnificent and hazardous [pg 028]speculations, attaches itself to certain and universal facts discovered to us by our own consciousness, by

language, literature, history and society.”²⁶ Before taking the professorship of philosophy, Adam Smith had taught belleslettres and rhetoric in Edinburgh, in 1748. He had written a work on the origin and formation of languages; and it was because he had profoundly studied the moral sciences that it was given to him to inaugurate a new science and to become a great economist. Mr. Cousin has laid great stress on Adam Smith's taste and talent for history. “Whatever the subject he treats, he turns his eyes backward over the road traversed before himself, and he illuminates every object on his path by the aid of the torch which reflection has placed in his hand. Thus, in Political Economy, his principles not only prepare the future but renew the past, and discover the reason, heretofore unknown, of ancient facts which history had gathered together without understanding them. It is not saying enough to remark that Adam Smith possessed a great variety of historical information; we must add that he possessed the real historical spirit.” Thanks to this eminent faculty of his, the Glasgow philosopher acquired great influence over minds. In 1810, when the French empire had reached the zenith of its greatness, Marwitz wrote: “There is a monarch as powerful as Napoleon: Adam Smith.” We need not recall Turgot's historical researches.

Malthus' chief title to distinction, his work on Population, is as much a historical work as a politico-economical one; and it is not sufficiently known that he was professor of history and Political Economy in the college of the East India Company at Aylesbury.

We need say no more on this subject. The works of the other writers whom we have mentioned are too well known to permit any one to think that they excluded history and moral science from the study of Political Economy. Hence [pg 029]the school which has risen up in Germany,²⁷ and which is endeavoring to do for Political Economy what Savigny, Eichhorn, Schrader, Mommsen,

Rudorff, and so many other illustrious scholars have done for jurisprudence, cannot be rightly accused of rashness. It has done nothing but unfurl the noble banner borne by the most venerated masters of the science.

VIII.

At the head of this school stands William Roscher, professor of Political Economy at the University of Leipzig, whose excellent work, *The Principles of Political Economy*, in which he follows *the historical method*, we have just translated. William Roscher is (1857) scarcely forty years of age. He was born at Hanover, October 21, 1817. His laborious and simple life is that of a worthy representative of the science. "You ask me," he wrote us recently, "to give you some information concerning the incidents of my life. I have, thank God, but very little to tell you. Lives whose history it is interesting to relate are seldom happy lives." He confined himself to giving us a few dates which are, so to say, the landmarks of a career full of usefulness. Roscher, from 1835 to 1839, studied jurisprudence and philology at the universities of Göttingen and Berlin. The learned teachers who exercised [pg 030]the greatest influence on his intellectual development were the historians Gervinus and Ranke, the philologist K. O. Müller and the Germanist Albrecht. It is easy to see that he went to a good school, and that he profited by it. He was made doctor in 1838; admitted in 1840 as *Privat-docent* at Göttingen; appointed in 1843 professor extraordinary at the same university, and called in 1844 to fill the chair of titular professor at Erlangen. Since 1848 he has acted in the same capacity in the University of Leipzig, where he was for six years member of the Poor Board, where he teaches also in the agricultural

college. His fame has grown rapidly. Many of the German universities have emulated one another for the honor of possessing him, but he has not been willing to leave Leipzig. His first remarkable work was his doctor's thesis: *De historicæ doctrinæ apud sophistas majores vestigiis*, written in 1838. In 1842, he published his excellent work, which has since become classical: "The Life, Labors and age of Thucydides."²⁸ From that time, important works, all bearing the stamp of varied and profound scientific acquirements, and of an erudition remarkable for sagacity and elegance, have followed one another without interruption. In 1843, he treated the question of luxury²⁹ with a master hand, and laid the foundation of his great work—only the first part of which has thus far appeared—at the same time tracing on a large scale the programme of a course of Political Economy according to the historical method.³⁰ In 1844, he published his historical study on Socialism and Communism,³¹ and in 1845 and 1846, his ideas on the politics and the statistics of systems of agriculture. He is, besides, author of an excellent work on the [pg 031]corn-trade;³² of a remarkable book on the colonial system;³³ of a sketch on the three forms of the state;³⁴ of a memoir on the relations between Political Economy and classical antiquity;³⁵ of a work of the greatest interest, on the history of economic doctrines in England in the sixteenth and seventeenth centuries—a work full of the most curious researches;³⁶ of a book on the economic principle of forest economy,³⁷ and lastly, of the great work, the first part of which we have translated, under the title of *The Principles of Political Economy*, and which is to be completed by the successive publication of three other volumes, on the Political Economy of Agriculture, and the related branches of primitive production, the Political Economy of Industry and Commerce, and one on the Political Economy of the State and the Commune. This work, when completed, will be a real cyclopedia of the science.³⁸

Side by side with William Roscher, we must mention a [pg 032]young economist, Knies, formerly professor at the University of Marburg, but whom political persecution compelled to accept a secondary position at the gymnasium of Schaffhausen, for a time, and who fills, today, in the University of Freiburg, in Breisgau, a position more worthy of his great talent. We hope, in a work which we intend to publish, on Political Economy in Germany, to make the public acquainted with the works of this writer. They deserve to attract the most serious attention. We know of few works which equal his Political Economy, written on the historical method.³⁹ We shall also have something to say of another economist, formerly professor at Marburg, a victim, also, of the power of the elector of Hesse, Hildebrand, now professor at the University of Zurich. His National-Ökonomie⁴⁰ is a book replete with interest, and we have nowhere met with a better criticism of Proudhon's system, than in its pages. If the new school had produced but these three men, it would still have left its impress on the history of the science. Other works, no less important, will claim our attention in the book to which we have already devoted many years of labor. If we carry out our intention, we shall review the works of a great many scholars, of great merit, whose names only are, unfortunately, known outside of Germany. The works of Rau, of Hermann, of Robert Mohl, of Hannsen, Helferich, Schütz, Kosegarten, Wirth etc., are a rich mine, from which we hope to draw much valuable information. Nor shall we neglect the original productions of J. Moser, the Franklin of Germany, nor the quaint, but sometimes striking, ideas of Adam Müller. Lastly, our learned friend, Professor Stein of Vienna, will afford us an opportunity to show forth the merit of important and extensive works, animated by the philosophic spirit. For the present, we must confine ourselves to a view of the application of the historical method to Political Economy.

[pg 033]

There is a rather widespread prejudice existing against this order of works, a souvenir of the struggle carried on formerly, between Thibaut and Savigny, which inclines people to suppose that the historical school leans towards the political doctrines of the past, and that it is hostile to the liberal spirit of modern times. Nothing can be farther from the truth. The names of Roscher, Knies and Hildebrand are sufficient to remove this prejudice. Their works, inspired by an enlightened love for progress, do not allow of such a misconstruction. The historical point of view does not consist in the worship of the past, any more than in the depreciation of the present. It does not view the succession of phenomena as a fluctuation of events without unity or purpose. On the contrary, the historical method harmonizes wonderfully well with the wants of genuine progress. The changes accomplished bear testimony to the free and creative power of man, acting within the limit permitted to it by the degrees of intelligence reached, of the development of morals, and of individual liberty. The philosophy of Political Economy, which is the result of this calm teaching, free from the passions of party—for science acknowledges no adherence to party—is like that of law, opposed to the, more or less, ingenious or rash dreams, which build the world over again in thought. In showing how, at all times, humanity has understood and applied the principles which govern the production of wealth, it may say, with the Roman jurisconsult: *“Justitiam namque colimus ... æquum ab iniquo separantes ... veram nisi fallor philosophiam, non simulatam affectantes.”* “The human mind,” says Rossi, “endeavoring to attain to a knowledge of itself, estimating its strength, taking a method, and applying it with a consciousness of its mode of procedure to the knowledge of all things; such is philosophy. Without it, there is no science in any branch of human knowledge.” Thus do we rise, with the aid of a critical mind, by careful investigation and great sagacity, to the truths founded on observations made.

IX.

There is another method, which, starting out from principles, evident of themselves, develops science by way of conclusions drawn, after the manner of the geometricians. The apparent severity and simplicity of this method are very seductive, and very dangerous, when we have to deal not with figures, but with men; when the varied, complex and delicate exigencies which accumulate when human nature comes into play do not exactly square with the formula; and, when instead of dealing with abstractions, we have to tackle realities. One of our venerated teachers, the illustrious Rossi, thought he might remove the difficulty by drawing a distinction between *pure* Political Economy and *applied* Political Economy. It is not without a certain amount of hesitation that we dare differ with so high an authority; but confess we must, this distinction is far from satisfying us. The doubt it has left in our mind has been the principal cause which has inclined us to the historical method. "Rational Political Economy," says Rossi, "is the science which investigates the nature, the causes and the movement of wealth, by basing itself on the general and constant facts of human nature, and of the external world. In applied Political Economy, the science is taken as the mean. Account is taken of external facts. Nationality, time and place play an important part."

Let us for a moment accept these definitions; what is the consequence? That there are two sciences, the one of which, purely speculative, has more to do with philosophy than with the permanent conflicts which agitate the world; the other of which could not alone furnish us with rules in

practice, nor with a formulary for the measures to be taken in a given case, since such a pretension would be both vain and ridiculous, but which would inform the practical judgment of men charged with the solution of the numberless difficult and complicated questions which come up every day. If pure science refuses to interfere in the affairs of this world; if, as the learned [pg 035]originator of the doctrine we are just now considering gives us to understand, it would compromise the solution of questions by the intoxication of logic, and the ambition of perfect system; if, consequently, it is to be worshipped like a motionless and inactive divinity, how could this platonic satisfaction suffice us? Would not the opponents of economic doctrines be disposed to acknowledge all the principles, provided the consequences to be drawn from them were left to themselves; and would they not come to us, bristling with arguments drawn from the circumstances of nationality, time and space, to refute the possibility of applying pure science?

On ne vaincra jamais les Romains que dans Rome.

This, therefore, is the ground we must explore. We must develop applied Political Economy which takes cognizance of external circumstances. To do this, no one will question that the best and most decisive of methods is the historical, which concerns itself with time, space and nationality, and which leads to proper reformation where reformation is wanted.

Moreover, principles will be no less firmly established by historical induction than by dogmatic deduction, and, moreover, science will be inseparable from art. We are not of those who deny principles, or who challenge them. What we desire is, that they should not be worshiped as fetiches, but that they should enter into the very life-blood of nations.

Further: the abstract deductions of pure science do not leave us without disquietude, since they treat man much

more like a material than like a moral force. Under the vigorous procedure of speculative mathematics, man becomes a constant quantity for all times and all countries, whereas he is, in reality, a variable quantity. All the elements put in play are ideal entities, the reverse of which we find in poetry, where

Tout prend un corps, une ame, un esprit, un visage!
and where everything loses the character of life, and is transformed into inanimate units. Man is something different from [pg 036]the sum of the services he may be made to render, and from the sum of enjoyments which may be procured for him. We must not run the risk of lowering him to the level of a living tool; and from the moment that we are required to take his moral destiny into account, what becomes of abstract calculation?

X.

We have been wrong, says Rossi, in reproaching Quesnay for his famous *laissez faire, laissez passer*, which is pure science. We, also, are of opinion that the reproach was ill founded, for it proceeded from a wrong conception of the principle itself. But it seems to us that, far from condemning this doctrine in its serious application, the historical method may serve to explain and to justify it. Employing less of rigidity and dryness in form, it reaches consequences more in harmony with social life. But it is not to be imagined that we do not meet in this way with many ancient and glorious precedents. The great principles of industrial liberty, as well as those of commercial liberty, originated in France. Forbonnais was right when he said: "We may congratulate ourselves on being able to find, in our old books and ancient ordinances, wherewith

to vindicate for ourselves the right to that light which we generally supposed to have been revealed to the English and Dutch before us.” The further Forbonnais carried his researches into our annals, the greater the number of traces of opposition to the prejudices in favor of exclusion and monopoly, so long made principles of administrative policy, did he find.⁴¹

The famous axiom, *laissez faire*, and *laissez passer*, the subversive tendencies of which people affect to condemn, was not invented by Quesnay. He only gave a scientific bearing to what was the inspiration of a merchant called Legendre. The latter, consulted by Colbert on the best means of protecting [pg 037]commerce, dropped these words which have since become so celebrated.

We must not lose sight of their real meaning, nor misunderstand the intention which dictated them. What Quesnay said was this: “Let everything alone which is injurious, neither to good morals, nor to liberty, nor to property, nor to personal security. Allow everything to be sold which has been produced without crime.” And he added: “Only freedom judges aright; only competition never sells too dear, and always pays a reasonable and legitimate price.” Far from being the absence of rule, liberty is the rule itself. To *laissez faire* the good is to prevent evil.⁴²

There is need of institutions to complete the exercise of the independence acquired by labor, and of laws to regulate that exercise. The *laissez faire* and *laissez passer* of economists is, in no way, like the absolute formula, which some have denounced and others sought to utilize, as relieving authority of all care and all intervention.

To understand this maxim aright, we must go back to the oppressive regime of ancient society. Quesnay's formula was, first of all, a protest against the restraints which hampered the free development of labor. But it did not tend to abrogate the office of legislator, nor to deprive society or the individual of the support of the public power which watches over the fulfillment of our destiny.

It may have seemed convenient to find in the gravity of a politico-economical principle, an excuse for the sweets of legislative and administrative *far niente*, but it is generally conceded that the role of authority has grown, rather than diminished, under the regime of the liberty of labor. The task is, in our days, a hard one, both for individuals and nations; for liberty dispenses its favors only to the masculine virtues of a laborious and an enlightened people.

Liberty is not license. It refuses to bend under the yoke, [pg 038]but it submits to rule. The mission of authority is not to constrain, but to counsel; not to command, but to help accomplish; not to absorb individual activity, but to develop it. It does not pretend to raise a convenient indifference on the part of government, nor the indolent withdrawal of all protective influence to the dignity of a principle. To say, on the other hand, that the *laisser faire* and *laisser passer* of the economists means: Let robbery alone; let fraud alone etc., is to amuse one's self playing upon words, and to argue in a manner unworthy of any serious answer. Under pretext of painting a picture of economic doctrine, we are given its caricature. Such has never been the system, to the elaboration of which the purest hearts and noblest intellects have devoted themselves. A negation does not constitute the science of Political Economy.

It is very convenient to inclose humanity within a circle of action, drawn with rigorous precision, and to govern movements seen in advance. But such artificial conceptions mutilate the activity of man. To guarantee man all liberty, and prevent its abuse—such are the data of the problem. The work is a great and difficult one. Far from yielding in point of elevation to ideal systems, it is superior to them in extent and variety of combinations. Those who ignore its bearing, yield, it may be, to a certain indolence of intellect. Restrained within its natural limits, the famous *laisser faire* and *laisser passer* of the Physiocrates deserves even to-day our respect and our

confidence. It ought to be preserved in the grateful memory of men, side by side with the maxim which Quesnay succeeded in having printed at Versailles, by the hand of Louis XV himself: "Pauvres paysans, pauvre royaume; pauvre royaume, pauvre souverain."⁴³
[pg 039]

XI.

To return to the question of method. Rossi made use of an ingenious example to explain his thought:⁴⁴ "Are," he inquires, "these deductions [of pure science] perfectly legitimate; are these consequences always true? It is incontestably true that a projectile, discharged at a certain angle, will describe a certain curve; this is a mathematical truth. It is equally true, that the resistance offered to the projectile by the medium through which it moves modifies the speculative result in practice, to some extent; this is a truth of observation. Is the mathematical deduction false? By no means; but it supposes a vacuum. I hasten to acknowledge it. Speculative economy also neglects certain facts and leaves certain resistances out of account." Now, from the moment that we have to deal with human interests, it is not possible to suppose a vacuum, to neglect the most vulgar facts, and the most common instances of resistance, nor to lose one's self in abstraction. The correctives of applied Political Economy either may not wipe out this original sin, or else they run great danger of covering up the principles themselves. In ballistics, again, we may measure the resistance which the medium in which we are obliged to operate, makes the force of impulsion and the target both obey the same law, and yield to the same process of calculation. But is it thus when you touch upon man's innermost and most sensitive part? Is

there not danger that the hypotheses may be deceitful, and that you may be accused of toiling in a vacuum? We well know the solid reason that may be opposed to sarcasm of this nature; but is it expedient to lay one's self open to it? Moreover, the consequences are not great enough to warrant us to expose ourselves to the danger. The principles of pure science are very small in number. They might even, be easily reduced to one, of which M. Cousin has been the eloquent [pg 040]interpreter—human liberty. This liberty has no need of Political Economy to shine with the luster of evidence; nothing can prevail against it. We can prove that it is as fecund as it is respectable; but if the science of wealth should endeavor to demonstrate the contrary, the primordial bases of society, liberty, property and the family would not be less sacred nor less necessary, for they are the right of humanity. They could not be put aside, even under pretext of any mechanism which would claim to produce more.⁴⁵ These sovereign principles of economy flow from the moral law, and they have no reason to dread the power of facts, for the prosperity of nations depends on the respect with which they are surrounded and the guarantees by which they are protected.

We have spoken of the moral law; and, indeed, in our opinion, it is impossible to banish it from the domain of public economy. Any other point of view seems to us too narrow. And when we see eminent men go astray in the pursuit of an ideal which fails to take the human soul into account, and which finds nothing but equations where there are feelings and ideas, we cannot help thinking that they are unfaithful to the thought of the founder of the science, Adam Smith. Man is not simply a piece of machinery. He does not blindly submit to external impulse. Rather is he himself, the greatest of impulses. But to govern things, he must first learn to conquer himself. Personal interest is the powerful motive which he obeys. Man does not live alone, in a state of isolation, in the world. *Væ soli!* He lives in society and profits by the

relations which he forms with other beings, intelligent like himself, and for whom he has a natural feeling of sympathy.

The good that comes to them yields satisfaction to him, and the evil that befalls them falls on him likewise. He cannot turn back entirely upon his own personality. Besides his own interest, he feels and shares another interest—the interest of all. Personal interest is perfectly legitimate. The love of self cannot [pg 041]be condemned. The Savior himself has enjoined us to love our neighbor as ourselves. To love him more than ourselves is a very high and beautiful virtue. It is the self-abnegation which inspired Christian heroes. But heroism is rare, and cannot be imposed, nor taken, as a rule. Personal interest is a powerful stimulant, and the superior harmony of social relations makes it contribute to the general good.

What must be condemned is a fatal deviation of this sentiment which destroys its effect and narrows its actions. What we need to prevent is the degeneration of personal interest into an egotism which parches, instead of fertilizing, and which compromises the future by the exclusive search after present advantage; for egotism is short-sighted. On the other hand, the broader and more generous feeling which inclines us to sympathize with our fellow beings in their sorrows, and to unite our destiny to theirs; that is, the feeling of the general interest, has a limit too.

It would be falsified if it absorbed the individual; if it destroyed the most powerful motive-force by drying up the abundant source of activity; if it attacked moral energy by enervating responsibility; if it extended the circle of results obtained to such an extent that scarcely any one should feel the rebound.

The evil produced by egotism, that sad travesty of personal interest, appears under a form quite as formidable when the general interest takes the form of communism. The

coöperation of personal interest and of the general interest is always necessary, both for individual profit and social advantage. There is as much danger in annihilating the individual as in exalting him. History furnishes us with memorable examples of this. It does not allow us to go astray in the narrow ways of a peevish and jealous personality, nor to lose ourselves in the vague labyrinth of a chimerical and false communism. The latter would destroy what constitutes the power and dignity of man. It would wipe out the most prominent features of his noble nature, by destroying the support of energy and activity and the food of moral force.

[pg 042]

XII.

But, we are told, Political Economy is only the science of selfishness; Adam Smith is the prophet of individualism; grow rich *per fas et nefas* is its ultimate teaching. Such a judgment is evidence of much levity and little enlightenment. How could the man who conceived the study of human interests on so large a scale, the philosopher who acknowledged Hutcheson as his master and gave his ideas a still more expansive character, be the apostle of egotism; and how can the science which he founded be its gospel? There is here an error of fact and a defect of appreciation. Hutcheson had based moral philosophy on the feeling which, according to him, engendered all the other virtues, on benevolence, which is disinterested, busied with the welfare of others, with the public weal and the general interest. Adam Smith went further, and sought to base it on a still more energetic feeling, on sympathy.

The first sentence of his Theory of the Moral Sentiments, which is a full resumé of his theory, is as follows: "How selfish soever man may be supposed, there are evidently some principles in his nature which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it, except the pleasure of seeing it." And this is no empty declaration on his part. It is the thought which of all in his book is nearest to his heart; and hence he energetically assails those philosophers who look upon self-love and the refinements of self-love as the universal cause of all our sentiments, and seek to explain sympathy by self-love.

La Rochefoucauld, Mandeville and Helvetius never met with a more determined or energetic adversary. Nowhere have the sweet and amiable virtues, such as ingenuous condescension, indulgent humanity, and the respectable and severe virtues, such as disinterestedness and self-control which subject our movements to the requirements of the dignity of our [pg 043]nature, been better understood or interpreted. Adam Smith is the philosopher of sympathy.⁴⁶ His theory triumphs over the cowardly and shameful egotism which concentrates the moral life of the individual in himself, and separates it from the life of the human race of the *outré* stoicism which refuses the aid of sentiment to reason.⁴⁷ According to him, the law of private morals is sympathy; the law of natural jurisprudence, justice; the law of the production of wealth, free labor. But while he defended this principle with energy, he did not become guilty of a real recantation by worshiping the idol he had just overthrown. He would have been culpable of the strangest of all contradictions if he had made the vice which he had just lacerated the very pivot of another part of his teaching.

We regret that this essay, which has already very much exceeded the limits we assigned it in the beginning, will not permit us to reproduce here Knies' beautiful demonstration, in which he so learnedly and eloquently vindicates Adam Smith from this strange imputation,

thereby placing Political Economy on its true basis, the basis of morals, by removing in a decisive way, all pretext of error and all means of subterfuge. This part is one of the best features in his most excellent work on "Political Economy, from the historical Point of View." We shall return to this matter.

XIII.

What is there that political economists have not been charged with? They have been accused, above all, of a cold heartedness and cruelty, and the sentence passed on them has been resumed in these words: "Political Economy has no bowels!" Indeed, the representative of the science, who has been most attacked and who has been held up as a picture of impassible insensibility; on whom have been heaped the most bloody outrages, [pg 044]is Malthus. Let us hear him. He tells us in his work on Political Economy, that if a country had no other means to grow rich, except by seeking for success in the struggle with other countries, at the cost of a reduction of the wages of labor, he would unhesitatingly say: Away with such riches; that it is much to be desired that the working classes should be well remunerated, and this for a reason much more important than all the considerations relating to wealth; that is, the happiness of the great mass of society. And he goes on to say, that he knows nothing more detestable than the idea of knowingly condemning the laboring classes to cover themselves with rags, to lodge in wretched huts, to enable us to sell a few more stuffs and calicoes to foreign countries. Certain it is, that no defender, however determined, of the laboring classes, has said anything stronger or more deeply felt. The reason is, that nothing was more foreign to Malthus' ideas than the systematic

rigidity of mathematical theories of wealth; that, a minister of the Gospel, he had meditated on its high precepts. His whole doctrine is based on the moral idea. "He was profoundly convinced that there are principles in Political Economy which are true only in as far as they are restricted within certain limits. He saw the principal difficulty of the science in the frequent combination of complicated causes, in the action and reaction of causes on one another, and in the necessity of setting limits or making exceptions to a great number of important propositions." Here we are ever brought back to the undulating ground of living science, instead of having to follow the rectilinear way traced out by the dead letter. We are always driven back, whatever may be pretended to the contrary, to the realities of which history alone possesses the secret. The idea of wealth cannot absorb everything when there is question of judging and enlightening men. To do this, it is necessary to know the various phases of social housekeeping, what nations have thought of economic interests [pg 045] which have never ceased to interest them greatly, what they have attempted and what they have attained.

Hence, we must turn over the leaves of the book of the past, and study its economic aspect, as we have studied its political and literary aspect. We must follow living nations through their divers periods of development, and fathom the causes of the destruction of those that are dead. When we are dealing with the comparative study of the economic destinies of nations, our investigations are limited to a small number of individual nations—a further reason not to omit any, and above all, to scrutinize, as an anatomist would with his scalpel, the principle of life of those which are no more. We may, by accounting to ourselves for the immense variety of phenomena which are brought to light by the *application* of principles to facts, and in which nothing is absolute or permanent, in which, on the contrary, everything is relative and successive, acquire that sureness of touch and correctness of vision which are among the most valuable conquests of science.

It would be a mistake to suppose that theory simplifies practical solutions. Far from providing us with a sort of formulary, it teaches us to put our finger on a number of difficulties. It brings to the surface the many aspects and fertile and varied considerations, the examination of which is the mission of the real statesman and legislator. In this way, the action of thought and the power of the moral idea are revealed with most *éclat*. Man ceases to be an inert element, and manifests himself as a sensible being, and the sublime thought of Pascal: "Humanity is like one man who lives and learns always," is verified by the result. The wish to violently abdicate the past, it would be vain and rash to attempt to realize. The lessons it transmits to us are as instructive as the picture it unrolls before our eyes is attractive. We have no longer but to see and hear, to be cured of the most generous impatience with what is, and to retreat from the most perilous attempts.
[pg 046]

XIV.

The unvarying testimony of ages affirms the continued and gradual amelioration of man by individual energy and moral thought.⁴⁸ Want and suffering have urged him forward. Foresight, labor, sacrifice and virtue have in part redeemed him. No right has been lessened or usurped, and every step in civilization has been a step in the way of freedom. Instead of making the latter responsible for a material and moral wretchedness which it is called upon to cure, we may prove, that, in proportion as real liberty and legal guarantees increase, evil diminishes. We do not desire to yield to a convenient optimism, and deny the sufferings which weigh only too heavily on the world. We are far from having reached the end assigned to

our efforts; but let not the hope we entertain of further progress blind us to that which has already been accomplished. This latter shows us that we are on the right road, and that we have not done unwisely in giving free rein to the human faculties. Sudden changes are made only in theaters. In the real world, the march of progress is slow and laborious. It may be accelerated by a happy hit; but it would be vain to try to hurry it.

Man still suffers. No one desires to deny the evil, but only to estimate its extent. Yet it cannot be gainsaid that its fatal empire is narrowing instead of enlarging. Especially is it the progress accomplished in the higher regions of intellect and of the feelings which here exerts its beneficent influence. On our moral greatness depends our material power. The elevation or debasement of character, the energy or debility of the will—such is the first source of good or evil. The world, a Chalmers rightly says, is so constituted that we should be materially happy if we were morally good.

Industrial progress helps, we have said, towards moral perfection. It is not the source of that perfection, but its instrument; [pg 047]for ignorance and misery, its habitual attendants, are poor advisers. Political Economy shows how the goods of this world are multiplied. It shows how modest comfort may become more and more general, and thus an impetus be given to all noble virtues without awakening a blind passion for riches. It teaches moderation instead of exciting covetousness, nor does it come in conflict with the sublime words of Saint Augustine: “The family of men, living by faith, use the goods of the earth as strangers here, not to be captivated by them or turned away by them from the goal to which they tend, which is God, but to find in them a support which, far from aggravating, lightens the burthen of this perishable body which weighs down the soul.”

XV.

Looked at from below, all things diverge. Looked at from above, all things run into one another and combine with one another. It is one of the great merits of the historical method, that it raises the point of observation and gives the observer the support of tradition and good sense, that master of life; that it prevents a divorce between different branches of knowledge of the same order, which constitute but one intellectual family, which there is no question of confounding, and which it would be dangerous to isolate.

Aristotle, that universal genius, had discovered Political Economy, and it was the historical method which revealed it to him. Be it added, that the great philosopher had seen but one phase of the science, chrematistics, and that his ideas here bear the impress of the age in which he lived. Aristotle, however, distinguished this science from all others and from domestic economy, which is so akin to it. Doubtless, he did not found the modern study of Political Economy, but his powerful intellect gave him a presentiment of it.

The honor of producing at once, Adam Smith, Quesnay and Turgot belongs to the eighteenth century. It was in the [pg 048]course of philosophy at Glasgow that this study found a definite place. The illustrious founder of the science of Political Economy did not contemplate dissolving the ancient alliance between it and the moral sciences, history, philosophy, jurisprudence, belles-lettres—all of which he had explored and studied profoundly. Let those whose ambition it is to walk, even at a distance, in the footsteps of Adam Smith, not forget what was the cradle of the noble study to which they have devoted their intellects.

L. WOLOWSKI.

Introduction.

Chapter I.

Fundamental Ideas.

Section I.

Goods—Wants.

The starting point, as well as the object-point of our science is Man.⁴⁹

Every man has numberless wants, physical and intellectual.⁵⁰ Wants are either necessities, decencies (*Anstandsbedürfnisse*) or luxuries. The non-satisfaction of necessary wants causes disease or death; that of the wants of decency endangers one's [pg 052]social position.⁵² The much greater number, and the longer continuance of his wants are among the most striking differences between man and the brute:⁵³ wants such as clothing, fuel,⁵⁴ tools,

and those resulting from his much longer period of infancy; which last, together with other causes, has contributed so largely to make marriage necessary and universal. While the lower animals have no wants, but necessities, and while their aggregate-want, even in the longest series of generations, admits of no qualitative increase, the circle of man's wants is susceptible of indefinite extension.⁵⁵ And, indeed, every advance in culture made by man finds expression in an increase in the number and in the keenness of his rational wants. No man who distinguishes himself in anything, but feels spurred thereto by a peculiar want; and this want is both the cause and the effect of the power which is peculiar to him. No one but the poet feels the want of poetizing; no one but the philosopher, of philosophizing. In every particular, intellectual or physical, in which the man is in advance of the child, he experiences new wants unknown to the child. Our education consists, for the most part, in awakening wants and providing for their satisfaction.

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Goods are anything which can be used, whether directly or indirectly, for the satisfaction of any true⁵⁶ or legitimate human want,⁵⁷ and whose utility, for this purpose, is recognized. Hence, the idea goods is an essentially relative one. Every change in man's wants, or knowledge, is accompanied by a rapid, corresponding change, either in the limits of the circle⁵⁸ of goods, or in their relative importance. Thus, the tobacco plant has, probably, existed thousands of years. It became goods, however, only from the time that man recognized its use for smoking, snuffing etc., and experienced the want of it for these purposes. In a similar way, the limestone of the Solenhofen quarries has become *goods*, of considerable importance, only since the invention of lithography; decaying bones, only since that of bone-dust manure; caoutchouc since about 1825, and gutta-percha, only since 1844. On the other hand, charms,⁵⁹ philters, and even relics, since the decay of faith in their efficacy, have lost the quality of goods. If the

aggregate income of all mankind were, by some sudden revolution, to be equally divided among all, diamonds, for instance, would [pg 054]greatly decline in value, for the reason that it is dependent, in great part, on the wants generated by vanity, or by the desire of outshining others. Beer, tobacco etc., would rise in the scale as goods, because the circle of those to whose wants they minister would have been very greatly extended. On the whole, advancement in civilization has uniformly the effect, of itself, to increase the quantity and number of goods, the wants and knowledge of men being thereby increased. We should reach the ideal here, if all men experienced only true or legitimate wants, but these completely; if they could see their way, clearly, to the satisfaction of them, and find the means of satisfying them with just the amount of effort most conducive to their physico-intellectual development.⁶⁰

Section II.

Goods.—Economic Goods.

By economy (*Wirtschaft*=husbandry or housekeeping), we mean the systematized activity of man, to satisfy his need (*Bedarf*=requisite) of external goods.⁶¹ This treatise is concerned only with economic goods (ends or means of economy).⁶² The greater the advance of civilization or human culture, [pg 055]the less apt are men to pursue the satisfaction of their wants, isolated from their fellows, or, in other words, to carry on their economies or husbandries apart from one another. The more numerous the wants of men, and the more different in kind their faculties are, the more natural does exchange⁶³ become. Since all goods derive their character as goods from the fact that they are

destined to satisfy human wants, the very possibility of exchange must greatly increase the possibility of things to become goods. Think of the machinist, whose products are used only by the astronomer, while the latter is never in a way to manufacture them for himself. (*Hufeland.*) Commerce is the series of combinations, created by the interchange of services: “a living net of relations, which wants and services are ever weaving and unweaving.” (*Hermann.*) As a rule, with an advance in civilization, there is an increase in the number of goods, which become economic goods, and in the number of economic goods which become commercial goods (objects or means promotive of commerce).⁶⁴ But this is to be considered a real advancement only to the extent that that which is obtained is superior to that which was possessed before, in consequence of the specialization of callings or the greater division of labor (§ 48 ff.). When a little street Arab exacts money from a stranger for pointing out the way, we rightly censure him; but no one would find [pg 056]it improper if he should first fit himself to play the part of a guide, and then live by his calling.⁶⁵

Section III.

Goods.—The Three Classes Of Goods.

All economic goods are divided into three classes:

A. *Persons or personal services.* It is entirely repugnant to the feeling of humanity to regard a man's person in its entirety as an instrument intended to satisfy the wants of another.⁶⁶ [pg 057] Yet this happens wherever slavery exists; in its coarsest form, in cannibalism. Among civilized nations, we can speak, under this head, only of

individual services or capabilities of persons; or, indeed, of the aggregate of the services rendered by them during a time determined at pleasure, or a short time.⁶⁷

B. *Things*, both moveable and immovable.⁶⁸

C. *Relations* to persons or things which may frequently be estimated just as accurately as material goods. (The *res incorporales* [pg 058] of the Roman law.) I need only mention what is called good-will, which freely, and to the advantage of customers themselves, but still with a limited amount of certainty, attaches to certain localities, and for which tavern-keepers, sometimes, as in theaters, dépôts and clubs, pay so enormous a rent.⁶⁹ When a newspaper is sold, the purchaser frequently buys nothing but the existing relations between his colaborers, subscribers etc. No small part of the value of a good business firm consists in the confidence with which it inspires all who deal with it, thus sparing them a world of care and trouble.⁷⁰ A general may be of incalculable value to an army which he has himself helped organize. In another, or in the service of a country not his own, he might be entirely valueless, incapable of accomplishing anything.⁷¹ With the progress of civilization, as man becomes more social, the number of valuable relations increases, while that of legalized monopolies is wont to decrease. (*Schäffle*.)⁷²
[pg 059]

Section IV.

Of Value.—Value In Use.

The economic value of goods is the importance they possess for the purposes of man, considered as engaged in economy (housekeeping, husbandry.⁷³)

Looked at from the point of view of the person who wishes to employ them in his use directly, doubtless the oldest point of view, value appears first as value in use; and here, according to the difference of subjective purposes it is intended to subserve, we may speak of production value or enjoyment-value; and of this last, in turn, as utilization-value, or consumption-value. The value in use of goods, is greater in proportion as the number of wants they are calculated to satisfy are more general and more urgent, and in proportion as they are gratified by them more fully, surely, durably, easily and pleasantly.⁷⁴ Hence, it is seldom possible to find an accurate mathematical expression of the relation which exists between the value in use of different goods.⁷⁵ Thus, it is possible to estimate the [pg 060]nutritive power of different kinds of goods, the value of wheat or of hay for instance, but not the goodness or quality of their taste, of the attractiveness of their appearance, etc.

But, the more men become used to comparing the aggregate of human wants, and the aggregate of the goods which minister to the satisfaction of these wants, as if they were two great wholes, gradually shading each into the other, the more does the value in use of the different kinds of goods assume, for purposes of social rating or estimation, a fungible character.⁷⁶ If a new kind of goods be produced or discovered, which satisfies the same wants in a more complete manner than another, the latter, although it has suffered no change, generally loses in the value put upon it, especially if the new goods can be produced in any desired quantity. An instance of this is the change effected in the value of the dyers weed, woad, by the introduction of indigo.

Things present in quantities greater than the amount necessary to supply the want they satisfy, preserve their full value in use, to the limit of that want, after which they are simply an element of possible future value, dependent on an increase of the want; but they have no value for present use.⁷⁷

The economic valuation of goods, however, is by no means exhausted, so far as the isolated individual housekeeper is concerned, by the mere establishing of its value in use. As the systematic effort of every rational individual in [pg 061]his household management is directed towards the obtaining, by a minimum of sacrifice of pleasure and energy, a maximum satisfaction of his wants, even an Adam or a Crusoe is, in his economy, compelled to estimate not only what the goods to be acquired accomplish (value in use) but also what they will cost—cost-value. Even the most indispensable kind of goods, for instance atmospheric air, is considered to have no value, when it can be obtained in sufficient quantity, without any sacrifice whatever.⁷⁸

Section V.

Value.—Value In Exchange.

The value in exchange of goods, or the quality which makes them exchangeable against other goods, is based on a combination of their value in use with their cost-value, such as men in their intercourse with one another will make.⁷⁹ Without value in use, value in exchange⁸⁰ is unthinkable.

But there are many, and even indispensable goods which are not at all susceptible of being exchanged; for instance, the light and heat of the sun, the open sea etc.⁸¹ Other goods, [pg 062]although capable of being exchanged, have no value in exchange, because they exist in superabundance, and may be obtained by everyone, without trouble and without reward; for instance, drinking-water in most places, ice in winter, and wood in the primeval forest.⁸² Moreover, the idea of such “free

goods” is in great part relative. The water of a river may, for drinking purposes, be “free” goods, and yet, for purposes of irrigation, have great value in exchange. (*John Stuart Mill*).

But, goods, to obtain value in exchange, must, in addition to their value in use, a value which must be recognized⁸³ by a certain number of persons, at least, have the capacity of becoming the exclusive property of some one individual, and therefore of being alienated or transferred; and this alienation or transfer must be desired because of the difficulty to become possessed of them in any other way.⁸⁴
[pg 063]

Section VI.

Value.—Alleged Contradiction Between Value In Use And Value In Exchange.

Recent, and especially socialistic,⁸⁵ writers have alluded to the great “contradiction” between value in use and value in exchange. This contradiction, however, vanishes when the above idea of economy, and the two sides or aspects, which economic value presents, are kept steadily in view. It is said, for instance, that a pound of gold has a much greater value in exchange than a pound of iron; while the value in use of iron, is incomparably greater than that of gold. I question [pg 064]this latter statement. True it is, that the need of iron is much more universal and urgent than the need of gold. On the other hand, a pound of gold yields satisfaction to the want of that metal, much greater than is yielded by a pound of iron, to the want of iron. We may speak of a contradiction between value in use and value in exchange, at the farthest, only in case the existing

quantity of an article in trade, which can be done without, is not estimated correspondingly lower than the whole existing supply of a thing which is indispensable. But this is a case which cannot often occur. When, for instance, wheat is very dear, as in years of scarcity, people prefer to pay a very high price for it rather than to dispense, even in part, with its use; and so of all the necessaries of life. As people progress in economic culture, they become more expert in adapting the value in exchange of related goods, not only to their cost-value, but also to their value in use.⁸⁶⁸⁷

The lower the state of a nation's economy, the more isolated men live from one another, the greater is the prominence given by them to value in use, as compared with value in exchange, a fact which makes a valuation of resources, which shall be universally applicable, a more difficult matter.⁸⁸⁸⁹⁹⁰

[pg 065]

Section VII.

Resources Or Means (Vermögen).

Resources, or *means*, in the sense in which we here use the term, are the aggregate of economic goods owned by a physical or legal person, after deduction is made of the person's debts, and all valuable and rightful claims have been added.⁹¹ Hence, there are private resources, corporative resources, municipal resources, etc., state resources, national resources and the world's resources. In estimating the resources of a whole people, it is, of course, necessary to make deduction of the debts due by the individual members of the nation to their fellow countrymen.

Section VIII.

Valuation Of Resources.

It has often been made a question, whether the valuation of resources should be based on the value in use, or the value in exchange of their constituent parts.⁹² The latter has, of course, no interest, except in so far as we are concerned with the possibility of obtaining the control of part of the resources, or means, of another, by the surrender of a part of one's own goods. In estimating the value of private resources, which require to be made continually an object of trade, this point is, of course, of the greatest importance. If certain of their component elements, lands, for instance, belonging to a *fidei commissum*, are incapable of entering immediately into the market, at least the revenue they yield is measured by its value in exchange.

It is quite otherwise, even with the resources of a whole nation. Such resources are, evidently, much more independent, and have much less need of being exchanged against their equals, than private resources. The foreign commerce, of the greatest and most advanced nations, has, hitherto, been but a small quota of their internal commerce.⁹³ A valuation, [pg 067]therefore, based on value in exchange, however interesting it might be to enable us to determine how property is shared by the different classes and persons that compose the nation, would afford but little information concerning the absolute amount of the national wealth. This, of course, applies in a much higher degree to the resources of the whole world.

If, now, we were to estimate the resources of an entire people, or even of the world, by summing up the value in exchange of their several component parts, many very important elements would be left out of the account entirely; as for instance, harbors, navigable streams, numberless relations which have, indeed, no value in exchange whatever, but which are of the highest importance, because promotive of the economy of the nation. The same may be said of made roads of every description, the politico-economical value of which may be much greater than the value in exchange of their stock, than their cost of production etc. The increase of the value in exchange of any of the branches of the resources of a physical or legal person contributes towards really enriching the nation or the world, only in case that the increased value in exchange is based on an increased utility in quality or quantity. Should an earthquake suddenly dry up a number of our springs, and thus give value in exchange to the drinking water from the remaining ones, we should, indeed, witness the introduction of a new object into the list of exchangeable goods; the owners of springs would be able to command a larger portion of the national resources, but at the expense of the rest of the population; and the whole country would have become poorer in goods by the catastrophe. Even the value in exchange of the national resources would not be increased; for all other goods, which, hitherto, as compared with water, had an unlimited capacity for exchange, would lose just as much of that capacity as water had gained, as compared with them.⁹⁴ On the other hand, if a new mineral [pg 068]spring should be discovered, the great value in use of the water of which gave it value in exchange, the resources of the nation would be really increased, not only in point of utility, but in exchange value; for no other goods, formerly known, would, in consequence of the discovery, lose in their exchange power.⁹⁵

Section IX.

Wealth.

The possession of large and also of potentially lasting resources; objectively, such resources themselves, we call wealth. But it must be large in a two-fold sense; large as compared with the rational wants of its possessor, and large, also, as compared with the resources of other people, especially with the resources of those in the same condition of life. To be called rich, it is not enough “to have a sufficiency,” (the individual side); it is necessary to have more than others.⁹⁶ If all men were possessed [pg 069]of a great deal, but all of an exactly equal amount, each would be compelled, it may be conjectured, to be his own chimney-sweep, his own scavenger and “boot-black.” And how could anyone, then, be properly called wealthy? This is the social side of the idea of wealth.⁹⁷ Hence, a person, with the same resources, might be very wealthy in a provincial town, while, in the capital, he could enjoy only moderate comfort.⁹⁸
[pg 070]

Section X.

Wealth.—Signs Of National Wealth.

We should have a very imperfect idea of the wealth of a people (§ 8) if we should estimate it at the value in exchange [pg 071]of the sum⁹⁹-total of the component parts of the national resources. By the following signs,

however, an approximative notion of the value in use of the resources of a nation may be obtained:

A. When, even the lower classes, who compose everywhere the greatest portion of the people, are comfortable, in a condition worthy of human beings. Thus, C. Dupin is surprised at the great quantities of meat, butter, cheese and tea entered on the accounts of the poor-houses in England, and the great [pg 072]care taken to have these of the best quality.¹⁰⁰ A good symptom of such a state of things is a high average duration of human life, especially when there is a relatively large number of births. (§ 246.)

B. When a considerable outlay, devoted to the satisfaction of the more refined wants, is voluntarily made, and by those only possessed of a proper economic sense. Thus, in England, the various mission, bible, and tract societies had, in 1841, an aggregate income of £630,000. The expeditions in search of Franklin cost over a million pounds sterling. The state outlay also belongs to this category, provided, that taxes are collected and loans obtained, without any noticeable oppression. The sum of 20,000,000 pounds sterling, voted, in 1833, by the British Parliament for the abolition of slavery, is one of the happiest signs of the national wealth of England.¹⁰¹

C. A large number of valuable buildings, and permanent improvements; for instance, roads of every description, works for purposes of irrigation and drainage. Thus, in London, from September, 1843, to September, 1845, there were constructed squares and streets with an aggregate length of 11.1 geographical miles. The number of newly built houses in London, between 1843 and 1847, was nearly 27,000. And so, in England and Wales there are 492 geographical miles of navigable canals, while their navigable rivers are estimated to have a length of only 449 miles. The number of miles of railroad, in the British Empire, in 1865, was 2,897 geographical miles, and they cost 459 million of pounds; in 1870, it was 3,270 geographical miles, at an aggregate cost of 650 millions sterling.

D. The frequent occurrence of heavy commercial payments, which finds expression especially in the magnitude and costliness of the most usual medium of exchange. Thus, all payments are made in England in paper (for sums of at least five [pg 073]pounds sterling) or in gold coin. Silver is used only as small change, like copper in most other countries. (*Infra*, § 118, seq.)¹⁰²

E. Frequent loans to foreign nations. Hence, Storch divides all countries into borrowing or poor countries, loaning or rich countries, and independent countries which hold a middle place between the two former.¹⁰³

Section XI.

Of Economy (Husbandry).

All normal economy¹⁰⁴ (husbandry) aims at securing a maximum of personal advantage with a minimum of cost or outlay.¹⁰⁵ And there are always two intellectual incentives at the foundation of this economy. There is, first, self-interest, the positive manifestation of which is the effort to acquire as much of the world's goods as possible, and the negative expression of which, the effort to lose as little of them as possible—acquisitiveness—saving. Self-interest, losing its moral, and assuming a guilty, character, degenerates into egotism; acquisitiveness, into covetousness; and the disposition to save, into avarice—the *solipsismus* of Kant. The incentive to ameliorate one's condition is common to all men, no matter how varied [pg 074]the form or different the intensity of its manifestation. It guides us all from the cradle to the grave. It may be restricted within certain limits, but never entirely extinguished. It is, in the domain of economy, what the instinct of self-preservation is to our

physical existence, a powerful principle of creation, preservation and of renewed life (I. Thessal., 4, 11, seq.).¹⁰⁶ Then there is the incentive of the demand of God's voice within us, the voice of conscience, whether we call it, in philosophic outline "the adumbration of the ideas of equity, right, benevolence, of perfection and inner freedom," or, framing our lives in accordance with them, the striving after the Kingdom of God.¹⁰⁷ It matters not, how much the image of God may have been disfigured in most men, there is no one in whom the longing for it has so far disappeared as to leave no trace behind. This puts bounds to our self-interest, and [pg 075]transmutes it into an earthly means to enable us to approximate to an eternal ideal.

As, in the structure of the world, the apparently opposing tendencies of the centrifugal and centripetal forces produce the harmony of the spheres, so, in the social life of man, self-interest and conscience produce in him the feeling for the common good.¹⁰⁸ This sentiment of the common interest is the foundation on which rise in successive gradation, the life of the family, of the community, of the nation and of humanity, the last of which should be coincident with the life of the Church. It, alone, can realize the kingdom of heaven on earth. Through this sentiment alone can religion be made active and moral. Only through it, can self-interest be made really sure and always to the purpose. Even the most calculating mind must acknowledge, that numberless institutions, relations etc., are useful and even necessary to many individuals, which can be established or maintained only from a sense of the general welfare, for the reason that no one individual could make the sacrifice required to establish or maintain them. And so, since commerce has wrought the interests of all men into one great piece of network, the best means of obtaining wherewith to satisfy our own wants is to help others satisfy theirs. Self-interest causes every one to choose the course in life in which he shall meet with the least competition and the most

abundant patronage; in other words, that which answers to the most pressing and least satisfied want of the community. As a rule, the physician who cures the greatest number of patients with the greatest skill, and the manufacturer who produces the best goods cheapest, will grow to be the richest. It is, moreover, easy to see that, according as the circle of common interests grows smaller, it approximates to self-interest; and [pg 076]to “the Kingdom of God”¹⁰⁹ as it grows larger. And yet, all these circles respectively condition one another. Cosmopolitanism or church-zeal, without love of country; patriotism, without fidelity to the community in which one lives, or love of one's family, are more than suspicious. The reverse is also true. This is a chief connecting link between the great apparent opposites.¹¹⁰¹¹¹
[pg 077]

Section XII.

Economy.—Grades Of Economy.

Thanks to this feeling for the common weal, the eternal and destructive war—the *bellum omnium contra omnes*—which an unscrupulous self-interest would not fail to generate among men engaged in the isolated prosecution of their own economic interests, ceases in the higher, well-ordered organization¹¹² of society. On it are based the various forms of economy in common: family-economy, corporation or association-economy, [pg 078]municipal economy, and national economy.¹¹³ And these forms of economy in common are so essentially the condition and complement of individual economy, that the latter, without them, could either not be maintained at all, or, at least, only in the very lowest stage of civilization.

Although the higher science of Political Economy has, nearly always, been conceived¹¹⁴ as treating of the aggregate national activity of a people, there have been many, recently, who consider Political Economy as no real whole, but only as a mere abstraction. This is true, especially of many unconditional free-trade theorizers, partly from a repugnance toward the governmental guardianship of private businesses or economy. It is true, also, of certain philosophers who consider the idea, “the people,” as merely nominal.¹¹⁵ There are, however, [pg 079]two things necessary to warrant us to call a thing made up of a number of parts, one real whole: the parts and the whole must have a reciprocal action upon one another, and the whole, as such, must have a demonstrable action of its own. (*Drobisch.*) In this sense, “the people” is, unquestionably, a [pg 080]reality, and not alone the individuals who constitute the “people.” Besides, it is truly said that all husbandry or economy supposes a will (“systematized activity” etc., *supra*, § 2). Such a will is ascribed to individuals, to legal persons, to the state, but not, however, to “the people,” as a whole. But this will need not be an entirely conscious one, as is plain from the case of the less gifted and less cultured individuals engaged in household economy. The systemization in the public economy of a people finds its clearest expression in economic laws, and in the institutions of the state. But it finds expression, also, without the intervention of the state, in the laws established by use, and by the opinions of jurists or courts, in community of speech, of customs and tastes etc.: things which have an important economic meaning, which depend on the common nature of the land, of race and history, and which influence the state, at least as much as they are influenced by it.¹¹⁶¹¹⁷

The most that can be said, at present, so far as an economy of mankind, or a world-economy, is concerned, is, that it may be shown that important preparations have been made for it. We are approaching more nearly to it by the ways of the more and more cosmopolitan character of science, the

increasing international coöperation of labor, the improvement in the means of transportation, growing emigration, the greater love of peace, and the greater toleration of nations etc.

[pg 081]

Section XIII.

Political Economy.—The Economic Organism.

The idea conveyed by the word *organism*, is doubtless, one of the most obscure of all ideas; and I am so far from desiring to explain¹¹⁸ by that idea, the meaning of public or national economy, that I would only use the word *organism* as the shortest and most familiar expression of a number of problems, which it is the purpose of the following investigation to solve.

There are two points, especially, of importance here. In the motion of any machine, it is possible to distinguish with the utmost accuracy, between the cause and the effect of the motion: the blowing of the wind, for instance, is simply and purely, the cause of the friction of the mill-stones in a wind-mill, and is not in the least influenced or conditioned by the latter. But, in the public economy of every people, patient thought soon shows the observer, that the most important simultaneous events or phenomena mutually condition one another. Thus, a flourishing state of agriculture is impossible without flourishing industries; but, conversely, the prosperity of the latter supposes the prosperity of the former, as a condition precedent. It is as in the human body. The motions of respiration are produced by the action of the spinal cord; and the spinal cord, in turn, continues to work only through the blood,

that is, [pg 082]by the help of respiration. In all cases like this, we are forced, when accounting for phenomena, to move about in a circle, unless we admit the existence of an organic life, of which every individual fact is only the manifestation.¹¹⁹¹²⁰

It is, also, undeniable, that human insight into the operation and utility of a machine must always precede the existence of the machine itself. This human insight is parent to the plan, and the plan, in turn, is parent to the machine. The very reverse of this is true in the case of organisms, those “divine machines” as Leibnitz called them. Men had digested food and reproduced their kind, thousands of years before physiologists had attained to a true theory of digestion or reproduction. I do not, indeed, by any means, pretend, that the public economy of nations is governed by natural necessity, in the same degree, as for instance, the human body. We shall find, however, that the minute arbitrary variations usual here and there in the course of its development, generally compensate for one another, in accordance with the law of large numbers. Here, too, we find harmonies, frequently of wonderful beauty, which existed long before any one dreamt of them; innumerable [pg 083]*natural laws*,¹²¹ whose operation does not depend on their recognition by individuals, and, over which, only he can obtain power who has learned to obey them. (*Bacon*)¹²²¹²³¹²⁴ But [pg 084]it should never be lost sight of, that the natural laws governing the public economy of a people, like those of the human mind, are distinguished in one very essential point from those of the material world. They have to do with free rational beings, who, because they are thus free and rational, are responsible to God and their conscience, and constitute in their aggregate a species capable of progress.

Section XIV.

Origin Of A Nation's Economy.

The public economy of a people has its origin simultaneously with the people. It is neither the invention of man nor the revelation of God. It is the natural product of the faculties and propensities which make man man.¹²⁵ Just as it may be shown, that the family which lives isolated from all others, contains, in itself, the germs of all political organization,¹²⁶ so may it be demonstrated, that every independent household management contains the germs of all politico-economical activity. The public economy of a nation grows with the nation. With the nation, it blooms and ripens. Its season of blossoming and of maturity is the period of its greatest strength, and, at the same time, of the most perfect development [pg 085] of all its more important organs.¹²⁷ In respect to it, the economic endeavors of any epoch may be said to be represented by two great parties, the one progressive, the other, conservative. The former would hasten the period of the nation's richest and most varied development, the latter postpone its departure as long as possible; and hence it comes, that a people's economic decline is sometimes taken for progress, by the former class, and their progress for decline, by the latter. As a rule, the union and equilibrium of these parties are wont to be the greatest at the period of maturity, because, then, intelligence and the spirit of sacrifice for the common good are most general.¹²⁸ Finally, the public economy of a nation declines with the people. (*Infra*, § 263 ff.)

Section XV.

Diseases Of The Social Organism.

If the public economy of a people be an organism, we must expect to find that the perturbations, which affect it, present some analogies to the diseases of the body physical. We may, therefore, hope to learn much that may be of use in [pg 086]practice, from the tried methods of medicine.¹²⁹ In the diseases of the body economic, it is necessary to distinguish accurately, between the nature of the disease and its external symptoms, although it may be necessary to combat the latter directly, and not merely with a view to alleviation. Following the example of the physician, we should particularly direct our attention to the curative method which nature itself would pursue, were art not to intervene. "The curative power of nature is no peculiar power; it is the result of a series of happy adjustments, by means of which the morbid perturbation itself sets in motion the springs which may either destroy the evil or paralyze its action. It is, in fact, nothing but the original power which formed the body and preserves its life in contact with the external causes of perturbation and the internal disorder provoked by these causes." (*Ruete.*) [pg 087]

Chapter II.

Position Of Political Economy In The Circle Of Related Sciences.

Section XVI.

Political Or National Economy.

By the science of national,¹³⁰ or Political Economy, we understand the science which has to do with the laws of the development of the economy of a nation, or with its economic national life. (Philosophy of the history of Political Economy, [pg 088]according to von Mangoldt.) Like all the political sciences, or sciences of *national life*, it is concerned, on the one hand, with the consideration of the individual man, and on the other, it extends its investigations to the whole of human kind.¹³¹

National life, like all life, is a whole, the various phenomena of which are most intimately connected with one another. Hence it is, that to understand one side of it scientifically, it is necessary to know all its sides. But, especially, is it necessary to fix one's attention on the following seven: language, religion, art, science, law, the state and economy.¹³² Without language, all higher mental activity is unthinkable; without religion, all else would lose its firmest foundation and highest aim. Through art, alone, do all these sides attain to beauty; through science, alone, to clearness. Law arises, the moment conflicts of will become inevitable and an adjustment is desired. The state has to do with them, in so far as they have any external force or validity. Indeed, there is no human relation, not even the highest and the sweetest, but has its economic interests. It is, therefore, natural, that each of the sciences which relate to these various regions of human life should, in part, presuppose all others, and, in part, serve as a basis for them.¹³³

[pg 089]

But in the midst of this universal relationship, it is easy to see that law, the state and economy constitute a family, as

it were apart and more closely connected. (The social sciences, in the narrower sense of the expression.)

They are confined almost exclusively to what Schleiermacher has called “effective action” (*wirksame Handeln*), while art and science belong almost entirely to the “action of representation” (*darstellenden Handeln*); and religion and language combine both kinds. Law, the state, and economy too, have their roots so deep in the physical and intellectual imperfection of man, that we can scarcely imagine their continuance beyond his life on earth (Gospel of Matthew, 22, 30). But within these limits, their several provinces and the subjects with which they are concerned are almost coincident. They only consider these from different points of view: the science of politics from that of sovereignty; the science of Political Economy from that of the satisfaction of the requirement of external goods by the people; the science of law from that of the prevention or the peaceable adjustment of conflicts of will. As every economic act, consciously or unconsciously, supposes forms of law, so, by far the greater number of the laws relating to rights, and the greater number of judgments in the matter of rights, contain an economic element. In numberless cases, the science of law gives us only the external *how*; the deeper *why* is revealed to us by the science of Political Economy.¹³⁴¹³⁵ And, as to the state, who, for instance, can appreciate [pg 090]the political significance of a nobility, without understanding the economic character of rent, and of the possession of large landed estates? Who can politically appreciate the inferior classes of society, unless initiated into a knowledge of the laws that govern wages and population? It were much easier to cultivate psychology without physiology! “The state is society protected by force” (*Herbart*). There are two bases to all material power:¹³⁶ wealth and warlike ability (*χρήματα—ναυτικά*, according to Thucydides); and how much the latter has need of the former is well expressed by the familiar saying of

Montecuccoli: "Money is not only the first, but the second and third condition of war."¹³⁷

Frederick the Great calls finance the pulse of the state, and Richelieu, the point of support which Archimedes was in search of, to move the world. In all modern nations, the history of the debates on the raising of revenue and of the passing of budgets is, at the same time, the history of parliamentary life; and most great revolutions, the Reformation of the sixteenth century not excepted, if not caused have been promoted, by financial embarrassment.

[pg 091]

Section XVII.

Sciences Relating To National Life.—The Science Of Public Economy.—The Science Of Finance.

If, by the public economy of a nation, we understand economic legislation and the governmental guidance or direction of the economy of private persons,¹³⁸ the science of public economy becomes, so far as its form is concerned, a branch of political science, while as to its matter, its subject is almost coincident with that of Political Economy. Hence it is, that so many writers use the terms public economy, or the economy of the state (*Staatswirthschaft*), and National Economy (*Volkswirthschaft*), as synonymous.¹³⁹ The hypothesis, in accordance with which, this science should discard all consideration of the state, or should refuse to presuppose its formation,¹⁴⁰ would lead us into an ideal region, difficult to define, probably entirely impossible, and inaccessible to experience.

Just as clear, is the close connection between politics and Political Economy, in the case of the science of finance, or of the science of governmental house-keeping, otherwise the administration of public affairs. The latter, evidently, so far as its end is concerned, belongs to politics, but so far as the means to that end are concerned, to National Economy. As the physiologist cannot understand the action of the human body, without understanding that of the head; so we would not be able to grasp the organic whole of national economy, if we were to leave the state, the greatest economy of all, the [pg 092]one which uninterruptedly and irresistibly acts on all others, out of consideration.¹⁴¹

By the term *police*, we mean the state power whose office it is, without mediation, to prevent all disturbances of external order among the people.¹⁴² It may extend its action into all the domains of national life mentioned above, whenever external order is there threatened, or calls for protection; but its action is important especially in the domains of law and economy. The science of the *police power*, therefore, of all those doctrines resulting from investigation into national life, takes up only one phase of each of them; and the phases of doctrine thus taken up, it combines into a whole, for practical ends. Its relation to those sciences is like that of surgery to the medical sciences, or like the science of legal procedure to the science of law.

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Section XVIII.

Sciences Relating To National Life.—Statistics.

Statistics we call the picture or representation of social life at given periods of time, and especially at the present time, drawn on a scale in accordance with the laws of development discovered by means of the theoretical sciences above named; as it were, a section through the stream. (*Schlözer* calls them: history standing still.)¹⁴³ Statistics, as thus defined, are as far removed from saying too much as from saying too little. To give a complete tableau of their object, statistics should, of course, take in the life of a people, in all its aspects. But they should look upon such facts only as their own property, the meaning of which they are able to understand; that is, such only as can be ranged under known laws of development. Unintelligible facts are collected only in the hope of penetrating into their meaning in the future, by comparing them with one another. In the meantime, they are to the statistician only what unfinished experiments are to the investigator of nature.

The view is daily gaining ground, that statistics should be occupied—without, however, confining themselves to them—with present facts, with “facts affecting society and the state, which are susceptible of being expressed in figures.”¹⁴⁴ The more deceptive the immediate observation of an individual, isolated fact is, in cases where a great number of simultaneous [pg 094]or scattered individual isolated facts of national life should be observed, the more important it is to discover proper numerical relations, by noting all the like acts or experiences of men, the time and place in question, and the relation of the aggregate of these phenomena, to the sum-total of the population, or to the sum-total of corresponding phenomena in other places. When this is done, and the facts are completely enumerated and correctly recorded, there is no danger of subjective error. And this species of “political and social measuring,” as *Hildebrand* calls it, may be applied, not only to quantities, but to all qualities accessible to the observation of the senses; since the individual or isolated qualities of the things enumerated, may be again made

objects of enumeration. Without doubt, this mode of numerical procedure is the most perfect for all those divisions of statistics in which it can be followed; and hence, it should be our endeavor to make the numerical side of statistics as comprehensive as possible. But, one side of a science is not a science itself. As there is no natural science proper called microscopy, embracing all the observations made by means of the microscope, so care should be taken not to deduce the principle of a science from the chief instrument it employs. There will always be many and important facts in national life which can not be subjected to numerical calculation, although they may be established with the usual amount of historical certainty. Were statistics to be limited, in the manner mentioned above, they would remain a collection of fragments, and instead of being a science, properly so-called, become a method.¹⁴⁵

Besides, it is evident, that, of statistics in general, economic [pg 095]statistics constitute a chief part, and precisely the part most accessible to numerical treatment. As these economic statistics need to be always directed by the light of Political Economy, they also furnish it with rich materials for the continuation of its structure, and for the strengthening of such foundations as it already has. They, are, moreover, the indispensable condition of the application of economic theorems to practice.

Section XIX.

Private Economy—Camerallistic Science.

The meaning of the term cameralistic science (*Camerallwissenschaft*) can be explained only by the history of the cameralistic system.¹⁴⁶ From the end of the

middle ages, we find, in most German countries, an institution called the Council (*Kammer*) whose province it was to administer the public domain, and to watch over regal rights. At first, a mere governmental commission, it was not long before it developed into an independent board. This change had taken place in Burgundy as early as the year 1409. It was in that country that the emperor Maximilian became acquainted with the institution; and by the erection of the aulic councils at Innsbruck and Vienna (1498 and 1501), he gave the principal impulse to the imitation of it in Germany. As, at that time, the division of labor was very little developed, and personal and collegial authority all the more developed in consequence, it is easy to [pg 096]conceive that a great part of all the new and rapidly increasing business of police administration was confided to these councils. They were charged especially with what is known to-day as economic police (*Wirtschaftspolizei*) and an important part of the administration of justice, in its lower departments, was turned over to their subordinates. The most eminent men who wrote, in the seventeenth century, on cameralistic matters, laid great stress on the point, that it was the duty of the aulic councils to entertain not only fiscal questions, but that it was within their province also, to determine questions of economic police.¹⁴⁷ The interest of absolute princes must have greatly favored these cameralistic institutions, for they were in their hands docile tools, which escaped the annoying intervention of the states of their realms.

By degrees, the knowledge necessary to these council officials, and which found no place in the lectures on law, were formed into a special body of doctrine. After such men as Morhof and Thomasius had prepared the way,¹⁴⁸ Frederick William I., himself a clever cameralist, and author of the masterly financial system of Prussia, took the important step of founding, at Halle and Frankfurt on the Oder, special chairs of economy and cameralistic science; which, considering the time, were very ably filled

by Gasser and Dithmar. (1727.) [pg 097]There was thus formed in the German universities a distinct school of cameralists, which, through Jung, Rössig and Schmalz, reached to the nineteenth century. The term cameralistic science, the creature of chance, was used, it must be said, with very various limits to its meaning.¹⁴⁹

However, Political Economy in Germany developed out of the science of law and the cameralistic sciences, while in England and Italy it had its origin chiefly in the study of questions of finance and foreign commerce.

Section XX.

Private Economy. (Continued.)

If we abstract from cameralistic science as it was understood in the last century, what it has in common with all economy,¹⁵⁰ and therefore with public economy, next that which belongs to the aggregate of governmental economy, there remains only a number of rules, such as those which govern the principal branches of private business, and which indicate how they are to be carried on with the greatest advantage to those who engage in them. Such are forest and rural economy, mining science, technology, including architecture, and all that concerns founderies, and commercial science. Now that the expression cameralistic science is altogether obsolete, the aggregate [pg 098]of these might be designated by the name private economy. Obviously, we should have here, neither a simple nor pure science, but only a compilation of natural-philosophical and economic lemmas. Thus, in agriculture, for instance, a knowledge of the different kinds of soil, of the tillage of land, of the different plants and animals etc., belongs to the domain of natural science;

while all that relates to the cost of production, the employment of capital, the wages of labor, the exchange of products, net product and the price of land, are purely politico-economical. The political economists also require a knowledge of the natural side of the cameralistic sciences. Such a knowledge is indispensable to every detailed and living theory, and especially to the application of economic science to practice. The great difference lies in this, that the cameralist interests himself in the production of material goods for their own sake, while the political economist regards them only in their relations to national life.¹⁵¹

It would seem, moreover, that political economists, especially [pg 099]in Germany, have attached too much importance to putting formal bounds to their special science. Why not rather follow the example of the students of nature who care little whether this or that discovery belongs to physics or chemistry, to astronomy or mathematics, provided, only, very many and important discoveries are made?¹⁵²

Section XXI.

What Political Economy Treats Of.

Political Economy treats chiefly of the material interests of nations. It inquires how the various wants of the people of a country, especially those of food, clothing, fuel, shelter, of the sexual instinct etc., may be satisfied; how the satisfaction of these wants influences the aggregate national life, and how in turn, they are influenced by the national life. (Gospel of Matth., 4, 4.) This alone suffices to enable us to estimate the importance of the science. The relation of virtue to wealth is likened by Bacon to that of

an army to its baggage. In Xenophon's opinion, wealth is really useful only to him who knows how to make a good use of it. From an economic point of view, the happiest man is he who has accumulated most, honorably, and used it best.¹⁵³ That, even in a material sense, the intellect of a people is their most important element, is evident from the example of the Chinese, who were so long acquainted with printing, powder, and the mariner's compass, without, by their means, attaining to intelligent public opinion, forming a good army, or coming to an understanding of the art of navigation, to any great extent.

The undervaluing of economic matters, for which ages of inferior cultivation, our own middle ages for instance, are now [pg 100]praised and now blamed, was really a rare exception even during these ages.¹⁵⁴ Other kinds of acquisition and enjoyment then occupied the foreground; but there never was a time, when gain and enjoyment in general were not favorite objects of pursuit, and held in high esteem. The physical wants of uncultured men cry out much louder than intellectual ones. (§ 2, 14.)¹⁵⁵ On the other hand, in over-cultivated ages, when decay begins, an over-estimation of material things is wont to become general.¹⁵⁶ The mere servants of mammon, whether as political economists or as private individuals, may see their depravity faithfully reflected in communism as in a mirror. We should not overlook the fact that it is with whole nations [pg 101]as with the individual man who amasses his own fortune. He reaches the culminating point of his wealth generally after he has passed the prime of life. The most flourishing period of a nation's existence is wont just to precede its decay, and to introduce it.¹⁵⁷ Hence, here nothing could be more untrue, as Macchiavelli has remarked, than the general opinion that money is the sinew of war.¹⁵⁸

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Chapter III.

The Methods Of Political Economy.

Section XXII.

Former Methods.

The methods¹⁵⁹ which would apply to any science of national life, principles borrowed from any other science, are now generally looked upon as obsolete. This is true, especially, of the theological method which prevailed, almost exclusively during the middle ages,¹⁶⁰ and of the juridical method of the seventeenth century.

It would be much more in harmony with the intellectual tendencies of the time, to adopt a mathematical mode of treatment in Political Economy, involving, as such a mode of treatment does, not the matter of the science, but only a formal [pg 103]principle. That which is general in Political Economy has, it must be acknowledged, much that is analogous to the mathematical sciences. Like the latter, it swarms with abstractions.¹⁶¹ Just as there are, strictly speaking, no mathematical lines or points in nature, and no mathematical lever, there is nowhere such a thing as production or rent, entirely pure and simple. The mathematical laws of motion operate in a hypothetical vacuum, and, where applied, are subjected to important

modifications, in consequence of atmospheric resistance. Something similar is true of most of the laws of our science; as, for instance, those in accordance with which the price of commodities is fixed by the buyer and seller. It also, always supposes the parties to the contract to be guided only by a sense of their own best interest, and not to be influenced by secondary considerations. It is not, therefore, to be wondered at, that many authors have endeavored to clothe the laws of Political Economy in algebraic formulæ.¹⁶² And, indeed, wherever magnitudes [pg 104]and the relations of magnitudes to one another are treated of, it must be possible to subject them to calculation. Herbart has shown that this is so in the case of psychology;¹⁶³ and all the sciences which treat of national life, especially our own, are psychological.¹⁶⁴ But the advantages of the mathematical mode of expression diminish as the facts to which it is applied become more complicated. This is true even in the ordinary psychology of the individual. How much more, therefore, in the portraying of national life! Here the algebraic formulæ would soon become so complicated, as to make all further progress in the operation next to impossible.¹⁶⁵ Their employment, especially in a science whose sphere it is, at present, to increase the number of the facts observed, to make them the object of exhaustive investigation, and vary the combinations into which they may be made to enter, is a matter of great difficulty, if not entirely impossible.¹⁶⁶ For, most assuredly, as our science has to do with men, it must take them and treat them as they actually are, moved at once by very different and non-economic motives, belonging to an entirely definite people, state, age etc. The abstraction according to which [pg 105]all men are by nature the same, different only in consequence of a difference of education, position in life etc., all equally well equipped, skillful and free in the matter of economic production and consumption, is one which, as Ricardo and von Thünen have shown, must pass as an indispensable stage in the preparatory labors of political economists. It

would be especially well, when an economic fact is produced by the cooperation of many different factors, for the investigator to mentally isolate the factor of which, for the time being, he wishes to examine the peculiar nature. All other factors should, for a time, be considered as not operating, and as unchangeable, and then the question asked, What would be the effect of a change in the factor to be examined, whether the change be occasioned by enlarging or diminishing it? But it never should be lost sight of, that such a one is only an abstraction after all, for which, not only in the transition to practice, but even in finished theory, we must turn to the infinite variety of real life.¹⁶⁷

There are two important inquiries in all sciences whose subject matter is national or social life: 1. What *is*? (What has been? How did it become so? etc.) 2. What *should be*? The greater number of political economists have confounded these questions one with the other, but not all to the same extent.¹⁶⁸

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When a careful distinction is made between them, the contrast between the (realistic) physiological or historical, and the idealistic methods is brought out.¹⁶⁹

Section XXIII.

The Idealistic Method.

Any one who has read a goodly number of idealistic works treating of public economy (the state, law etc.) cannot have failed to be struck by the enormous differences, and even contradictions, as to what theorizers have considered desirable and [pg 107]necessary. There is scarcely an important point which the highest authorities may not be

cited for or against. We must not close our eyes to this fact. "The giddiness that comes from contemplating the depths of knowledge is the beginning of philosophy, as the god Thaumias was, according to the fable, the father of Iris." (*Plato.*) In a precisely similar manner, the student of public economy (politics, the philosophy of law etc.) must familiarize himself with the variations that have taken place in what men, at different periods of history, have required of the state and public economy, until he is lost in wonder at the contemplation.

Section XXIII.

The Idealistic Method. (Continued.)

It is impossible to fail to notice at once that those ideal descriptions which have enjoyed great fame and exerted great influence, depart very little from the real conditions of the public economy (of the state, law etc.) surrounding their authors.¹⁷⁰ This is not mere chance. The power of great theorizers, as, indeed, of all great men, lies, as a rule, in this, that they satisfy the want of their own time to an unusual extent; and it is the peculiar task of theorizers to give expression to this want with scientific clearness, and to justify it with scientific depth. But the real wants of a people will, in the long run, be satisfied in life,¹⁷¹ so far as this is possible to the moral imperfection [pg 108]of man. We should at least be on our guard when we hear it said that whole nations have been forced into an "unnatural" course by priests, tyrants and cavilers. For, to leave human freedom and divine Providence out of consideration entirely, how is such a thing possible? The supposed tyrants are generally part and parcel of the people themselves; all their resources are derived from the

people. They must have been new Archimedeses standing outside of their own world. (Compare, however, *infra*, § 263.)

It is true, that if the result of the growth of generations be to gradually produce a different people, these different men may require different institutions. Then a struggle arises between the old and those of the younger generation; the former wish to retain what has been tested by time, the latter to seek for the satisfaction of their new wants by new means. As the sea always oscillates between the flowing and ebbing of the tides, so the life of nations, between periods of repose and of crisis: periods of repose, when existing forms answer to the real substance of things, and of crisis, when the changed substance or contents seeks to build up a new form for itself. Such crises are called *reforms* when they are effected in a peaceful way, and in accordance with positive law. When accomplished in violation of law, they are called revolutions.¹⁷²

That every revolution, it matters not how great the need of the change produced by it, is as such an enormous evil, a serious, [pg 109]and sometimes, fatal disease of the body politic, is self-evident. The injury to morals which the spectacle of victorious wrong almost always produces can be healed, as a rule, only in the following generation. Where law has been once trampled on, the “right of the stronger” will prevail; and the stronger is, to some extent, the most unscrupulous and reckless in the choice of the means to be employed. Hence, the well-known fact, that in revolutionary times the worst so frequently remain the victors. The counter-revolution which is wont to follow on the heels of revolution, and with a corresponding violence, is a compensation only to the most shortsighted. It allows the disease, the familiarizing of the people with the infringement of law, to continue, until the hitherto sound parts are attacked. Hence, a people should, if they would have it go well with them, in the changes in the form of things which they make, take as their model Time, whose reforms are the surest and most irresistible, but, at the same

time, as Bacon says, so gradual that they cannot be seen or observed at any one moment. It is true, that, as all that is great is difficult, so also is the carrying out of uninterrupted reform. Its carrying out, indeed, supposes two things: a constitution so wisely planned as to keep the doors open both to the disappearing institutions of the past and to the coming institutions of the future; and, among all classes of the people, a moral control of themselves, so absolute that, no matter what the inconvenience, or how great the sacrifice, legal ways shall alone be used. In this manner, two of the greatest and apparently most contradictory wants of every legal or moral person, the want of uninterrupted continuity and that of free development, may be satisfied.

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Section XXV.

The Idealistic Method. (Continued.)

It is doubtless true that all economic laws, and all economic institutions are made for the people, not the people for such laws and institutions. Their mutability is, therefore, by no means such an evil as mankind should endeavor to remove, but is wholesome and laudable, so far as it runs parallel with the transformation of the people, and the changes which their wants have undergone.¹⁷³ Hence, there is no reason why the most various ideal systems should contradict one another. Any one of them may be right, but, of course, only for one people and one age. In this case, the only error would be, if they should claim to be universally applicable. There can no more be an economic ideal adapted to the various wants of every people, than a garment which should fit every

individual. The leading-strings of children and the staff of age would be great annoyances to the man. "Reason becomes nonsense and beneficence a torment." Hence, whoever would elaborate the ideal of the best public economy—and the greater number of political economists have really wished to do this—should, if he would be perfectly true, and at the same time practical, place in juxtaposition as many different ideals as there are different types of people.¹⁷⁴ He would, moreover, have to revise his work every few years; for, in proportion as a people change, and new wants originate, the economic ideal suitable to them must change also. But it is impossible to accomplish this on so large a scale. Besides, to appreciate the present thus instantaneously, and to perfectly feel the pulse [pg 111] of time thus uninterruptedly, requires a species of talent different from what even the most distinguished scientists are wont to possess; talents of an entirely practical nature, such as become a great minister of the interior or of finance. And it is an acknowledged fact, that even the cleverest of such practitioners, as the younger Pitt said of himself, generally feel their way instinctively, and do not see it with the clearness necessary to indicate it to others.

Section XXVI.

The Historical Method—The Anatomy And Physiology Of Public Economy.

We refuse entirely to lend ourselves in theory to the construction of such ideal systems. Our aim is simply to describe man's economic nature and economic wants, to investigate the laws and the character of the institutions which are adapted to the satisfaction of these wants, and

the greater or less amount of success by which they have been attended.¹⁷⁵ Our task is, therefore, so to speak, the anatomy and physiology of social or national economy! These are matters to be found within the domain of reality, susceptible of demonstration or refutation by the ordinary operations of science; entirely true or entirely false, and, therefore, in the former case, not liable to become obsolete. We proceed after the manner of the investigator of nature. We, too, have our dissecting knife and microscope, and we have an advantage over the student of nature in this, that the self-observation of the body is exceedingly limited, while that of mind is almost unlimited. There are other respects, however, in which he has the advantage over us. When he wishes to [pg 112]study a given species, he may make a hundred or a thousand experiments, and use a hundred or a thousand individuals for his purpose. Hence, he can easily control each separate observation, and distinguish the exception from the rule. But, how many nations are there which we can make use of for purposes of comparison? Their very fewness makes it all the more imperative to compare them all. Doubtless, comparison cannot supply the place of observation; but observation may be thus rendered more thorough, many-sided, and richer in the number of its points of view. Interested alike in the differences and resemblances, we must first form our rules from the latter, consider the former as the exceptions, and then endeavor to explain them. (*Infra*, § 266).

Section XXVII.

Advantages Of The Historical Or Physiological Method.

The thorough application of this method will do away with a great number of controversies on important questions.¹⁷⁶ Men are as far removed from being devils as from being angels. We meet with few who are only guided by ideal motives, but with few, also, who hearken only to the voice of egotism, and care for nothing but themselves. It may, therefore, be assumed, that any view current on certain tangible interests which concern man very nearly, and which has been shared by great parties and even by whole peoples for generations, is not based only on ignorance or a perverse love of wrong. The error consists more frequently in applying measures wholesome and even absolutely necessary under certain circumstances, to circumstances entirely different. And here, a thorough insight into the conditions of the measure suffices to compose the differences between the two parties. Once the natural laws of Political Economy are sufficiently known and recognized, [pg 113]all that is needed, in any given instance, is more exact and reliable statistics of the fact involved, to reconcile all party controversies on questions of the politics of public economy, so far, at least, as these controversies arise from a difference of opinion. It may be that science may never attain to this, in consequence of the new problems which are ever arising and demanding a solution. It may be, too, that in the greater number of party controversies, the opposed purposes of the parties play a more important part even than the opposed views. Be this as it may, it is necessary, especially in an age as deeply agitated as our own, when every good citizen is in duty bound to ally himself to party, that every honest party-man should seek to secure, amid the ocean of ephemeral opinions, a firm island of scientific truth, as universally recognized as truth as are the principles of mathematical physics by physicians of the most various schools.

Section XXVIII.

Advantages Of The Historical Method. (Continued.)

Another characteristic feature of the historical method is that it does away with the feeling of self-sufficiency, and the braggadocio which cause most men to ridicule what they do not understand, and the higher to look down with contempt on lower civilizations. Whoever is acquainted with the laws of the development of the plant, cannot fail to see in the seed the germ of its growth, and in its flower, the herald of decay. If there were inhabitants of the moon, and one of them should visit our earth, and find children and grown people side by side, while ignorant of the laws of human development, would he not look upon the most beautiful child as a mere monster, with an enormous head, with arms and legs of stunted growth, useless genitals, and destitute of reason? The folly of such a judgment would be obvious to every one; and yet we meet with thousands like it on the state and the public economy of [pg 114]nations when in lower stages of civilization, and this, even among the most distinguished writers.¹⁷⁷

We may, indeed, make a critical comparison of different forms, each of which answers perfectly to its object or contents; but such a comparison can possess historical objectivity, only when it is based on a correct view of the peculiar course of development followed by the people in question.

The forms of the period of maturity may be considered the most perfect; earlier forms as the immature, and the later as those of the age of decline.¹⁷⁸ But it is a matter of the greatest difficulty, accurately to determine the culminating point of a people's civilization. The old man believes, as a rule, that the times are growing worse, because he is no longer in a way to utilize them; the young man, as a rule, that they are growing better, because he hopes to turn them to account. It is, however, always a purely empirical

question; and in the solution of it, the observer's eye may acquire a singular acuteness by the comparative study of as many nations as possible, especially of those which have already passed away.¹⁷⁹

Could anyone contemplate the history of mankind as a whole, of which the histories of individual nations are but the parts, the successive steps in the evolution of humanity would of course afford him a similar objective rule for all these [pg 115]points in which whole peoples permanently differ from one another.¹⁸⁰

Section XXIX.

The Practical Character Of The Historical Method In Political Economy.

Before I close, I must refer to a possible objection which may be made to historical or physiological Political Economy: that it may indeed be taught, but that it cannot be a practical science. If it be assumed that those principles only are practical, which may be applied immediately by every reader, in practice, this work must disclaim all pretensions to that title. I doubt very much if, in this sense, there is a single science susceptible of a practical exposition.¹⁸¹ Genuine practitioners, who know life with its thousands of relations by experience, will be the first to grant that such a collection of prescriptions, when the question is the knowledge and guidance of men, would be misleading and dangerous in proportion as such prescriptions were positive and apodictic, that is non-practical and doctrinarian.

Our endeavor has been, not to write a practical book, but to train our readers to be practical. To this end, we have sought to describe the laws of nature which man cannot

control, but, at most, only utilize. We call the attention of the reader to the different points of view, from which every economic fact must be observed, to do justice to every claim. We would like to accustom the reader, when he is examining the [pg 116]most insignificant politico-economical fact, never to lose sight of the whole, not only of public economy but of national life. We are very strongly of the opinion, that only he can form a correct judgment and defend his views against all objections, on such questions as to where, how and when certain liens and charges, monopolies, privileges, services etc., should be abolished, who fully understands why they were once imposed or introduced. Especially, do we not desire to impress a certain number of rules of action on those who have confided themselves to our guidance, after having first demonstrated their excellence. Our highest ambition is to put our readers in a way to discover such rules of direction for themselves, after they have conscientiously weighed all the facts, untrammelled by any earthly authority whatever.^{[182183](#)}
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Book I.

The Production Of Goods.

Chapter I.

Factors Of Production.

Section XXX.

Meaning Of Production.

To create new matter is more than it is given to man to do. Hence, by the term production, in its widest sense, we mean simply the bringing forth of new goods—the discovery of new utilities, the change or transformation of already existing goods into new utilities,¹⁸⁴ the creation of means for the satisfaction of human wants, out of the aggregate of matter originally present in the world. (*Producere!*) We confine ourselves, however, in this to economic goods, as defined in § 2. In a secondary and more limited sense, production is an increase of resources, in so far as the goods produced satisfy a greater human want, than those employed in the production itself.¹⁸⁵¹⁸⁶¹⁸⁷
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It would, however, be an error to suppose, that the creation of certain utilities for the producer himself, or for others, constitutes the only end of economic production. The more perfect economic production becomes, the greater grows the pleasure the producer feels in his products, which pleasure is at once the effect and the cause of his success. Hence, production is to a great extent its own end. That this is so in the case of artists is well known. “If you want only progeny from her, a mortal can beget them as well. Let him who rejoices in the goddess, not seek in her the woman,” says Schiller. There is not a really clever

workman but has something artistic in his mode of production. And even the meanest productive activity, provided it is neither over-driven nor misdirected, must of itself exert a good influence on the physical and moral development or preservation of the producer. An idle brain is the devil's workshop.¹⁸⁸

Section XXXI.

The Factors Of Production.—External Nature.¹⁸⁹

The division of natural forces which formerly obtained, into organic, chemical and mechanical, is of no great importance in Political Economy. The tendency is more and more to resolve organic forces partly into chemical and partly into mechanical. Between mechanical and chemical forces, again, the boundary is not fixed, heat being always capable of producing motion, and motion always of producing heat. Hence, it is all the more important for us to find a division of the economic gifts (matter, forces¹⁹⁰ and relations) of external nature, into such [pg 121]as are capable of acquiring exchange value, and such as are not. (See § 5.)

A. Those gifts of nature which, because they cannot be appropriated by any one, or which at least are inexhaustible as compared with the wants of man, and therefore never have a direct value in exchange, belong either to the class of *free* goods, in the fullest sense of the word, as, for instance, sunlight and the atmosphere (*supra*, § 5),¹⁹¹ or they constitute, by reason of their peculiar and intransmissible connection with the whole country, an essential element of the national resources.

Section XXXII.

External Nature.—The Sea.—Climate.

To the last category belongs, for instance, the sea, the only natural boundary of a country, which from a military point of view, constitutes a protection to it, without, at the same time, disturbing peaceful traffic. (*Riedel*.) Here, also belong ocean currents, especially when uniformly supported by regular winds,¹⁹² the ebb and flow of the tides, which constitute [pg 122]a piece of commercial machinery of the very greatest importance, particularly when they affect the waters of rivers to a great distance.¹⁹³ In this age, when the love of travel is so great and so universal, what prices are paid in many places by strangers for the beauty of a landscape, to its owner. Special mention should be here made of climate, and of its heat or moisture. The lines called isothermal, that is, lines of equal annual heat, are, therefore, of greatest importance to public economy, because the “zones of production” depend mainly on them.¹⁹⁴ However, we are concerned here, not only [pg 123]with the average temperature of the whole year, but especially with the distribution of heat among the several parts of the day and the different seasons of the year, and the maximum summer heat and winter cold (the isothermal and isothermenal lines). Coast lands are wont to have a milder winter and a cooler summer than continental ones with an equal average yearly heat. This produces a great difference in vegetation, because there are a great many plants which can endure the winter's cold very well, but require a hot summer; and *vice versa*.¹⁹⁵ Were it not for this fact, in connection with the winter-sleep of plants, a large portion of the north would be entirely uninhabitable. Besides, the temperature of a place does not depend exclusively on its latitude, or on its height [pg 124]above the sea-level.¹⁹⁶ The humidity of the climate is, as a rule, great in proportion to the quantity of water in its neighborhood,

and to the height of its temperature; although, for instance, in Europe, the number of rainy days increases, the further we advance towards the north.¹⁹⁷ Although the distance of a place from the equator and its height above the level of the sea have, in many respects, a similar effect (vertical, horizontal isothermal lines and zones of production), mountainous regions are uniformly distinguished by a greater degree of humidity, which makes them better adapted for pasturage and forest-culture. But the flora of a locality, being the resultant of all its conditions, affords us a much better criterion of the value of the climate for economic purposes, than the most accurate thermometric observations. Other things being equal, the productive force of nature operates, doubtless, with most energy, in warm climates. The more remote a country is from the equator, the more is its fertility confined to its lowest parts.¹⁹⁸ Greater heat will, as a rule, ripen the same product sooner, and thus permit the same land to be used several times in the same year.¹⁹⁹ Each individual [pg 125]harvest, as a rule, is more abundant,²⁰⁰ and the products better in many respects. The fruit, for instance, and wine, contain more sugar,²⁰¹ and oleaginous plants contain more oil. Lastly, since nature in warm countries is so much more generous, it may be utilized by man with less regard for consequences. There is less need of extensive woods, of large winter supplies, especially for animals;²⁰² fewer buildings are demanded, and there is also less demand for human and brute labor, since the work of plowing, sowing etc., extends over a greater portion of the year.²⁰³ It is true, on the other hand, that also the [pg 126]destructive force of nature is greater in warmer than in colder countries. (§ 209.)²⁰⁴

Section XXXIII.

External Nature.—Gifts Of Nature With Value In Exchange.

B. Those gifts of external nature which may become objects of private property, and at the same time possess sufficient relative scarcity to give them value in exchange, are either movable, and exhaustible in a given place, or firmly connected with the land. The first category embraces, for instance, such wild animals and plants as serve some useful purpose, minerals, above all, fossil combustible matter²⁰⁵—the [pg 127]“black diamonds,” coal, of which, with its canals, Franklin said that it had made England what it is. The economical effect of their moveable character is best seen, when the use made of an ordinary stratum of coal is compared with that of a protracted subterranean fire in a coal mine.²⁰⁶ The latter can be directly useful only to those in its immediate vicinity. Every lower layer of the burning coal would be less useful. An increase of its actual power by accumulation in time or place is scarcely possible. In all these respects, the movable coal is incomparably better adapted to the satisfaction of man's wants. It may be said that the capacity of heat for drying, distilling, melting and hardening purposes, of imparting rapid motion to heavy objects by the production of confined steam, is, at least, a thousand times as great when a thousand bushels of coal are consumed as when one is consumed. In most cases even the concentration of a large quantity of coal will increase, the result not only absolutely, but relatively.²⁰⁷²⁰⁸ [pg 128]

Section XXXIV.

External Nature. (Continued.)

The materials, forces and relations or conditions of external nature, immovably connected with parts of the land, even when in themselves exhaustless, either allow only of a definite amount of economic utilization, as, for instance, the mechanical force of a given waterfall, which can drive only a definite number of mills of a definite size;²⁰⁹ or their increased utilization is accompanied by difficulties which increase with still greater rapidity. This last is the case, especially in the employment of land for agricultural purposes. It is, according to Senior, one of the four fundamental axioms of Political Economy, that additional labor, spent on a given quantity of land, produces, as a rule, a relatively smaller yield; assuming, of course, that the art of agriculture remains the same. It is not possible to [pg 129]determine either generally, or in particular cases, the precise point at which agriculture should stop, to prevent relatively smaller returns from increased expenditure of labor and capital. Improvements in the art of agriculture may remove it a great distance. But, that there is such a point admits of no doubt. No one will believe that an acre of land can be made to produce a quantity of the means of subsistence sufficient to support all Europe, no matter what the amount of seed used, or of manure etc. employed.²¹⁰ This is most apparent in forest-economy, where the absolute increase of the so-called wood-capital becomes, after a certain time, smaller from year to year.²¹¹
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Section XXXV.

External Nature.—Elements Of Agricultural Productiveness.

In treating of the agricultural productiveness of a piece of land, it is necessary to distinguish three things,—its bearing-capacity, its capacity for cultivation, and its direct capacity to afford food to plants.²¹² Plants grow by drawing a part of the elements which enter into their composition from the atmosphere, and a part from the earth through the agencies of sunlight and of water. While the air, the sun's heat, and in most parts of the world, water, are free and inexhaustible goods, the earth's supply of food for plants must be considered as analogous, so far as its exhaustibility and capacity to be appropriated are concerned, to the beds of coal and of ore etc. which occur in mining districts. This is certainly true, with a few important differences, however, as for instance, that, as a rule, it is impossible, except through the cultivation of plants, to obtain from the earth the stores of plant food which it contains;²¹³ and that it is possible to husbandry to replace the portion of these stores taken from the earth by the harvest, through the agency of manures.²¹⁴

Incomparably more important in the economic valuation of a piece of land is its capacity for cultivation, because this depends [pg 131]much less on the good or bad quality of the husbandman's art. I mean here the so-called physical constitution of the vegetable soil; its water-holding power, its consistency (light or heavy soil) on which the difficulty of working it depends; its ability to dry, in a shorter or longer time, and its accompanying diminution in volume; its ability to draw moisture from the atmosphere and to absorb the various kinds of gases; its heat-absorbing and heat-containing power (hot, warm and cold soils).²¹⁵ Much depends here on the depth of the vegetable soil and on the constitution of the sub-soil, which, for instance, when it is very permeable, improves a very moist soil, but in the form of meadow iron-ore (*Wiesenerz*), works great injury. The vertical form of the land is also a very important element in estimating the natural fertility of the soil. In mountainous districts, the quantity of land which can be used (and with what labor!) is wont to be relatively smaller

than in low lands. Hence it is, that the former become too small for their inhabitants; who, therefore, swarm over the plains lying before them either as settlers or conquerors.²¹⁶ In the eastern hemisphere, the northern slopes [pg 132]of mountain regions are most unfavorably situated, although the southern slopes are frequently subjected to more trying and more sudden variations of thawing and freezing weather.²¹⁷

But all these more special qualities of the soil must be distinguished from their general basis, the bearing or carrying capacity which land possesses as a mere superficies, and which the most naked rock (Malta!), and the bed of a flowing stream (the floating gardens of China!) possess to some extent, since there is a possibility of establishing a plant-feeding surface on them. This bearing capacity, which in most instances is given only by nature, and which can be added to only to a very limited extent and at great outlay, is wont, when the population is very dense, to acquire considerable exchange value in the vicinity.²¹⁸²¹⁹
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Section XXXVI.

External Nature.—Further Divisions Of Nature's Gifts.

The gifts of nature, we further divide into those which can be directly enjoyed and those which are of use only indirectly, by facilitating production. (Natural means of enjoyment,—means of acquisition.)²²⁰ An extreme superfluity of the former is as disastrous to civilization as a too great scarcity of them. How simple the economy of a tropical country! A banana field will support twenty-five times as many men as a wheat field (*K. Ritter*); and with

infinitely less labor; for all that is needed is to cut the stems with their ripened fruit, to loosen the earth a little and very superficially, when new stems shoot up.²²¹ At the base of the mountains of Mexico, a father needs labor only two days in the week to support his family. Hence, nothing so much excites the wonder of the traveler there as the diminutiveness of the cultivated ground surrounding each Indian hut.²²² But in these earthly paradises, [pg 134]where, as Byron said, even bread is gathered like fruit, the powers of man slumber as certainly as they grow torpid in polar deserts.²²³ The sentence: “In the sweat of thy brow shalt thou eat bread,” has been a blessing to mankind. Athens was not only the literary and political, but also the economic capital of Greece; and yet Attica was one of the most sterile countries in the world.²²⁴ Unfortunate Messina, on the other hand, was the most fertile province of Greece. In modern times, no countries of equal extent have produced as many great captains, statesmen, savants and artists as Holland, whose securest portions are as unfertile as those which are fertile are threatened by the sea. On the other hand, how lately and imperfectly has the so-called black-earth of southern Russia fallen under the influence of civilization!²²⁵
[pg 135]

Section XXXVII.

External Nature.—The Geographical Character Of A Country.

The geographical character of a country is, as a rule,²²⁶ most intimately connected, not only with its flora and fauna, but also with the character of its people. One of the crowning glories of the progress of modern science is,

that it has recognized anew the power of this wonderful organism, and that it has made geography an explanatory medium between nature and history. The conditions most favorable to the development of civilization are found in a well developed country which slopes gradually through a series of intermediate terraces from a mountain summit to a plain; especially when they are connected with one another by a good system of streams; since here the opposite peculiarities of the populations of the highlands and coast-lands²²⁷ tend to produce a nationality both one and varied. Where the transitions are too abrupt, as for instance, in New Holland, they easily impede inter-communication; and, still more, where the several parts of the country are of very great extent; as, for example, the desert of North Africa, the plateau of South Africa or that of Central Asia. Europe is favored above all other parts of the world by the happy combination of mountain and plain.²²⁸ We might pursue the parallel existing between the soil and the character of a people into the minutest details, and discover, even in the [pg 136]difference between Spanish, French, German and Hungarian wines, a reflection of the different characters of the people.²²⁹

But whence is this? Can it be that dead nature has thus irresistibly affected the living mind? We do not need to give a materialistic answer to the question.²³⁰ Almost every people has migrated at some period of its existence. Urged on by their peculiar tastes and tendencies, they settled in the places most in harmony with their character. A higher hand was over them; one which, we should unreservedly trust, placed them in such external circumstances as were most favorable to the development of all their faculties.

But the influences of man on nature are no less notable than those of nature upon man. The greater number of domestic animals and plants which Europe possesses today, it has been obliged to introduce from other parts of the globe.²³¹ In the interior of Gaul, the vine rarely ripened, at the time of Christ.²³² On the other hand, Mesopotamia,

formerly one of the gardens [pg 137]of the world, is now covered with dried-up canals, filled a little below the surface with heaps of brick and broken vases, the remains and other vestiges of a once dense population. Its former rich alluvial soil, now almost calcined, produces at present scarcely anything except a few saline plants, mimosas etc.²³³ The higher the civilization of a people, the less does it depend on the nature of the country.

Section XXXVIII.

Of Labor.—Divisions Of Labor.

Man's capacity for most economic labor is so closely connected with the exquisite articulation of the human hand, that Buffon could say without exaggeration that reason and the hand made man man.²³⁴ But it is true of economic labor, as of all other labor, that it is more efficient in proportion as mind predominates over matter. The best division of economic labor is the following:²³⁵

A. Discoveries and inventions.²³⁶

B. Occupation of the spontaneous gifts of nature, as, for instance, [pg 138]of wild plants, wild animals, and of minerals.²³⁷ Where this is the only kind of economic labor, man is necessarily dependent on nature in a high degree.

C. The production of raw materials; that is, a direction given to nature in order to the production of raw materials, by stock-raising, agriculture, forest-culture etc., but not by mining.

D. The transformation (*Verarbeitung*) of raw material by means of manufactories, factories, the trades etc.

E. The distribution of stores of goods among those who are to use them directly, whether from people to people or

from place to place (wholesale), or among the individuals of the same place (retail).²³⁸ To this class also belong leasing, renting, loaning, etc.

F. Services, in the more limited sense of the term, which embraces personal as well as incorporeal goods; as, for instance, the labors of the doctor, teacher; virtuoso, of the statesman, judge, and of preachers, whose office it is, by way of eminence, to produce and preserve the immaterial wealth, known as the State and the Church.²³⁹

The order followed in the above classification is that in which the different classes of labor are wont to be historically developed.

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Section XXXIX.

Labor.—Taste For Labor.—Piece-Wages.

Man's taste for labor is conditioned especially by the extent to which, and the security with which, he may hope to enjoy the fruit of his labor himself. Hence it is that, as a rule, the slave (§ 71, ff.) and socrager work least willingly, the day laborer with less industry than the piece-worker,²⁴⁰ who is at the same time more satisfied with himself, and gives most satisfaction to his master,²⁴¹ since he acquires more both for himself and for his master. The superiority of piece-paid labor is [pg 140]greater in proportion as the workman calculates his own advantage. It is, therefore, smallest in the case of ingenuous uneducated workmen, and in that of the really conscientious.²⁴² The fear of seeing one's condition grow worse, through want of industry, exerts an influence precisely similar to the hope of improving it. In both

respects, free competition (§ 97) must be considered one of the principal means of furthering the taste for labor.²⁴³ Among the causes which have contributed to make England the first country in the world, viewed from a politico-economical stand-point, English writers on Political Economy have pointed out as one of the principal, the prevalence there of piece-wages.²⁴⁴ Payment by the piece should, of course, be [pg 141]practiced, only in cases in which the work may be broken up into a series of isolated tasks, and is completed by such a series. Hence, it is not applicable where a great many different things are required of the same workman; nor in relations in which continuity, as, for instance, of the inclination or disposition of the workman is the chief thing.²⁴⁵ The further the division of labor is carried in our day, the greater the part money plays in our social economy, and the more lasting relations are dissolved, the more general becomes piece-work, which, with all its material advantages, has, speaking morally, its dark side. (*Atomism!*)²⁴⁶ In a great many branches [pg 142]of manufactures it has been relinquished because the excellence of his work suffered from the workman's haste, and because he could not be properly controlled.²⁴⁷ It is rather the quantity than the quality of work which increases with piece-work, and where the quality of the work is what is desired, this system has not the same field. And where it obtains, as, for instance, in the case of ordinary type-setters, resort is had to payment by the day for compositors engaged on mathematical treatises, fac-similes, inscriptions etc. On the side of the workman, it is generally only the idle and awkward who oppose piece-work on principle. It is a subject of regret that the best and most industrious workmen are carried away by it to an extent detrimental to their health.²⁴⁸ However, many [pg 143]of the deficiencies of the piece-wage principle may be removed by agreements made with whole groups of workmen; provided, always, that the groups are not too large to prevent the mutual knowledge and surveillance of their

members.²⁴⁹ The quantity of work is greatest, its quality best, and the material²⁵⁰ employed used most sparingly, when the workman works on his own account, or has a share in the profits. This last is proper only in those branches of the business the success of which depends on the quality of the work. To compel the workman to share in the profits alone will not do, because he is generally too poor to run any risk or to do long without his earnings. The system of paying “commissions,” therefore, is to be recommended all the more strongly, since it is a combination of fixed wages with a share in the profits. This system is very prevalent in North America, where a great deal has to be confided to the workmen. It is practiced, also, in the whale fisheries, and on the Greek ships in the Levant engaged in coasting, where much more depends on the care of the sailors than on the ability of the captain.²⁵¹ It presupposes [pg 144]good workmen, equal almost to their master in education,²⁵² for instance, in the case of overseers of labor; since every better inducement to the taste for labor which is not only juster but more complicative, is not only a condition but also the effect of higher culture. But if the economy of a people is ripe for share-wages, and masters begin to introduce them in earnest in individual cases, the work produced will be improved to such a degree that it can not be long before all others will be necessitated to follow them.²⁵³ If, however, workmen are to enjoy the fruit of their industry, it is necessary, first of all, that public order should be secure. Even the most industrious become discouraged where despotism or anarchy prevails. On the other hand, even the greatest security is no sufficient incentive to a nation of fatalists.²⁵⁴

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Section XL.

Labor.—Labor-Power Of Individuals.

The average labor-power of individuals varies very much in different nations.²⁵⁵ The reason of this is, in part, doubtless a difference in natural endowments. Thus, for instance, no people surpass the English and Anglo-American in energy, none the German in intelligence in work or the French in taste. Where we can assume that the same meaning is attached to the expression, “military capacity,” by the different recruiting bureaus, important conclusions as to the physical labor-power of different localities may be drawn from the ratio existing between [pg 146]the number of those fit for military service and those who are legally liable to military duty.²⁵⁶ But these conclusions are greatly modified by the state of civilization and that of society. Where the laboring classes are despised and paid in a manner unworthy of human beings, the badness of their work will be in keeping with the estimation in which it is held. The reverse of this, also, is usually true under different circumstances. (§ 173.) Thus, it has been noticed in France, that native workmen, provided with as substantial food as English workmen, are scarcely inferior to the the latter in the technic value of their labor.²⁵⁷ A Mecklenburg day laborer eats almost twice as much as a Thuringian workman, but then he accomplishes almost twice as much. Hence, employers gain in the long run by paying their workmen well. As civilization advances, the same number of workmen become, not only more industrious and more capable, but the same quantity and quality of labor becomes, as a rule, cheaper.²⁵⁸

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The moral culture of a people exerts the greatest influence here. In every private undertaking, a great part of the expense attending it, and in every state, a great part of the expense of its police system, and of its system of

administering justice, is occasioned only by the dishonesty of men. If all this expense could be dispensed with, and full confidence placed in individuals, it would be possible to devote much more time and energy to positively useful labor.²⁵⁹ In estimating the labor-power of different nations or different periods of time, the division of population according to age is also of importance. As a rule, the labor-power of males is greatest from the age of twenty-five to the age of forty-five. The more numerous, therefore, the class of the population between these ages is, the more favorably, other things being equal, is it situated as regards labor.²⁶⁰²⁶¹ But, as a rule, the relative number of full-grown people is greatest in highly civilized nations. (§ 248.)²⁶²
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Section XLI.

Labor.—Effect Of The Esteem In Which It Is Held.

As civilization advances, labor becomes more honorable. All barbarous nations despise it as slavish. *Pigrum et iners videtur sudore adquirere quod possis sanguine parare*: has been the motto of all medieval times. In heathen Iceland, the owner of a piece of land might be deprived of it by an adversary who could overpower him in single combat. This mode of acquisition was considered more honorable than purchase. It was Thor's own form of investiture. The ideas of the Romans on rightful acquisition may be inferred from the word *mancipium* (manu capere).²⁶³ Pure Christianity, on the other hand, preached the honorableness of labor from the first (Thess. 4, 11; II. Thess. 3, 8 seq.; Eph. 4, 28). And so in the time of the Reformation,²⁶⁴ when Christendom was returning to its primitive purity.

In keeping with this is the fact, that the most cultivated [pg 149]nations, and the same may be said of individuals, value time most highly. "Time is money." (*Benjamin Franklin*.) An English proverb calls time the stuff of which life is made.²⁶⁵ While in negro nations, individuals do not even know their own age; while in Russia, there are very few clocks to strike the hours, even in the towers of churches, in England, a watch is considered an indispensable article of apparel, even for very young people and for some of the lower orders of society.²⁶⁶ Railroads operate in this respect as a kind of national clock. The introduction of machinery and the more minute division of labor, make punctuality a necessity. While South Americans and West Indians are frightfully careless in their every movement, a carelessness which betrays itself even in their drawling speech,²⁶⁷ the life of a New Englander has been compared to the rush of a locomotive. In the markets of Central Asia, nothing strikes the European with so much surprise as the little value put upon time by the merchants of India and Bucharia, who are fully satisfied when, after endless waiting, they succeed in obtaining a somewhat higher price for their wares.²⁶⁸

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Section XLII.

Of Capital.—The Classes Of Goods Of Which A Nation's Capital Is Made Up.

Capital²⁶⁹ we call every product laid by for purposes of further production. (§ 220).²⁷⁰

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Hence, the capital of a nation consists especially of the following classes of goods:

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A. *Soil-improvements*, for instance, drainage and irrigation works, dikes, hedges etc., which are, indeed, sometimes so far part of the land itself that it is difficult to distinguish them from it.²⁷¹ To this class belong all permanent plantations.

B. *Buildings*, which embrace workshops and storehouses as well as dwellings; also artificial roads of all kinds.

C. *Tools, machines and utensils* of every description;²⁷² the latter especially for personal service, and for the preservation and transportation of other goods. A machine is distinguished from a tool in that the moving power of the former is not communicated to it immediately by the human body, which only directs it; while the latter serves as a species of equipment, or as a better substitute for some member of man's body.²⁷³ To be of advantage, these three kinds of capital must save more labor or fatigue than it has cost to produce them. Tools are, however, older than machines. The aborigines of Australia used only a lance and a club in hunting; the somewhat more civilized American Indians, the bow and arrow; Europeans use firearms: in all of which a gradual progress is observable. Of the blind forces which communicate motion to machines, water was the first used, then the wind, and last of all, steam.²⁷⁴

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D. *Useful and laboring animals*, in so far as they are raised, fed and developed by human care.

E. *Materials for transformation (Verwandlungsstoffe)*: either the principal material which constitutes the essential substance of a new product, the yarn of the weaver for instance, the raw wool, silk or cotton of the spinner; or the secondary material which, indeed, enters into the work, but only for purposes of ornamentation, as gold-leaf, lac, colors etc.

F. *Auxiliary substances*, which are consumed in production, but do not constitute a visible part of the raw product,²⁷⁵ as coal in a smithy, powder in the chase or in mining, muriatic acid, in the preparation of gelatin, chlorine in bleaching etc.

G. *Means of subsistence* for the producers, which are advanced to them until production is complete.

H. *Commercial stock*, which the merchant keeps always on hand to meet the wants of his customers.

I. *Money* as the principal tool in every trade that is made.

K. There is also what may be called *incorporeal capital* (quasi-capital according to *Schmitthenner*), which is as much the result of production as any other capital, and is used in production, [pg 154]but which, for the most part, is not exhausted by use. There are species of this kind of capital which may be transferred, as for instance, the good will of a well-established firm. Others are as inseparably connected with human capacity for labor as soil-improvements with a piece of land; e.g., the greater dexterity acquired by a workman through scientific study, or the greater confidence he has acquired by long trial.²⁷⁶ The state itself is the most important incorporeal capital of every nation, since it is clearly indispensable, at least indirectly, to economic production.²⁷⁷

The greater portion of the national capital is in a state of constant transformation. It is being continually destroyed and reproduced. But from the stand-point of private economy, as well as from that of the whole people, we say that capital is preserved, increased or diminished according as its value is preserved, increased or diminished.²⁷⁸ *Pretium succedit in locum rei et res in locum pretii*. "The greater part in value of the wealth now existing in England, has been produced by human hands within the last twelve months. A very small proportion indeed of that large aggregate was in existence ten years ago; of the present productive capital of the country, scarcely any part except farm-houses and a few ships and machines; [pg 155]and even these would not, in most

cases, have survived so long, if fresh labor had not been employed within that period in putting them into repair.... Capital is kept in existence from age to age like population, not by preservation, but by reproduction.” (*J. S. Mill.*)

Section XLIII.

Capital.—Productive Capital.

Capital, according to the employment that can be given it, may be divided into such as affects the production of material goods, and such as affects personal goods or useful relations. The former, under the name of productive capital, is, in recent politico-economical literature, usually opposed to capital in use.²⁷⁹ Evidently any one of the two kinds of capital mentioned above, may be used for both purposes.²⁸⁰ Indeed, the two classes are, in many respects, coincident. Thus, a livery-stable carriage or a circulating library is productive capital to its proprietor, and capital in use²⁸¹ (*Gebrauchskapital*) to the nation [pg 156]in general; although the circulating library from which an Arkwright obtains technic information, or the livery-stable vehicle which carries a Borsig to his counting-room, has certainly been used in the production of material goods. Almost all capital in use may be converted into productive capital, and hence, the former might be called quiescent capital, and the latter working capital.²⁸² One of the principal differences between productive capital and capital in use is, that the former, even when most judiciously employed, does not so immediately replace itself, as the latter, by its returns.²⁸³ On the other hand, the real dividing line between capital in use, and objects consumed which are not capital, is, and it is in complete harmony with our definition of capital, that the latter are

subject not only to a more speedy destruction and one which is always contemplated, while in the case of the former, its destruction is only the unintended reverse-side of its use.

Among a highly civilized people, a great amount of capital in use, as compared with the productive capital of the country, may be considered a sure sign of great wealth. When this is the case, the people, without losing the desire of further acquisition, think that they have enough to richly enjoy the present. I need only call to mind the munificence displayed by the middle classes in England, in their silver plate and other domestic utensils. But the people of Russia, and Mexico also, can make no mean display of silverware.²⁸⁴ Here luxury [pg 157] is only a symptom of the disinclination or inability of the inhabitants of the country to use their capital in the production of wealth. How much richer would Spain be to-day, if it had employed the idle capital spent in the ornamentation of its churches in constructing roads and canals!²⁸⁵ Most nations in a low state of civilization suffer from the absence of legal guarantees. Each one is compelled to turn his property into a shape in which it can be most easily transferred from one place to another and hidden. This is the principal reason why [pg 158] the Orientals possess, relatively speaking, so many precious stones and so much of the precious metals. The same cause accounts for the simplicity of their dwellings.²⁸⁶ On the other hand, productive capital is to be found in the greatest proportion among civilized nations which are making very rapid strides towards wealth, the people of the United States, for instance.

Section XLIV.

Capital.—Fixed Capital, And Circulating Capital.

Capital, according as it is employed, is divided into fixed capital and circulating capital. Fixed capital may be used many times in production by its owner; circulating capital only once. The value of the latter kind of capital passes wholly into the value of the new product. In the case of the former kind of capital, only the value of its use passes into the new product. (*Hermann.*) Hence, the farmer's beasts of burthen belong to his fixed capital; their food, and his cattle intended for the slaughter, to his circulating capital. In a manufactory of machines, a boiler intended for sale is circulating capital; while a similar one, held in reserve for the machines used in production, is fixed capital. Ricardo attributes a somewhat different meaning to these two terms: he calls fixed capital that which is slowly consumed, and circulating, [pg 159]that which disappears rapidly.²⁸⁷ Fixed capital is, indeed, produced and preserved by circulating capital; but it is, for the most part, transformed again into circulating capital.²⁸⁸ Besides, it is only by means of the latter, that the former can be productively employed.²⁸⁹ The relative importance of fixed and circulating capital to a country depends upon whether the country is an advanced or only an advancing one. A people with very much and very fixed capital are indeed very rich; but run the risk of offering many vulnerable points to an aggressive enemy, and of thus turning the easily jeopardized mammon into an idol. To make a passing sacrifice of the country that the people and the state may be saved, as did the Scythians against Darius, the Athenians against Xerxes, and the Russians against Napoleon, becomes difficult, in proportion as the nation has become richer in fixed capital.²⁹⁰ But, as [pg 160]the destination of the latter is changed with much greater difficulty than that of circulating capital, highly cultivated nations would find it very hard to satisfy new wants, if they could not always appropriate the results of additional savings to the production of new fixed capital.

Section XLV.

Capital.—How It Originates.

Capital is mainly the result of saving which withdraws new products from the immediate enjoyment-consumption of their possessor, and preserves them, or at least their value, to serve as the basis of a lasting use.²⁹¹ As capital represents the solidarity of the economic past, present and future, it, as a rule, reaches back into the past and forward into the future, through a period of time longer in proportion as its amount and efficiency are greater.²⁹² Those producers, too, whose products perish rapidly may, also, effect savings by exchanging their products [pg 161]and capitalizing their counter-value. Thus, the actor, whose playing leaves after it nothing but a memory, may use the wheat received by him from a farmer who came to listen to him, in the employment of an iron-worker, and invest the product permanently in a railroad. The transformation may be effected by means of money, bonds etc., but it is none the less real on that account. Order, foresight and self-restraint are the intellectual conditions precedent of saving and capital. The childish and hail-fellow-well-met disposition which cares only for the present is inimical to it. True, the desire of saving can be developed only where there are legal guarantees to ownership;²⁹³ guarantees which are both the conditions precedent and the effect of all economic civilization.²⁹⁴ The Indians, Esquimaux etc., had to be taught for the first time by the missionaries and merchants—and it was with the greatest difficulty it was done—to save their booty, and spare the natural sources of their acquisition. Originally, they were, in the heat and excitement of their wild hunting and fishing, wont to destroy on the spot what they could not enjoy in the

moment.²⁹⁵ In the lowest stages of civilization, the first saving of capital of any importance is effected frequently through robbery or in the way of slavery.²⁹⁶ In both cases, it is the stronger who compel the weaker to consume less than they produce. See *infra*, [pg 162]§ 68. Where civilization is at its highest, the inclination to save, as a rule, is very marked.²⁹⁷ It begins to decline where a people are themselves declining in civilization, and especially where legal guarantees have lost their force.

But capital may be increased even without personal sacrifice; as for instance, by mere occupation, as of certain goods, not hitherto recognized as such. Thus, also, by the establishment of valuable relations, the advantages of which either become the common good of all; or which, because at the exclusive command of one individual, obtain value in exchange. The progress of civilization itself may increase the value of existing capital. Thus, for instance, a house, considered as capital, may double in value if a frequented street be opened in its neighborhood. To this category belong all improvements in the arts which enable existing capital to achieve more than it could before. The invention of the compass increased the value of the capital employed in the merchant marine to an extent that cannot be calculated.²⁹⁸ The increase of capital effected by saving soon finds a limit unless such limit is widened by the progress of civilization.²⁹⁹³⁰⁰

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Chapter II.

Co-Operation Of The Factors.

Section XLVI.

The Productive Coöperation Of The Three Factors.

All economic production generally demands the coöperation of the three factors: external nature, labor and capital. But with the political economist, labor is the principal thing; and not merely because all capital presupposes labor, nor because every combination of the three factors is an act of labor; [pg 164]but, in general, because “the human mind's idea of means and ends makes all goods goods for the first time.” (*Hufeland.*)

Leaving the free forces of nature, surrounded by which we live and work, out of consideration, and also the fact that all raw material is due to nature, land is the indispensable foundation of all economy. But how little can unassisted nature do to satisfy human wants! How much less to produce goods possessed of value in exchange! A virgin forest, for instance, sold in its natural state, has, indeed, value in exchange, but only because it is taken into account that it can be cleared, and that there are means of transportation already existing.³⁰¹ The greater part of the forces of nature are latent to nomads and nations of hunters. When labor develops, they are set free to assist it.³⁰² It is very seldom that any thing can be produced without capital. Even the poorest gatherer of wild berries needs a basket and must be clothed.³⁰³ Were there no capital, every individual would have to begin at the very beginning every moment. Life would be possible only in a tropical climate. No man, since the days of Adam, has been able to labor, except on the condition that a considerable

advance of capital had been made upon him. There is not a nail in all England, says Senior, which cannot directly or indirectly [pg 165]directly be traced back to savings made before the Norman conquest.³⁰⁴

Section XLVII.

Productive Co-Operation Of The Three Factors. The Three Great Periods Of A Nation's Economy.

The relation of the three factors to one another is necessarily very different in different branches of production. For instance, in the case of cattle-raising on a prairie, labor does very little, land almost everything. Hence an extensive, thinly populated country is best adapted to this species of production. But where land is scarce, as in wealthy and populous cities, human activity should be directed into those branches of industry which need capital and labor, as manufactures and the trades. (§ 198.)³⁰⁵

Looked at from this point of view, the history of the development of the public economy of every people may be divided into three great periods. In the earliest period, nature is the element that predominates everywhere. The woods, waters and meadows afford food almost spontaneously to a scanty population. This is the Saturnian or golden age of which the sagas tell. Wealth, properly speaking, does not exist here, and those who do not possess a piece of land run the risk of becoming completely dependent on, or even the slave of a land owner. In the second period, that through which all modern nations have passed since the later part of the middle ages, the element, labor, acquires an ever increasing importance. Labor favors the origin and development of cities as well

as exclusive rights, the rights of boroughs and guilds by means of which labor is, so to speak, capitalized. A [pg 166]middle class is formed intermediate between the serfs and the owners of the soil. In the third period, capital, if we may so speak, gives tone to everything. The value of land is vastly increased by the expenditure of capital on it, and in manufactures, machine labor preponderates over the labor of the human hand.³⁰⁶ The national wealth undergoes a daily increase; and it is the “capitalism” which first gives an independent existence to the economic activity of man; just in the same way that law is, as it were, emancipated from land-ownership, from the church and the family only in the constitutional state (*Rechtsstaat*).³⁰⁷ But, during this period, the middle class with its moderate ease and solid culture may decrease in numbers, and colossal wealth be confronted with the most abject misery.³⁰⁸ Although these three periods may be shown to exist in the history of all highly civilized countries, the nations of antiquity, relatively speaking, never advanced far beyond the second, even in their palmiest days. A great part of that which is accomplished among us by means of capital and of machines, the Greeks and Romans performed by the labor of slaves. Leaving Christianity out of the question, nearly all the minor differences between the public economy of the ancients and that of the moderns may be reduced to this fundamental distinction.³⁰⁹³¹⁰

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Section XLVIII.

Critical History Of The Idea Of Productiveness.

In this chapter, the dogma-historical (*dogmengeschichtliche*) part is of the utmost importance, because it treats of the connection [pg 168]between the deepest fundamental notions and the principal branches of practical life. It is clear that every political economist must construct his exposition of productiveness on his prior notions of goods and value. We must, therefore, draw a distinction between expositions which are logical but altogether too narrow, and wholly erroneous ones.³¹¹

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Thus, the Mercantile System admits every mode of applying the three factors of production, but considers them really productive only in so far as they increase the quantity of the precious metals possessed by the nation, either through the agency of mining at home, or by means of foreign trade. This view stands and falls with the altogether too limited idea of national wealth before mentioned (§ 9), which this system advocated.³¹² The majority of the followers of the Mercantile System ascribe more power to industry to attract gold and silver from foreign parts, than to agriculture, and to the finer kinds of industry than to the coarser; to active and direct trade, more than to passive and indirect trade.

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Section XLIX.

Critical History Of The Idea Of Productiveness.—The Doctrine Of The Physiocrats.

The doctrine of the Physiocrats is to be explained in part by a very natural reaction from the narrow-heartedness of the Mercantile System, and at the same time, by a presentiment, misunderstood, of the true theory of rent. (§

150 ff.). Of the six classes of labor mentioned above (§ 38), those only are called productive which increase the quantity of raw material useful for human ends. All the other classes, it matters not how useful, are called sterile, salaried, because they draw their income only from the superabundance of land-owners and the workers of the soil. Tradesmen, in the narrower sense of the term, produce only a change in the form of the material, the higher value of which depends on the quantity of other material consumed for the purposes of the tradesman's labor. If any of this material is saved, the value of their products sinks, although to the advantage of the economy of the whole nation. In any case, industry could create no wealth, but only make existing wealth more lasting. It might, so to speak, accumulate the value of the quantity of food consumed during the building of a house in the house itself.³¹³

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But if tradesmen really earned, in the value of their products, only what they had consumed during their labor, it would be difficult for them to find employers to provide them with capital. Everyone will acknowledge, that a Thorwaldsen and an ordinary stone-cutter, with the same block of marble, the same implements, the same food, would necessarily, after the same time, turn out exceedingly different values.³¹⁴ And, even in the case that industry should add to the raw material only precisely the same amount of value as had been consumed by the workmen, can it be said that the work ceases to be productive simply because it is consumed by the workmen themselves? If that were so, agriculture even, would, in most countries with a low civilization, be unproductive.³¹⁵ Commerce, according to the theory of the Physiocrates, only transfers already existing wealth from one hand to another. What the merchants gain by it is at the cost of the nation. Hence, it is desirable that this loss should be as [pg 172]small as possible. Hence sterility!³¹⁶ But, the more important branches of business, especially wholesale

trade, are connected with a transportation of goods (*Verri*), either from one place or from one period of time, into another. Here the genuine merchant speculates essentially on the difference of the values in use which are afterwards greater than before.³¹⁷ The ice shipped yearly from Boston to tropical lands met a much more urgent and wide-spread want there than it would if it had remained at home. And thus the storage of grain in large quantities after a bountiful harvest withdraws, indeed, an object of enjoyment from the consumption of the people; but its sale, after a bad harvest, undoubtedly increases their enjoyment in a much greater degree than it was before diminished. Besides, the condition of both parties to the contract is usually improved in all normal trade. (*Condillac*.)³¹⁸ No one parts with exchangeable goods unless they are of less use to him than the ones he receives in return.³¹⁹ And so, the value in use of a nation's resources is really increased by commerce. To the other attributes of goods it adds one of the principal conditions of all use, accessibility (*Kudler*), with which it either newly endows them, or which it increases in degree. To this end, the merchant makes use of tools, just as the manufacturer [pg 173]does. What spinning-wheels, looms and workshops are to the latter, ships, warehouses, cranes etc., are to the former. If production be not complete until the thing produced is made fit for its last end, consumption, commerce may be looked upon as the last link in the chain of productive labor. It, at the same time, constitutes a series of intermediate links; as without it no division of labor is possible, and without a division of labor, no higher economic productiveness.³²⁰ How commerce may increase the value in exchange of goods, and without in any way injuring the purchaser, needs no further illustration.³²¹

Section L.

The Same Subject Continued.

Even Adam Smith called services, in the narrower sense of the term (§ 3), the grave and important ones of the statesman, clergyman and physician, as well as the “frivolous” ones of the opera singer, ballet-dancer and buffoon, unproductive. The labor of none of these can be fixed or incorporated in any [pg 174]particular object.³²²³²³ But how strange it is that the labor of a violin-maker is called productive, while that of the violin-player is called unproductive; although the product of the former has no other object than to be played on by the latter? (*Garnier.*) Is it not strange that the hog-raiser should be called productive, and the educator of man unproductive (*List*); the apothecary, who prepares a salve which alleviates for the moment, productive, the physician, unproductive, spite of the fact that his prescription in relation to diet, or his surgical operation, may radically cure the severest disease?

If the productiveness of an employment of the factors of production be made to depend on whether it is attended by a material result, no one will deny that the labor of the plowman, for instance, is productive; and no one, of Adam Smith's school, at least, that that of the clerk, who orders the raw material for the owner of the manufactory, is. They have participated indirectly in the production. But, has not the servant of the state, who protects the property of its citizens, or the physician, who preserves the health of the producer, an equally mediate but indispensable share in it? The field-guard who keeps the crows away, every one calls productive; why, not, then, the soldier, who keeps away a far worse [pg 175]enemy from the whole land? (*McCulloch.*) But the entire division of business into two branches, the one directly, and the other indirectly productive, can be defended only as respects certain kinds of goods. (*Schmitthenner.*) The labor of the judge, for

instance, is only indirectly productive in the manufacture of shoes, inasmuch as he guarantees the payment of the shoemaker's account. On the other hand, the shoemaker contributes only very indirectly to the general security which the law affords, by protecting the judge's foot.³²⁴ Nor can any effectual inferiority of service be claimed, simply because the productive power of one branch of business is, measured by the duration of its results, greater than another.³²⁵ What is more perishable than a loaf of bread bought for dinner? What more imperishable than the *monumentum ære perennius* of a Horace? The labor expended on persons and on relations (*Verhältnissen*) is, both as to the extent [pg 176]and duration of its results, much less capable of being estimated than any other; but its capacity of accumulation and its power of propagation are greater than any other. It is in the domain of the "immaterial," that man is most "creative." (*Lueder.*)³²⁶ Finally, neither should the greater indispensableness of the more material branches of business be too generally asserted. Agriculture produces grain which is indispensable, and tobacco which is not; industry, cloth, as well as lace; commerce draws from the same part of the world rhubarb and edible bird's-nests; and so, to *services* belong the indispensable ones of the educator and judge, as well as those of the rope-dancer and bear-leader, which can be dispensed with.³²⁷ Indeed, the dividing line between material and intellectual production cannot, by any means, be closely drawn.³²⁸

Section LI.

The Same Subject Continued.

The greater number of recent writers³²⁹ have, therefore, come to be of the opinion that every useful business which ministers [pg 177]to the whole people's requirement of external goods possesses economic productiveness.³³⁰ But it makes a great difference to science, whether a view is considered true because no one has suggested a doubt of its correctness, or because all doubts as to its truth have been triumphantly removed.
[pg 178]

Section LII.

Idea Of Productiveness.

It should never be lost sight of, that the public economy of a people should be considered an organism, which, when its growth is healthy, always develops more varied organs, but always in a due proportion, which are not only carried by the body, but also in turn serve to carry it. The aggregate of the wants of the entire public economy etc., is satisfied by the aggregate activity of the people. Every individual who employs his lands, labor or capital for the whole, receives his share of the aggregate produce, whether he contributed or not to the creation of the kind of produce in which he is paid. Thus, in a pin-manufactory, the workman who is occupied solely in making the heads of pins is not paid in pins or pin-heads, but in a part of the aggregate result of the manufacture, in money. Every department of business, therefore, for the achievements of which there is a rational demand, and which are remunerated in proportion to their deserts, has labored productively. It is unproductive only when no one will need what it has brought forth, or when no one will pay for it; but, in this case, what is true of the writer without readers—that he is

unproductive—and of the singer without hearers, is equally true of the peasant whose corn rots in his granary, because he can find no sale for it.³³¹
[pg 179]

Section LIII.

The Same Subject Continued.

In this matter, again, there is an important difference to be observed between private or individual economy and economy in its widest sense, in the sense of a world-economy. The productiveness of labor is estimated in the case of the former, according to the value in exchange of its result; in the case of the latter, according to its value in use. There is a great number of employments which are very remunerative to private individuals, but which are entirely unproductive, and even injurious, so far as mankind is concerned; for the reason that they take from others as much as, or even more than they procure to those engaged in them. Here belong, besides formal crimes against property, games of chance,³³² usurious speculations (§ 113) and measures taken to entice customers away from other competitors. Again, scientific experiments, means of communication etc., may be entirely unproductive in the individual economy of the undertaker, and yet be of more profit to mankind in general, than they have [pg 180]cost the former.³³³ In this respect the nation's economy holds a middle place between individual economy and the world's economy.³³⁴ Strictly speaking, only those employments should be called productive which increase the world's resources. Hence, the work of government should be called so, only in so far as its expenses are covered by the taxes paid willingly by

the more reasonable portion of the citizens; and also only in so far as its work is really necessary to the attainment of its end.³³⁵ The productiveness of an employment supposes, also, that it is not carried on at the cost of other employments which it is more difficult to do without. In a healthy nation we may, in this matter, rely, to a certain extent, on the judgment of public opinion, which knows how to appreciate, at their just value, professional gamblers, pettifoggers and the luxury of soldiers. The greater, freer and more cultivated a nation is, the more probable is it that the productiveness of private economy is also national-economical productiveness, and that national-economical productiveness is world-economical productiveness.³³⁶

Section LIV.

Importance Of A Due Proportion In The Different Branches Of Productiveness.

Much always depends on the due proportion of the different branches of productiveness to one another. Thus, Spain, for instance, has remained poor under the most advantageous [pg 181]circumstances in the world,³³⁷ because it allowed a disproportionate preponderance of personal services. The character of the Spanish people has always given them a leaning towards aristocratic pride and economic idleness. Tradesmen, in that country, sought, as a rule, to amass merely enough to enable them to live on the interest of their capital; after which they, by way of preference, removed it into some other province, where they might be considered as among the nobility; or they withdrew into a monastery. Even in 1781, the Madrid Academy thought it incumbent on it to

propose a prize for the best essay in support of the thesis: "The useful trades in no way detract from personal honor."³³⁸ During the century in which the country was in its greatest glory, the whole people were bent on being to all Europe what nobles, officers and officials are to a single nation. "Whoever wishes to make his fortune," said Cervantes, "let him seek the church, the sea (i.e., go as an adventurer to America) or the king's palace." Under Philip III., there were in Spain nine hundred and eighty-eight nunneries, and thirty-two thousand mendicant friars. The number of monasteries trebled between 1574 and 1624, and the number of monks increased in a yet greater ratio. A great many of its manufactories, much of its commerce, and not a few of its most important farms were controlled by foreigners, especially by Italians. There were, it seems, in 1610, one hundred and sixty thousand foreign tradesmen living in Castile. In 1787, there were still 188,625 priests, monks, nuns, etc.; 280,092 servants; 480,589 nobles; 964,571 day laborers; 987,187 peasants; 310,739 mechanics and manufacturers; [pg 182]34,339 merchants.³³⁹ As a counterpart to this, the United States had, in 1840, about 77.5 per cent. of its population engaged in agriculture, 16.8 in manufactures and mining, 4.2 in shipping and commerce, 1.3 in the learned professions.³⁴⁰ [pg 183]

We might be tempted, in view of this contrast, to return once more to the unproductiveness of personal services. It is not, however, the direction given to the forces of production, but the squandering of them, that is injurious. When the Magyar, through mere vanity, drives a yoke of from four to six horses where two are enough; or when, as in 1831, Irish agriculture employed 1,131,715 workmen to produce a value of thirty-six million pounds sterling, while that of Great Britain³⁴¹ produced one hundred and fifty millions a year, and employed only 1,055,982 workmen, these causes are as sure to impoverish the country, as the waste of the Spaniards in supporting such an army of clergy and servants. Of course, the temptation to waste

wealth on parks is greater than to waste it in vegetable gardens! The probability that a man will ruin himself by keeping too many servants is greater than that he [pg 184]will do the same by employing too many operatives.³⁴² And all the more, as there are many and especially important services which regulate their own remuneration: thus, as a rule, those of the statesman, those of the military in times of war, and those of the priest in the age of superstition.³⁴³

Section LV.

The Degree Of Productiveness.

Concerning the degree of productiveness, it may be remarked that that application of the factors of production is most productive, which, with the least expenditure of means, satisfies the greatest want in the economy of a people. Here, there is a continual change, corresponding precisely to the change in wants and faculties. After a bad harvest, for instance, the labor which procures grain from foreign countries or the supplies of former years, is most productive; and, after an earthquake which has destroyed a large city, the labor of the builder. Agriculture is, as a rule, the more productive [pg 185]labor of undeveloped nations, and industry of highly developed nations.³⁴⁴³⁴⁵
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Chapter III.

The Organization Of Labor.

Section LVI.

Development Of The Division Of Labor.

The larger a tree grows to be, the more boughs and branches does it put forth. The more perfect any species of animal is, the more does it stand in need of a special organ for each special purpose. And thus the division of labor has developed and kept pace with the development of human society. While Crusoe was obliged to provide for all his wants by his own labor, we find that in the wildest Indian family the male is employed in war, the chase, in fishing, in the manufacture of arms and boats, and in the transportation of the latter during long marches; the female, on the other hand, in the preparation of food, in the hewing of wood, the curing of skins, the sewing of clothes, in the building and preservation of the wig-wam, the care of children, and the carriage of baggage when on the march.³⁴⁶ These occupations, at first entirely domestic, [pg 187]became, by degrees, separate industries, which are constantly subject to further subdivision.³⁴⁷

Section LVII.

Development Of The Division Of Labor.—Its Extent At Different Periods.

In the middle age of a people, the division of labor is not carried to any great extent. The courtiers of King Frotho III. advised him to marry, “since otherwise his majesty's ragged linen would never be mended.” Saint Dunstan, although he occupied a high position in politics and in the Church, was an excellent blacksmith, bell-founder and designer of ladies' robes. Chriemhild in the Nibelungenlied was an industrious and skillful milliner. In the corresponding period of Grecian and Roman history, we find Penelope and Lucretia at the loom, Nausicaa, a laundress, the daughter of the king of the Lestrigons, fetching water from the spring, Odysseus, a carpenter, a queen of Macedonia as a cook, and finally the distaff of Tanaquil.³⁴⁸ In the highlands of Scotland, in 1797, there were a great many peasants all of whose clothing was home-made, with the exception of their caps; nothing coming from abroad except the tailor, his needles and iron tools generally. But the peasant himself was the weaver, fuller, dyer, tanner, shoemaker etc. of his own family:³⁴⁹ every man jack of all trades.³⁵⁰

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In present England, on the other hand, the manufacture of watches is divided into one hundred and two branches which have to be specially learned; only the so-called “watch-finisher” carries on other branches besides. In Wolverhampton, it may happen that a man, employed in the manufacture of keys, may not be able to make a whole key after an apprenticeship of ten years, for the reason that during all that time he may have been engaged only in filing.³⁵¹ In English agriculture there are, according to German notions, very few complete wholes. A well-marked distinction exists there between the cultivators of corn and breeders of cattle; and the latter are again divided

into breeders of young cattle, into fatteners of cattle etc. Its industries are, in large part, separated into provinces. Thus, linen manufactures are confined almost exclusively to Leeds and Dundee, woolen manufactures, to Leeds,³⁵² cotton manufactures, to Manchester, [pg 189]and Glasgow, pottery to Stafford, coarse iron to South Wales, hardwares to Birmingham, cutlery to Sheffield. And so in the different quarters of the city. Thus, in large towns, the banks, stores, offices etc., are found in one portion, with scarcely any intervening dwelling houses. On the division of labor depends all differences of estate and class, and all human culture. It cannot be claimed that a division of labor does not exist among animals;³⁵³ but those animals among which something analogous to a division of labor among men exists, are raised far above all others by their human-like economy and the relative importance of their achievements.³⁵⁴

Section LVIII.

Advantages Of The Division Of Labor.

The advantages of all suitable division of labor, consequent upon the natural differences of human faculties and dispositions, are the following:

[pg 190]

A. *The greater skill of the workman.* Even physically, many capacities are, by an indefinite number of repetitions of the same operation, enhanced to an extraordinary degree; which, however, renders the performance of other operations more difficult. Thus, the man who has developed his muscles and hardened his hands working in a smithy, renders himself incapable of becoming a violin-

player or an operating oculist.³⁵⁵ Here belongs especially the possibility of turning every kind of labor-power to greatest account. Even children³⁵⁶ and old men may be made, in this way, to play a part in the production of goods. It becomes practicable, too, to relieve men endowed with superior faculties from common labor, and allow them to devote themselves exclusively to the development of the peculiar powers with which nature has gifted them.³⁵⁷

B. *A great saving of time and trouble.* The simpler the operation performed by a single workman, the more easily is it learned; the smaller is the price paid or apprenticeship, which depends on this, at least, that beginners perform poorer work and are paid more poorly. “The shortest way to the [pg 191]end is most easily found when the end itself is near, and can be kept continually in view.” (*J. B. Say.*) Where the same workman combines different operations, a great deal of time is lost in changing tools etc. Besides, it always takes some time for a workman to get rightly under way of his work. The person who changes thus frequently becomes more easily indolent. Lastly, there is a great number of operations which demand the same aggregate amount of effort, no matter what the number of objects on which they are performed. It is thus, for instance, with shepherds, mail-carriers etc.³⁵⁸ The post carries a thousand letters with almost as much ease as one; and the entire life of a wholesale dealer would scarcely suffice to carry all the letters which he mails in a single day, to their place of destination. During the middle ages, every man was obliged to watch over his own personal safety and the maintenance of his own rights; while in 1850, in Great Britain, twenty-one million people are protected in their persons and property, in an infinitely more effectual manner, and at less cost, by fifteen thousand soldiers, and by a much smaller number of policemen, whose place it is to preserve public order. (*Senior.*) Something similar takes place among merchants, and it may be admitted as correct in principle, that every

new intermediary, freely recognized by both sides in commerce,³⁵⁹ makes labor better or less expensive.

C. As the land of a country is, in a sense, the natural extension of the national body, *the international division of labor* affords an indirect means, but frequently an indispensable one, of procuring the products of foreign countries and climates.³⁶⁰ If the English people wished to obtain themselves, and without having recourse to any intermediary, the quantity of tea [pg 192] which they annually consume, it is possible that its whole agricultural population would not suffice to procure it; while, at present, it is obtained by the labor of forty-five thousand industrial workmen. (*Senior.*) Moreover, the division of labor increases not only the aptitude of the workman but also his incentive to productive labor, since it guarantees to every one the certainty of being able, by means of exchange, to enjoy the productions of every other person.³⁶¹

Section LIX.

Conditions Of The Division Of Labor.

It is by its division, that labor, considered as a factor of production, is raised to the highest degree of efficiency. Its results in any given industry are, therefore, more important in proportion as the element labor predominates in it. Hence, these results are much smaller, in agriculture, for instance, than in the trades, or in personal services.³⁶² The most expert sower or harvester cannot be employed the whole year through in sowing or harvesting. Some kind of rotation of crops, some kind of combination of tillage and stock-raising is necessary to every agriculturist. On this depends the importance of the technic secondary industries

of agriculture, which are, in principle, [pg 193]opposed to the division of labor. Hence, too, almost any person engaged in a trade, no matter of what kind, supposes a greater number of customers than a tiller of the land of the same rank.

The more labor is divided, the greater is the amount of capital necessary to it.³⁶³ It may be even said, that all preparatory labor becomes capital in its relation to subsequent labor. If ten isolated workmen can produce ten dozen articles of any kind, daily, and, after the introduction of a more efficient division of labor, fifty dozen, the employer must provide them, in the latter case, not only with five times as much capital, but probably with fifty times as much, as then, five hundred dozen are making continually.

Section LX.

Influence Of The Extent Of The Market On The Division Of Labor.

But it is the extent of the market especially which determines the limits of the division of labor; for there is a direct and necessary relation between the division of labor and the exchange of its surplus. Hence, the division of labor may be carried farthest in the case of those products which are most easily transported from place to place, and which, at the same time, possess the utility that is most widely recognized. The smallness of the market may depend upon the scantiness of the population, or upon its scattered condition,³⁶⁴ upon their [pg 194]smaller ability to pay, or upon the bad means of communication at their disposal.³⁶⁵ Hence it is, that in villages, small cities, and still more on isolated farms, many branches of business are

carried on by one person, which are divided among many in larger cities; and this is especially true in the case of businesses which have a chiefly local demand.³⁶⁶ While, in small places, the barber is also frequently the physician, in larger ones there are dentists, oculists, accoucheurs, surgeons etc.³⁶⁷; and while, in the former, the tavern keeper is both dry goods merchant and grocer, there are, in the latter, tea merchants, cigar-dealers, dealers in mourning goods (in London childbed-linen warehouses) etc., and hotels for all the different classes of travelers. There can be a distinct class of porters, hack-men etc., only where commerce is very active.³⁶⁸ And even in cities like Paris, where the costly industries that minister to luxury, that of the jeweler, for instance, admit of only a limited division of labor, this effect depends on the smallness of the market; a market, indeed, [pg 195]which geographically may extend over the whole earth, but which, in an economic sense, must always remain small, on account of the small number of customers who have the ability to pay for their products. The real wonders produced by the division of labor and the employment of machinery we must look for in the manufacture of the cheapest and commonest commodities.³⁶⁹

Section LXI.

The Division Of Labor—Means Of Increasing It.

Whoever, therefore, would increase the division of labor among the people, must, first of all, extend their market; and this is done most efficiently by improving the means of communication. Even in our day, it is over the water-highroads that the heaviest articles are carried with the least expenditure of force;³⁷⁰ but where civilization is not

advanced, these highroads possess still greater advantages, because of their safety, convenience and priority. And here is the explanation of the intimate connection of the beginnings of all civilizations with the existence, near the scene of such beginnings, of good natural water-roads. "Even the wildest inhabitant of the sea coast very soon obtains the idea of distance, which is altogether wanting to the inhabitant of the primeval forest. No sooner does he catch sight of the far-off island than his yearning after the distant assumes a well-defined character. Bits of wood floating past him suggest to his mind the [pg 196]best material to buoy himself up upon the water, and a fish the best form for his craft." (*Klemm.*) Hence the Mediterranean sea, especially the eastern portion, with the various peoples and products of its coasts, with its numerous islands, peninsulas and bays, its easy navigation, but little influenced by the tides or by ocean currents, was the principal seat of ancient civilization.³⁷¹ The literal meaning of Attica is coast-land. (*Strabo.*) The colonization of a new country is wont, where possible, to begin on the coast, especially on islands near the coast; and to follow the course of rivers into the interior. Even whole continents occupy, for the most part, in the history of the world, the position assigned them by their coast-development.³⁷² While it is hard to determine whether, in the case of the European continent, its limbs predominate or its trunk, Africa may be said to be a trunk without members. Its islands, most of them insignificant in themselves, are almost entirely cut off from it by ocean currents. This explains why Madagascar had not, by any means, the influence on African civilization which Crete, Sicily and Britain have had on the civilization of Europe. Asia occupies, in this respect, about a middle position between Europe and Africa. The trunk of that continent bears to its members about the proportion of 670,000 to 150,000 square miles. And what is worst of all, the middle of the whole is an almost insurmountable wall between north, south, east and west Asia. Hence the tenacious

peculiarity and isolated development of the Chinese, Malayan, Indian and Arabic civilizations; while the three peninsulas of southern Europe, for instance, have affected one another so largely, and in so many different ways.³⁷³ The northern hemisphere compared with the southern, presents [pg 197]a contrast similar to that between Europe and Africa, or of the rich coast-groups of the Atlantic compared with the poor ones of the Pacific.³⁷⁴ But it is most especially, large, well-watered plains that are best adapted to the construction of roads, and thus to facilitate the division of labor. And while we find, in many countries, that the mountainous regions reached a certain stage of development earlier than any others, because they were more easily protected by military force, we find, too, that even here, plains, have, for the most part, had the largest share of power and of civilization (northern Italy, northern France, the plains of Switzerland and [pg 198]north Germany). See § 36.³⁷⁵ We must not, however, fail to consider the reverse side of the picture of the great highways of the world. The same reasons that raise them to the dignity of lines of commerce, make them lines of war; and even the contagion of great plagues and of the ruling vices follows, as a rule, the avenues of trade.

Section LXII.

The Reverse, Or Dark Side Of The Division Of Labor.

There are hardships often attending the highly developed division of labor, the dark and bright sides of which are most strikingly observable only in large cities. However, when it is charged with adding to the natural inequality of men, the accusation can be met only by the answer, that,

without the division of labor, we should be all equally poor and equally coarse; for each one would be absorbed by the necessity of providing for his lower wants, and no one would be in a way to develop his higher faculties. Even the poorest man has more enjoyment in consequence of the division of labor, than he could have living in a state of isolation from his fellow men. The most wretched among us, the invalid without property of any kind, the father of a family with more children than he can support, would simply starve in the primeval forest.

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Those socialists who never tire of preaching “association,” overlook for the most part, the great, free association which our needs, wants or tastes are ever changing, and which is given us, as of course, by the division of labor.³⁷⁶ Yet the skill produced by the division of labor is unavoidably connected with a corresponding one-sidedness. The Russians, for instance, are exceedingly apt, but they rarely distinguish themselves in any thing.³⁷⁷ Love of his avocation, or pride in it, is a thing unknown to the Russian workman. He shirks all continuous labor.³⁷⁸ Experience has shown that the Neapolitans and Italians, in general, exhibit great skill when they work alone; but that when a great many of them work together, they become rapidly confused. The English, on the other hand, are slow to learn anything new, or to overcome unlooked for difficulties; but they have no equals as workmen in organized industries.³⁷⁹ The difficulty experienced in seeking a new calling, where a high division of labor obtains, arises as much from the fact that each person here has received a more one-sided training, as from the necessity he is under of competing from the first with only consummate workers. Rousseau's school has laid too much stress on the tendency of higher civilization to diminish individual independence. *Quand on sait creuser un canot, battre l'ennemi, construire une cabane, vivre de peu, faire cent lieues dans les forêts sans*

*autre guide que le vent et le soleil, sans autre provision qu'un arc et des flèches; c'est [pg 200]alors qu'on est un homme!*³⁸⁰ We might reply that to build a steamship or a palace, and to travel around the world are far better. (*Dunoyer.*) Even physically, civilized man is superior to the savage, as might be inferred from the greater average duration of life of the former. Of course, extremes should not be compared, nor should we contrast the frame of a weaver or student with that of a savage chief.³⁸¹ In a similar way, the one-sidedness of the international division of labor may be pregnant with great danger to national independence.

Section LXIII.

Dark Side Of The Division Of Labor.—Its Gain And Loss.

Where, indeed, the one-sidedness produced by the division of labor goes so far as to cause the degeneration³⁸² of the workman's personality, the human loss of the nation is greater than [pg 201]the material gain purchased by it. Thus the occupation of polishing metals or gilding, when continued for a long time without interruption, invariably ruins the health. What must be the aspect of the soul of a workman who, for forty years has done nothing but watch the moment when silver has reached the degree of fusion which precedes vaporization! who is blind to all else, but receives a good fat salary for his services.³⁸³ Schleiermacher rightly declared all human action which is purely mechanical, through which man becomes a living tool (slave!) immoral. When the division of labor has reached this point, machines should take the place of men. The morality of a profession may be

measured by the degree in which it corresponds with the universal calling of the race.³⁸⁴ It is not, therefore, a piece of inconsistency but rather a deeply felt want, when, where civilization is at its highest, so many demands are made that the division of labor should take a retrograde path. The practice of gymnastic exercises by the sedentary classes, universal military duty, the participation of citizens in municipal government and in political affairs, of laymen in the government of the church, of the wealthy in the administration of charity; all these things are, from a materialistic stand-point, considered a great squandering of time. It may be, that, if the division of labor were more rigidly carried [pg 202]out, we might, by its means, obtain more perfect results with less economic expense. But the whole man is of more importance than the sum of his achievements and enjoyments. (Luke, 9:25.) Wo to the nation where only jurists have a developed sense of the right, where political judgment and cultivated patriotism are the portion of only officials and placemen, where only the standing army has warlike courage, and the clergy only conscious religiousness; where parents leave all care for education to the teachers of the various branches of learning, and where physical vigor is to be found only among the proletarians. Hence there is nothing more ruinous than premature one-sided education in a single trade or profession—a thing which often happens from poverty before the foundations of the general education becoming a human being have been laid. The higher a man's position, the more should he, so to speak, be a representative of the whole human race. Who, for instance, would wish to see a ruler brought up as men are to a special branch of science or to a special profession?³⁸⁵³⁸⁶ The best corrective for the one-sidedness [pg 203]produced by a high division of labor consists in the extension and many-sided employment of leisure time, both of which are made more easy by the same high civilization which always accompanies the division of labor.³⁸⁷

Section LXIV.

The Co-Operation Of Labor.

The coöperation or combination³⁸⁸ of labor must, however, always correspond to the division of labor. Both are but different sides of the one idea of social labor; the separation of different kinds of labor, in so far as they would disturb one another, and the union or combination of them so far as they help one another.³⁸⁹ The vintner or grower of flax would necessarily [pg 204]die of hunger if he could not certainly count on the grower of corn. The workman in a pin-factory, who prepares only the heads of pins, must be sure of his colleagues who sharpen the points, if his labor would not be entirely in vain. The labor of the merchant is not even thinkable without that of the different producers between whom he mediates. Where the production of a certain article depends on the services of six different kinds of labor, one of which, however, demands thrice the time, and another twice the time of the rest, it is clear, that, in order that the business may be properly carried on, so many workmen should be employed that their number divided by 9 should leave no remainder. (*Rau.*) The union or combination of different kinds of labor is most perfect when the workmen live nearest together; when, therefore, they are not separated by great difficulties of transportation; or in different countries, in which case, a war might tear all to pieces.

Section LXV.

The Principle Of Stability, Or Of The Continuity Of Work.

Coöperation in time is of equal importance: the principle of the stability, or of the continuity of labor. When a workman dies, it is necessary to be able to calculate on a substitute. It is well known that it is much harder to begin a business, than it is, afterwards, to improve and enlarge it; and this, the more complicated it is. A new enterprise will take root easily, only where there are several similar ones already in existence; a new manufacturing establishment, for instance, where by the existence of other such establishments, the requisite habits of the workmen, of capitalists and of the public in general, have been previously developed. The skill of workmen is propagated especially by observation and the personal emulation of [pg 205]the young; whence it is, that the introduction of new industries is best made by the immigration of skilled workmen.³⁹⁰ Hence the baleful influence of such interruptions, as for instance, the repeal of the edict of Nantes. Hence too, it is, that despotism and the reign of the populace are so unfavorable to the economy of a country, where there can be no guarantee of a consistent observance and development of the laws. To the best applications of the principle of the continuity of labor belong the church-building of the middle ages, the national canals, the street and fortification systems of modern times; all of which have been created only by the coöperation of several generations to the same end.³⁹¹ The most striking means by which such a coöperation has been advanced in modern times is public credit, “a draft on posterity;” yet, all saving is, in principle, the same. The most powerful element in the coöperation in time of labor is the economy in common of the family, although it differs in degree, according to the different kinds of family inheritance. Where, as among the English middle classes, it is customary to secure the business property of the family to one child by will, and to entrust the conduct of the business, during the life of the father, to the devisee, to provide for the other children by insurance, by savings etc., made from the surplus of the business, there may be old firms which remain always

new, however; because they combine the experience of age with the energy of youth, and are never broken up by a division of the inheritance. But the [pg 206]compulsory equality of heirs, which actually obtains in France, compels almost every new generation to begin with a new firm. (See § [85](#) seq.)³⁹²

Section LXVI.

Advantage Of Large Enterprises.

On the results of the division and coöperation of labor rests the superior advantage of all great undertakings, and they are, therefore, smaller in agriculture than in industry. “It is harder to acquire the first thousand than the second million.” Abstraction made of the conditions of capital and of the market, the limit up to which the growing magnitude of an enterprise becomes more advantageous, lies in the increasing difficulty of superintendence. Numberless commercial improvements, such as the post-office, railroads, telegraphs, exchange, banks etc., have operated powerfully to extend these limits. It is frequently possible, even in small enterprises, to secure the advantages of large enterprises, by association among those concerned. They must, of course, possess the necessary capital. If they have not got it, as property, they must borrow it. It is, of course, peculiarly difficult here to preserve the necessary unity, without which the coöperation of labor becomes the confusion of labor. The more moral and intelligent the participants are and the simpler the business, the more extensive may it become, and the more probable will be its success. (§ [90.](#))³⁹³³⁹⁴³⁹⁵
[pg 207]

Chapter IV.

Freedom And Slavery.

Section LXVII.

The Origin Of Slavery.

An institution like that of personal bondage, which, it can be shown, has existed, among all nations of which history gives [pg 208]us information, at one time or another, must have very general causes. Among these may be mentioned especially subjection through war. It is not possible to calculate how much the principle, that it was proper to reduce the man to slavery [pg 209]whom it was considered right to kill, contributed to make war less bloody in an uncivilized age.³⁹⁶ A nation of hunters is almost compelled to grant no quarter; the conqueror would be obliged either to feed his prisoner or to put arms in his hands. It is certainly a great humanitarian advance, when this state of things is superseded by slavery among nomadic nations.³⁹⁷ In times of peace, economic dependence is the result of poverty, excessive debt etc.³⁹⁸ Where there is no division of labor, the individual has no means of supplying his wants, except by cultivating a spot of ground. But, how can the poor wretch who has neither capital³⁹⁹ nor land exchange anything of value for either? Such an advance,

where there is no security in law, can be made only on the credit of a very important pledge. But the man who is destitute of all property can offer nothing but the productive power of himself or of his family.⁴⁰⁰ And [pg 210]so it is with the small landed proprietor who has lost all his capital;⁴⁰¹ for, considering the superabundance of land, the part which he possesses has value in exchange only to the extent that it is joined with the certainty of being cultivated; and here is the origin of the *glebæ adscriptio*. The hereditary transmission of the relation to the children seems to be equally useful to them; or who, were this not the case, would think of providing them with food? It also frequently happens that poor parents prefer to sell their children to seeing them starve.⁴⁰² Hence the strange fact that most nations have the most rigid system of slavery precisely at the time that the soil produces food most readily. We need only cite the instance of the South Sea Islands, at the time of their discovery. In many negro countries, where the people have not yet learned to use animals for transportation, the lowest classes, although they enjoy a nominal liberty, are used as beasts of burden.⁴⁰³
[pg 211]

Section LXVIII.

The Same Subject Continued.

In all very low stages of civilization, the greatest absence of the feeling of wants, and the greatest indolence, are wont to prevail, and in the highest degree. As soon as their merest necessities are provided for, men begin to look upon labor as a disgraceful occupation, and indolence as the highest kind of enjoyment. (§ 41, 213 ff.) Sustained

and voluntary efforts, in any number, then become possible only by the creation of new wants; but these new wants suppose a higher civilization. Escape from this sorry circle is then effected in the most humane manner, through the agency of foreign teachers; inasmuch as the representatives of a more highly cultivated people (missionaries, merchants etc.), by their own example, make the nation acquainted with more wants, and at the same time help toward their satisfaction.⁴⁰⁴ But, in the case of nations whose civilization is completely isolated, or having intercourse only with others equally low, progress is the creature of force exclusively. The barbarous isolation of families ceases when the strongest and most powerful force the weaker into their service. It is now that *the division of labor really begins*: the victor devotes himself entirely to work of a higher order, to statesmanship, war, worship etc.; the very doing of which is generally a pleasure in itself. The vanquished perform the lower. The one-half of the people are forced to labor for something beyond their own brute wants. And it is, here as elsewhere, the first step that costs.⁴⁰⁵ (§ 45.)
[pg 212]

Section LXIX.

Origin Of Slavery.—Want Of Freedom.

It is not to be supposed that slavery, at this stage, is so oppressive even to those who have been deprived of their freedom. The feeling of moral degradation which slavery, abstraction even made of its abuses, awakens in us, is unknown in a very uncivilized age.⁴⁰⁶ The child willingly obeys the orders of strangers, and is hired out to service by his parents etc. The want or craving for liberty keeps pace

with the intellectual growth of a people. The systematic over-working of servants or slaves, in the interest of their masters, is scarcely thinkable in an uncultured age, when, in the absence of commercial [pg 213]intercourse, every family consumes what it produces.⁴⁰⁷ The only thing which the slave has to fear is an occasional outburst of tyranny on the part of the master, a thing which is far from unfrequent in all the relations of low civilizations. Fear restrains masters to a certain extent; for, in those early days, how few were the institutions of state which could protect them against the vengeance of their slaves!⁴⁰⁸⁴⁰⁹
[pg 214]

Section LXX.

Emancipation.

As states grow greater and men's manners gentler, the ranks of slavery are less and less liable to be recruited through the agency of war.⁴¹⁰ It then becomes necessary to have recourse to the family to keep up their number, which makes their condition much more endurable, and which supposes that it has been made more endurable in other respects beforehand. Modern states, are, as a rule, larger than the ancient were. The Germans had, long before the time of Charlemagne, treated prisoners of war of German origin more mildly than those of Gallic or Slavic origin.⁴¹¹ The condition of the latter even improved from the time that nations began to think of making permanent conquests. Since the Slavic wars of the tenth century, certainly since the Lithuanian contests, it seems that prisoners of war were not reduced to slavery.⁴¹² Chivalry, [pg 215]and allowing prisoners to go

free, on their word of honor, contributed largely to this result.

The more productive agriculture is, the more numerous the wants of land owners, the more extensive the division of labor and commercial intercourse become, the easier it is for a large class of the community to obtain support for themselves and families without cultivating land of their own. (Wages.) When exchanges through the medium of money become customary, the chief argument for slavery disappears; and the strong, rich and able man can, without having recourse to force, command the labor of other men. Every further advance in economic culture must necessarily help forward in this direction. Thus, without the plow, for instance, we should all be really only so many *glebæ adscripti*. It is due especially to the ever increasing perfection of tools, machines and operations, that the slave of antiquity was transformed into the serf of the middle ages, and afterwards into the day laborer of modern times.⁴¹³ It is more particularly to be remarked, that machines, since 1750, “first made the constitutional liberty of many, instead of the feudal freedom of a few, possible.” (*Schäffle*.)

[pg 216]

Section LXXI.

Disadvantages Of Slavery.

Slavery promotes the division of labor only in the very beginning. The more dependent the slave is, the worse he works. Whatever he spoils or allows to go to waste injures only his master. Hence it is that slave-husbandry is only one degree removed from what the Germans call *Raubbau*, and which means, as nearly as we can translate it, the most

thoughtless and wasteful management possible.⁴¹⁴ Whatever he consumes is simply so much gain to himself. Industry and skill are injurious to him, because, if remarkable for these qualities, his master exacts more work from him and is more adverse to setting him at liberty. Instead of the numberless incentives of the free workman: care for the future, for his family, honor and comfort, the slave is generally moved by one—the fear of ill-treatment, and to this he gradually becomes insensible.⁴¹⁵ The division of labor demanded by manufactures, and which is to be found for the most part only where each person is at liberty to choose his own avocation, is scarcely supposable where slavery, in the strict sense of the word, prevails. The same is true of the spirit of invention and improvement.⁴¹⁶ And even where the milder *glebæ* [pg 217]*adscriptio* obtains, the division of labor is much hindered. Hence, competent judges all agree on the badness of slave labor;⁴¹⁷ which, as for instance in the United States, was used only where the slaves were crowded together in large numbers and could therefore be easily superintended. And not only are the slaves themselves indolent, but their masters as well; more particularly in slave countries where all labor is considered disgraceful. What must be the national husbandry of a people, one half of whom refuse to do anything that is right and proper, through malice, and the other half through pride! As soon as, on account of increased population and consequent increased consumption, this enormous waste of force can be endured no longer, free workmen become more profitable, not only to themselves and to the whole community, but to the greater number of the individuals who compose it.⁴¹⁸ On the Bernstoff estates the quantity of rye harvested before [pg 218]and after emancipation was as 3:8- $\frac{1}{3}$; of barley-corn as 4:9- $\frac{1}{3}$; of oat-grain as 2- $\frac{2}{3}$:8.⁴¹⁹ The owners of serfs, especially, are apt to be very wasteful of their labor, because they imagine that they obtain it gratis. Tucker has made a curious calculation tending to show that when civilization reaches a certain point, the

master's self-interest leads to emancipation. In Russia, where there are seventy-five persons to the English square mile, it seemed to him that serfdom was still a good economic speculation. In western Europe, where there were one hundred and ten persons to the square mile, freedom, in all relations of master and servant, he considered more advantageous to all parties. Emancipation began in England in the fourteenth century, when that country had a population of forty to the square mile, and was completed in the seventeenth, when the population was ninety-two to the square mile.⁴²⁰ Tucker concludes, that the turning point comes, when the population is relatively to the number of square miles as 66:1.⁴²¹ Such a calculation cannot, of course, be universally true. The free workman can usually command a much larger portion of the sum total of economic profits [pg 219] than can the slave or serf, who must be satisfied with the minimum necessary to support life.⁴²² Hence, free labor is more profitable to masters only when production in general is so much enhanced thereby that a greater quantity of goods falls to their share also. But this will always be the case where workmen are capable of development.⁴²³

Section LXXII.

Effect Of An Advance In Civilization On Slavery.

At the same time, the same degree of servitude becomes more and more oppressive to the bondman as civilization advances. The greater his intellectual progress, the more does he feel the want of liberty, and the more keenly he experiences the degradation of his condition. The development of luxury digs a gulf between master and

servant which grows wider every day. (§ 227 ff.) As commerce extends, it becomes more profitable for the master to exact excessive work from his slave. In the West Indies, it was a problem which every slaveholder solved for himself, whether, by immoderately increased production, which cost the lives of many slaves, the gain in sugar was greater than the loss occasioned by the [pg 220]consequent death of the negroes.⁴²⁴ When, with the advance of civilization, the state guarantees to all more certain protection of their rights than they enjoyed in a less advanced stage of social improvement, the last check on masters, the fear of the vengeance of their slaves, is removed.⁴²⁵ Demoralization naturally increases in the same proportion; and that of the master as well as that of his servants.⁴²⁶

Section LXXIII.

The Same Subject Continued.

This explains why it is that, in all countries, the power of the state, in a period of transition towards a higher civilization, has endeavored to render slavery milder. Great credit is due the Church in this regard. It soon extinguished slavery entirely in Scandinavia,⁴²⁷ and in portions of Europe it abolished at least the sale of prisoners to foreign countries.⁴²⁸ The [pg 221]*Concilium Agatheuse*, in the year 506, decreed that serfs should not be killed by their masters at pleasure,⁴²⁹ but that they should be brought before a tribunal of justice. (The manorial tribunals of more recent times.) Moreover, the numberless holidays of the church operated greatly in favor of the bondmen. Pope Alexander III. recommended their gradual emancipation.⁴³⁰ One of the principal steps in the way of

progress was made when they could no longer be sold singly, but only with the village or on the estate to which they belonged.⁴³¹ The feudal aristocracy improved the condition of the bondmen by reducing a great number of freemen to their level.⁴³² This [pg 222] could not be effected without a real amelioration of slavery; and, later, when the feudal aristocracy declined, the older serfs were, with those who had been formerly free, raised from their abject condition. The sense of chivalry would not permit a lord to be served by a bondman. The old adage “the serf lives to serve and serves to live,” by degrees, lost its force. Serfs were required to perform certain tasks on the lands of their master and to pay him a certain quantity of the produce of their own. Heriots (*mortuarium*), which became usual from the 8th century (*J. Grimm*), may be considered evidence that even bondmen were permitted to acquire and hold property in their own right. Thus was one of the chief disadvantages of slavery, in an economic sense, removed.⁴³³ It may be affirmed, as characteristic of the aristocracy of feudal times, that they treated those, who like the serfs were entirely at their mercy, with much more consideration than those who were free, and, although dependent on them, had certain rights guaranteed by contract. The absolute monarchy found in [pg 223] nearly all nations, at the opening of modern times, was forced by its struggle with the mediæval aristocracy to favor the emancipation of the serfs and of the lower classes. Even in Russia, Iwan III. (1462-1505) seems to have restored to the peasantry the right of migration, of which they had been deprived by the invasion of the Mongols, nor did they lose it again until the great troubles at the beginning of the seventeenth century, which gave the ruling power to the nobility.⁴³⁴

Where civilization has reached its highest development, the irresistible power of public opinion, governed by the ideas of the universal brotherhood of man and of democratic equality, causes the abolition of all

irredeemable and of all hereditary relations of servitude.⁴³⁵⁴³⁶⁴³⁷
[pg 224]

Section LXXIV.

The Same Subject Continued.

It cannot be doubted, that an entirely direct leap from complete servitude to complete freedom may be attended by many [pg 225]evils. No man is “born free,”⁴³⁸ but only with a faculty for freedom; but this faculty must be developed. The knowledge and respect for law, and the self-control, which are the conditions and limits of freedom, are never acquired without labor, seldom without the making of grave mistakes, and never except through the practice of them. As a rule, both parties, masters as well as servants, would like to get rid immediately of all the inconveniences of the former condition and yet continue to enjoy its advantages. The servant, for instance, will now yield no more the specific obedience of former times, but demands still specific mildness from the land-owner, or loaner of capital, his former master. It is inevitable that there should be complaints on both sides.⁴³⁹ But in the higher stages of economic culture, the relation of paternal protection and childlike [pg 226]obedience between the different classes of the people, which, even in medieval times, never obtained in all its purity, is certainly unrecalable. Hence it is, that all hope of a better condition of things is based only on this, that the lower classes may as soon as possible attain to true independence.⁴⁴⁰

Section LXXV.

The Same Subject Continued.

Even in antiquity, the principal nations of the world could not keep the humanizing influence of civilization from making itself felt on their slaves. And if they did not go so far as to bring about the total abolition of slavery, it is unhesitatingly to be attributed to their religious inferiority.⁴⁴¹ In Athens, during the Peloponnesian war, it was almost impossible to distinguish the slaves from the poorer freemen by their looks or dress. Their treatment was mild in proportion as desertion was easier by reason of the smallness of the state or the frequency of war. It was forbidden to beat them; and only a court of justice could punish them with death.⁴⁴² Emancipation, in individual cases, was very frequent, and the names of Agoratos and of the law-reviser Nicomachos show how great a part an emancipated slave might play in the nation.⁴⁴³ [pg 227]The helot system of the Lacedaemonians preserved much longer a great deal more of medieval barbarism; but even here, we may infer from the frequent uprisings and emancipations of the helots, from their services in war etc., that their lot was made less hard than it had been.⁴⁴⁴ Among the Romans, with whom war and conquest were so long considered⁴⁴⁵ the principal means of acquisition, slavery was relatively very hard.⁴⁴⁶ But, later, there came to be several different grades of slavery (*servi ordinarii* and *mediastini* etc.); and in slavery, every gradation denotes some amelioration of condition.⁴⁴⁷ The slave obtained the right to possess resources of his own (*peculium*).⁴⁴⁸ In addition to this, [pg 228]emancipation became much more frequent in the later republic; so much so, that Augustus considered it necessary to pass laws taxing frivolous emancipation. (*L. Aelia Sentia* and *Furia*.)⁴⁴⁹ Where men like Terence, Roscius, Tiro, Phædrus and the father of Horace rose from the condition of slavery, the treatment of slaves cannot have

been entirely brutalizing.⁴⁵⁰ Under the emperors who oppressed the free citizens, legislation was directed more than ever towards the protection of the slaves.⁴⁵¹ Instead of permanent slavery, a condition of things was introduced and became more general every day, one in which the bondman might contract a legal marriage, have property of his own, and in which he was protected against an arbitrary increase of the quota he had to pay his master, whether in money or produce, although he still remained bound to the land. This class was formed not only of the *originarii*, or those born into it, but also of a large number of impoverished freemen, barbarian prisoners of war etc.⁴⁵²⁴⁵³
[pg 229]

Section LXXVI. (Appendix To Chapter IV.)

The Domestic Servant System.

In most countries the servant system developed itself gradually out of serfdom, or of some condition of tutelage analogous thereto. This is seen most clearly in the long continuance of forced service, by which the subjects of the lord of the fee were compelled to allow their children to remain in the court of the lord as servants, either without any remuneration whatever, or for very low wages fixed by long continued custom.⁴⁵⁴ Here, also, belongs the right of correction, so generally accorded to masters in former times. In the higher stages of civilization, the whole relation is wont to be resolved more and more into freedom of competition; and this process is wont to take place earliest and most strikingly in the cities. Where vast numbers of men are brought together, demand and supply [pg 230]of services meet most easily. The nearer in the course of this development the servant system

approaches to piece-wages and day-wages, the shorter does the customary (presumptive) duration of the contract last,⁴⁵⁵ the more voluntary is the period of leave-taking by both parties;⁴⁵⁶ the more does the entire relation tend to be limited to single acts of service agreed upon in advance (§ 39), and the more frequently do both parties endeavor to supply the place of the domestic servants by workmen who receive wages and live outside of the family.⁴⁵⁷ The extreme of this direction at present is the servant-institutes in cities, the more movable and more democratic character of which finds expression in this, that they have extended the use of personal services to a lower circle of consumers than could previously have thought of employing them. In English [pg 231]agriculture this transition was completed mainly in the third decade of this century. The change was unquestionably favorable to the improvement of the art of agriculture, but it was frequently damaging to the social relation existing between the rich and the poor in the country.⁴⁵⁸ In Germany, the sale of the public domains, conscription and *Landwehr* duty have operated in this direction.⁴⁵⁹ Hence it is, for instance, that in Prussia, the servants, in 1816, were 15.18 per cent. of the entire male population over 14 years of age, and 17.84 per cent. of the entire female population over 14 years of age. In 1861, on the other hand, there were only 11.88 and 12.93 per cent., respectively, while the number of day laborers and workmen, in the same time, increased from 16.29 per cent. males, and 10.87 per cent. females, to 20.95 and 16.65 per cent., respectively.⁴⁶⁰ In most civilized countries, the grade of society [pg 232]from which servants are recruited grows lower and lower as the spirit of independence extends to the deeper strata of humanity.⁴⁶¹ The servant class may continue a long time yet to be a school of development for those of the lower classes, who, ripe in body, are not intellectually independent; just as the duty of bearing arms has been a school of improvement for all male youth. Life-long servants are as seldom to be desired as life-long soldiers.

In most places, the long transition period from complete bondage to free competition was governed by a police system of wardship, which was very unfavorable to the servant class. Such especially was the provision that all young people of the lower classes, who could not expressly show that they were employed under the paternal roof or at some trade, should be compelled to seek some outside or inland work,⁴⁶² such also was the strict prohibition of “usurious” wage-claims, and the “decoying” of servants from their masters.⁴⁶³ Besides, a [pg 233]great many provisions relating to servants, and based on views belonging to an older economic condition, were intended to throw obstacles in the way of farm hands and country servants⁴⁶⁴ becoming servants in towns; and, on the other hand, to facilitate the speedy abandonment of service in all cases in which the servant desired to marry.⁴⁶⁵ All these preferences in favor of one class of contractors, and at the cost of another, are radically opposed to the modern political spirit. The laws relating to servants are wont, in our day, to have but one object, the prevention, by registration with the police, of fraud and breach of contract, and of all strife and litigation by the legally formulating of the conditions which are very frequently tacitly understood.

The ideal of the relation of master and servant is attained when it is considered by both as a part of the life of a Christian family.⁴⁶⁶ Hence, benevolence on the one side and devotedness on the other, fidelity on both sides, disinterested care for the present and future interests each of the other *tanquam sua*; and especially for each other's eternal future. Whether this state of mutual feeling is best furthered by the patriarchal system, by a police system, or by free competition, it is scarcely possible to say. It may, however, be affirmed that it depends upon a mutual and continued denial of self not easy to attain. [pg 234]Where it really prevails, all the advantages of the piece-work system are obtained in a worthy and organic manner, and without its atomistic drawbacks.⁴⁶⁷

Chapter V.

Community Of Goods And Private Property. Capital—
Property.

Section LXXVII.

Capital.—Importance Of Private Property.

As human labor can attain its full development, only on the supposition that personal freedom is allowed to develop to its full economic importance and dimensions, so capital can develop its full productive power only on the supposition of the existence of the freedom of personal property. Who would save anything, that is, give up present enjoyment, if he were not certain of future enjoyment?⁴⁶⁸ The legitimacy of private property has, since the time of Locke,⁴⁶⁹ been based, by the greater number of political economists, on the right inherent in every workman, either to consume or to save the product of his labor. But it should not be forgotten here that, at least in the higher stages of the economy of a nation, scarcely

any work or saving is possible without the coöperation of society. And society must be conceived not only as the sum-total of the now living individuals that compose it, but in its entire [pg 236]past, present and future, and also as being led and borne onward by eternal ideas and wants.⁴⁷⁰
[pg 237]

Section LXXVIII.

Socialism And Communism.

In opposition to this, the idea of a community of goods has found favor, especially in times when the four following conditions met:⁴⁷¹

A. *A well-defined, confrontation of rich and-poor.* So long as there is a middle class of considerable numbers between them, the two extremes are kept, by its moral force, from coming into collision. There is no greater preservative against envy of the superior classes and contempt for the inferior, than the gradual and unbroken fading of one class of society into another. *Sperate miseri, cavete felices!* In such a state of social organization, we find the utmost and freshest productive activity at every round of the great ladder. Those at the bottom are straining every nerve to rise, and those higher up, [pg 238]not to fall below. But where the rich and the poor are separated by an abyss which there is no hope of ever crossing, how pride on the one side and envy on the other rage! and especially in the *foci* of industry, the great cities, where the deepest misery is found side by side with the most brazen-faced luxury, and where the wretched themselves conscious of their numbers, mutually excite their own bad passions. It cannot, unfortunately, be denied, that when a nation has attained the acme of its development, we find a multitude

of tendencies prevailing to make the rich richer and the poor, at least relatively poorer, and thus to diminish the numbers of the middle class from both sides; unless, indeed, remedial influences are brought to bear and to operate in a contrary direction.⁴⁷²

B. *A high degree of the division of labor*, by which, on the one hand, the mutual dependence of man on man grows ever greater, but by which, at the same time, the eye of the uncultured man becomes less and less able to perceive the connection existing between merit and reward, or service and remuneration. Let us betake ourselves in imagination to Crusoe's island. There, when one man, after the labor of many months, has hollowed out a tree into a canoe, with no tools but an animal's tooth, it does not occur to another who, in the meantime was, it may be, sleeping on his bearskin, to contest the right of the former to the fruit of his labor. How different this from the condition of things where civilization is advanced, as it is in our day; where the banker, by a single stroke of his pen, seems to earn a thousand times more than a day-laborer in a week; where, in the case of those who loan money on interest, their debtors too frequently forget how laborious was the process of acquiring the loaned capital by the possessors, or their predecessors in ownership. More especially, we have, in times of "over-population," whole masses [pg 239]of honest men asking not alms, but only work, an opportunity to earn their bread, and yet on the verge of starvation.⁴⁷³

C. *A violent shaking or perplexing of public opinion in its relation to the feeling of Right, by revolutions*, especially when they follow rapidly one on the heels of another, and take opposite directions. On such occasions, both parties have generally prostituted themselves for the sake of the favor of the masses; and the latter have become conscious of the changes which the force of their arms may effect. In this way, it is impossible that until order is again entirely established, the reins of power should not be slackened in many ways at the demands of the multitude. In this way,

too, they are stirred up to the making of pretentious claims which it is afterwards very difficult to silence. In every long and far-reaching revolution, whether undertaken in the interest of the crown, the nobility or the middle classes, we find, side by side with the seed it intended to sow, the tares of communism sprout up.

D. *Pretensions of the lower classes in consequence of a democratic constitution.* Communism is the logically not inconsistent exaggeration of the principle of equality. Men who always hear themselves designated as “the sovereign people,” and their welfare as the supreme law of the state, are more apt than others to feel more keenly the distance which separates their own misery from the superabundance of others. And, indeed, to what an extent our physical wants are determined by our intellectual mould! The Greenlander feels comfortable in his mud hut, with his oil-jug. An Englishman in the same condition would despair. [474475](#)

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Section LXXIX.

Socialism And Communism. (Continued.)

What has just been said will serve to explain why, in the following four periods of the world's history, socialistic and communistic ideas have been most widespread: among the ancients at the time of the decline of Greece, [476](#) and in that of the degeneration of the Roman Republic; [477](#) among the moderns [pg 241] in the age of the Reformation, [478](#) and again, in our own day. [479](#)

Section LXXX.

Socialism And Communism. (Continued.)

We thus see, that the attempts made by socialism and communism are, by no means, phenomena unheard of in the past, [pg 242]and peculiar to modern times, as the blind adherents and opponents of them would have us believe. They are rather diseases [pg 243]of the body social, which have affected every highly civilized nation at certain periods of its existence. If the [pg 244]body be too weak to react healthily and curatively (§ 84), the evil is very apt to lead to the decline of all true freedom and [pg 245]order. The communist, viewing all other things, especially the organization of the state, only as instruments to supply his material and absolute wants, considers the liberal either as a fool who is ever pursuing the phantoms of the brain, or as a knave who covers his own selfishness under the mask of the public welfare.⁴⁸⁰ Hence the adherents of communism are satisfied with any form of government which seems to offer them most, and this a ruthless despotism can do, at least, for the moment. And, although they are ever ready for any revolution in the form of government, and easily to be won over to it, they are most readily captivated by a despotic revolution. On the other hand, when communism seriously threatens all that constitutes the wealth of a people, the owners of that wealth are compelled to fly to any refuge which holds out the promise to protect them from it, although by seeking that same refuge they may destroy their own political freedom.⁴⁸¹ The Achean league, which under the leadership of Aratos, the “enemy of tyrants,” had come into existence, promising so much hope, beheld itself later, and mainly through fear of the contagious effects of Spartan socialism under Cleomenes, compelled [pg 246]to unite with the Macedonians, that is, to give themselves up entirely. (§ 204).

Section LXXXI.

Community Of Goods.

We now, for the present, turn our gaze from the frightful revolution, destructive of all civilization, which would necessarily precede the establishment of a community of goods,⁴⁸² and inquire what would be the consequences. Among angels (“gods and sons of gods” of Plato) and mere animals, a community of goods might, perhaps, exist without producing injury. And so, too, it might exist among men bound one to the other by the bonds of the truest love. The life of every model family is accompanied by a species of community of goods.⁴⁸³ But in more extensive social organizations, this love is never found except as an element of the most exalted religious enthusiasm, which, as a rule, is of very short duration; of which the Acts of the Apostles (II, 44 ff, 32 ff, V, I, II) affords us the best known and most beautiful example.⁴⁸⁴ [pg 247]

Where this love does not exist, each participant in the community of goods will, as a rule, seek to do the least and enjoy the most possible.⁴⁸⁵ In a society of one hundred thousand [pg 248]members, each individual would be interested in the results of its aggregate frugality only indirectly, and only to the extent of a one-hundred thousandth part of the whole; that is, practically, not at all.⁴⁸⁶ Individual selfishness would expend itself entirely on the division of what the whole community produced. It would, consequently, and almost always be detrimental to the whole, and to the other individuals of the society; whereas, at present, it does so only in exceptional cases. When Louis Blanc, as Mably had before him, recommended that the *point d' honneur* should take the place of the *intérêt personnel*, as a spur to production, and

a check on consumption, and cited the army as an illustration of its workings, he forgot, among other things, the thirty cases in which the [pg 249]*code militaire* pronounces sentence of death on the violators of its provisions. And, as a matter of fact, the Münster Anabaptists could not help punishing with death every transgression of their communistic precepts.⁴⁸⁷ If, in a community in which the principles of communism were rigorously carried out, all the burthens and enjoyments of life were equal, and equally divided according to the ideas of the crowd, men like Thaer, Arkwright, and others of their class, who now provide bread for hundreds of thousands from their studies and laboratories, would then be able, at most, with a rake and shovel, to provide food for three or four. The division of labor, with its infinite amount of productive force, would, for the most part, cease. Nor would the consequence be that the humbler classes would be freed from work of a coarse, mechanical, unintellectual and severe nature; but that the higher classes would be dragged down to engage in it likewise. And what an increase there would be in the number of consumers at the same time! Every man would, with a light heart, follow the most imperious of human impulses if the whole community were to educate his children. But we have seen that a community of goods is desired most urgently in times of over-population. Hence, here it would make the evil greater yet, by increasing consumption and diminishing production.

Where there are now one thousand wealthy persons, and one hundred thousand proletarians, there would be, after one generation, no one wealthy and two hundred thousand proletarians. Misery and want would be universal.⁴⁸⁸ For the purpose [pg 250]of giving the crowd a very agreeable,⁴⁸⁹ but rather short-lived period of pleasure, a period simply of transition, almost all that constitutes the wealth of a nation, all the higher goods of life, would have to be cast to the waves, and henceforth all men would have to content themselves with the gratifications afforded by

potatoes, brandy and the pleasures of the most sensual of appetites. And then, the equal education of all, demanded by the communists, would have no result but this, that no one would acquire a higher scientific training.⁴⁹⁰ But, after all, there lurks concealed in communism much more of envy than is generally supposed.

[pg 251]

Section LXXXII.

The Organization Of Labor.

Most theoretical adherents of the doctrine of a community of goods, feeling⁴⁹¹ more or less the weight of the above objections, have supplemented it with the idea of an organization of labor⁴⁹² or the centralized superintendence of all production and consumption, either by the government already existing, or by one to be created anew. Such a government would be, of course, a despotism such as the world has scarcely yet seen, a Cæsaro-Papacy, usurping both the place and power of Father of the universal Family.⁴⁹³ But the evils mentioned above would be entailed none the less. Every incentive which now [pg 252] moves man to industry or frugality would disappear, and nothing remain but universal philanthropy; or, if you will, but patriotism, virtues which are not wanting even now. Even guardianship of the government newly created would be carried on in a very loose manner; for it would be exercised without any feeling of personal interest, even in the most favorable case supposable. It is well known and easily understood, that state industries are never engaged in, in the long run, with the same zeal, nor crowned with the same success, as competing private industries. It is well known, too, how intimate the connection is between the

political freedom of a people and their economic production; that, for instance, England's greater wealth, as compared with that of Turkey, depends, most largely, on the freedom that obtains in the former country and the servitude that prevails in the latter.⁴⁹⁴ And we may inquire just here, what the result would be, if the despotism of government should go ten times farther than it has ever gone in Turkey, when, moreover, the despot who led the state, was not an individual with his few officials, but the whole crowd, with its million eyes and million hands. It would, practically, be to give every producer an escort of a policeman and a revenue agent, as if he were a prisoner. And where would be the gain? A division of wealth which would seem unjust to many would exist now as well as before, because the idle and the unskillful would receive the same reward as the most industrious and skillful.⁴⁹⁵ The opposition of one class of society to another, so much complained [pg 253]of, would continue. The only difference would be, that whereas, it now comes from the weak, it would then come from the strong.⁴⁹⁶ Compulsory association is certainly more prolific in strife and crime than is a state of society in which everybody manages his own affairs.

A journey on foot, in company with others, is allowed, on all hands, to be a very good test of friendship. But, a community of goods would, in the strictest sense of the word, be a journey on foot through the whole of life with numberless "friends." Here, every one would believe himself entitled to possess whatever pleased him. And, who would decide; since so many communists preach the dissolution and extinction of all government, and the reign of anarchy? Besides, there can be no doubt, that the difference of human talents and human wants, would soon, spite of every law, lead to a difference in property again. Hence, that first revolution would have to be repeated from time to time—a real Sisyphus labor! No sooner have the bees produced anything, than the drones come, and divide anew!

Section LXXXIII.

The Organization Of Labor. (Continued.)

Experience, however, teaches us, that, in all the lower stages of civilization, a community of goods exists to a greater or lesser extent.⁴⁹⁷ The institution of private property has been more fully evolved out of this condition of things, only in proportion as well-being and culture have been developed as cause and effect of such well-being. Thus, among most nations of hunters and fishermen, the idea of private property was unknown [pg 254]when these nations were first discovered. This is, indeed, very natural. Their chief spring of production flows as if of itself, apparently inexhaustible; and the hunter can hardly think of such a thing as saving any of his booty.⁴⁹⁸ And, among nomadic nations, the land is a great meadow held in common; and the industry of plunder is considered, as it is in all inferior stages of civilization, especially honorable.⁴⁹⁹ The *conquistadores* of Peru found there something very like a community of goods, under the despotic guardianship of the state, viz.: a yearly division of all lands among the people, in proportion to their rank; the cultivation of these lands in common, under the superintendence of the state, and to the sound of music. But, at the stage of civilization that Peru was then in, land is about the only resource possessed. The results were the usual ones. A country like Peru, with [pg 255]only one city, no beasts of burthen, no plows, no trades and no commerce, cannot possibly be rich.⁵⁰⁰ That the constitution of Lycurgus established a sort of community of goods among the Spartans, is well known. I need only recall the public education, the meals in common, the authorization of stealing,⁵⁰¹ the prohibition of trade, of the precious metals and fine furniture, the equal division of

property and the inalienable character of the land⁵⁰² etc. With such laws, Sparta could neither be, nor desire to become, wealthy. Of all Greek states of any historical importance, it preserved longest the economic peculiarities belonging to a low stage of civilization. Among most modern nations, the fundamental idea of their land laws, which had their origin in the middle ages, is, that each family is only the usufructuary, and that the community is the sovereign proprietor of the soil. This community of landed possession finds expression, among other things, in the vast extent of communal woods and pasturages, in the varied intersecting of parcels of land one by the other, which, indeed, change proprietors from time to time, and in the common [pg 256]working of the land, carried as far as possible etc.⁵⁰³ In all medieval times,⁵⁰⁴ not only the individual is considered an owner of the land, but, over and above him, the family. At the same time, we are wont to find existing an amount of mortmain property in the hands of corporations, monastery lands, crown lands and domains of very great importance.⁵⁰⁵ All these institutions have declined in number and shown a disposition to disappear, in proportion as national husbandry or economy has grown more productive.

Section LXXXIV.

The Organization Of Labor. (Continued.)

To this tendency we find, indeed, another, and a no less powerful one, opposed. Everywhere as civilization advances, the sphere of action of the state grows larger, and the ends it serves more numerous.

In its origin, government was established to preserve only the external security of its subjects. By degrees, it comes to look after their internal legal security, by enforcing internal peace, prohibiting revenge for bloodshed etc. It next extends its care to the well-being, the culture, and even to the comfort of the people. But the claims of the state must grow in the same proportion as the service it renders. While Lowe, in 1822, estimated the yearly net income of the British people at [pg 257]£251,000,000; the government expenses,⁵⁰⁶ in 1813 and 1814, averaged £106,000,000, and these sums were voluntarily devoted to public purposes by parliament. And so, between 1685 and 1841, the population of England more than trebled its numbers, But, in the same period of time, the outlay of the state increased forty fold. (*Macaulay.*) Simultaneously with this development of things, it becomes more and more usual by the exercise of the power of eminent domain and others like it, to sacrifice private rights, acquired by the very best of titles, to the preponderating common good. We may allude, further, to the duty, universally imposed in modern times, of performing military service, to the national systems of public instruction in so many countries; to the large number of societies, joint-stock companies, popular holidays; but particularly to the associations for insurance of every description. And so it may, indeed, be claimed that we have come nearer to a community of goods than could have been dreamed of a hundred years ago.⁵⁰⁷ And yet, these are, for the most part, institutions in which we find reflected the peculiar strength and solidity of our age. Whoever wishes to compare the power of one people with that of another, must take into account not only the elements which constitute their intellectual and physical force, but especially their inclination to permit these elements to cooperate for public purposes.⁵⁰⁸

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We may now inquire: At what point does this increasing community cease to be a gain? This is as easily determined

generally, as it is difficult to say what the limit to it is in particular instances. Progress in the direction of a community of interests of this nature is beneficial, only so long but certainly as long as it corresponds with the feeling entertained by the community, that they have interests in common. Hence it is, that such a noble kind of communism reigns in art and literature, one which causes the stronger to willingly labor for the weaker, and with the greatest success.⁵⁰⁹ And so, too, the christian care of the poor, even were it carried to the height of the Gospel counsels (Luke, 3:11), would be no direct obstacle in the way of the development of a nation's public economy, provided it were given, and accepted, only as christian benevolence. Every approximation towards a community of goods should be effected by the love of the rich for the poor, not by the hatred of the poor for the rich. If all men were true Christians, a community of goods might exist without danger. But then, also, the institution of private property would have no dark side to it. Every employer would give his workmen the highest wages possible, and demand in return only the smallest possible sacrifice.⁵¹⁰⁵¹¹
[pg 259]

Section LXXXV.

The Right Of Inheritance.

The right of inheritance to resources has its origin in a combination of the idea of the family with the idea of property. And, indeed, this combination of ideas is a very natural one. The larger portion of mankind consider the pleasures of the family as the highest attainable, and endeavor, whenever their economic means make it at all possible, to secure them. At the same time, the selfishness

of most men is not confined to their own persons, but extends also to their posterity. Hence it is that *bed and board*, *eonnubium* and *commercium*, have, from time immemorial, been considered correlative ideas; and, to all the more logical socialists, a community of wives (or celibacy)⁵¹² is as dear as a community of goods.⁵¹³ (§ 245.) And in practice, the greater number of nations of hunters, who, according to our conceptions, have no knowledge of a real family and no knowledge of property, have a custom of burying with the dead the things they used, to kill their cattle etc., or to deprive minor children of their inheritance.⁵¹⁴
[pg 260]

Section LXXXVI.

Economic Utility Of The Right Of Inheritance.

The certainty, that the material welfare of their children depends, in great part, on their industry and frugality, is one of the most powerful incentives to good, in the case of most men. And this is the basis of the economic utility of the family right of inheritance.⁵¹⁵ There is scarcely any other institution which opposes over-population with such efficiency, for the reason, that the obstacle placed in its way here is placed very directly, at the point where it can make itself felt most, viz.: in the life of the family itself. The weaker the family feeling, the less does the abolition of the right of inheritance interfere with the economic interests of a nation. Hence, for instance, it is, that taxes imposed upon legacies, bequests, testamentary gifts etc., are less objectionable in proportion as they affect only those in the more remote degrees of relationship in which inheritance is something merely accidental. While, when a

nation is yet in the intermediate stages of civilization, the *family* right of inheritance seems to be very strong, especially as regards landed property, a consequence of the fact, that a superior kind of title to such property is recognized to exist in the family; at a period, when individualism becomes more developed, the liberty of devise by will is wont to prevail more and more.⁵¹⁶ Then the right of inheritance becomes, [pg 261]so to speak, a more elevated species of personal property, a prolongation of the same beyond the grave. Should testamentary freedom be too much hampered, selfishness would manifest itself in a way much more detrimental to economic interests, viz.: in the consumption of wealth, during the lifetime of its owner. Every man would be but a life annuitant of his own property.

But, at the same time, in periods of moral decline, complete freedom may degenerate so as to produce evils equally great. The wealthy Bœotians, in the later days of Hellenic history, were wont to form themselves into dissolute drinking companies; and not only the childless, but even fathers of families made over their property to these companies, limiting their offspring to a portion which it was made their duty to let them have. It was so in Rome, also, in Cicero's time, when every acquaintance of standing took it very ill if not remembered in the will of the testator, and where Octavian, for instance, in the last twenty years of his reign, received about 70,000,000 thalers through legacies left him by his "friends."⁵¹⁷ Here, [pg 262]the repeal of the law making it obligatory on testators to leave a certain proportion of their wealth to their children would remove the last safe-guard of their material welfare.⁵¹⁸

Section LXXXVII.

Landed Property.

As land, in its uncultivated state, has neither been produced by man, nor can be entirely consumed by him, the above demonstration of the necessity of private property cannot without [pg 263]any more ado, be extended to land.⁵¹⁹ Hence, individual property in land is everywhere much more recent than individual property in capital.⁵²⁰

But a certain expenditure of capital and labor is necessary that land may be used productively, and, in most instances, this employment of capital and labor is of long duration, irrevocable in the very nature of things, and one the fruits of which can be reaped only after some time has elapsed. Now, this cooperation of capital and labor is such, that no one would undertake to employ them in the cultivation of the land, had he not the strongest assurance of possessing it. Hence, agriculture in its most rudimentary stage supposes ownership of the land, at least from the time that it is "tickled with the hoe," until it "smiles with the harvest;" or, to express it more accurately, all the time intervening between the work of the plow and the labor of the sickle. The more, afterwards, population and civilization increase, the more products must be wrung from the soil. But this can be accomplished only by means of its more *intensive* cultivation (higher farming), by lavishing a greater amount of capital and labor on it, and, as a rule, by extending the circle of agricultural operations by means of combinations more and more artificial. Hence, the progress of civilization demands an ever increasing fixity, and a more pronounced shaping of landed property (the *specification* of jurists), in the interests of all who share in this progress, and even of those who own no landed property themselves. Were there no property in land, every one would find it more [pg 264]difficult and laborious to gratify his want of

agricultural products;⁵²¹ and the products themselves would be of an inferior kind.

Thus, for instance, in Camargo, the lackmus was formerly prepared from plants to be had “free” in the woods. It was then, however, much dearer than it is now that the plants are artificially raised on landed property.⁵²² It is otherwise with the fisheries. The appropriation of rivers or seas would not tend to increase the abundance of their products, and hence this appropriation is, on the whole, rare.⁵²³

Section LXXXVIII.

Landed Property. (Continued.)

Whenever this admixture of capital and labor with land has taken place to no great extent, private property in land is not found developed in any degree. Thus, there are even now many half-civilized countries in which the land is forfeited because not tilled for many years, and where it may be occupied by the first person who will cultivate it.⁵²⁴ In Europe, common [pg 265]possession of forests and pasture lands asserted itself much longer than that of arable land, because, in the case of the former, labor and capital play a much less important part in the management of them. And yet, even in the case of arable land etc., and, in the highest stages of civilization, the property-quality is yet less developed than the property-quality of capital. How seldom do we find *fidei commissa* of capital, or capital juridically tied up. We find that the law of all ancient nations drew a marked distinction between moveable and immoveable property, and that the power of disposing of the former by sale, pledge, in dowry, partition etc., was a much freer one. And even now, the police power which may be exercised over moveable property is

much more restricted than that over houses and land.⁵²⁵ The justice of the exclusive right of possession to what one has earned and saved is obvious to every one. On the other hand, the appropriation of “original and indestructible natural forces” has its basis not so much in justice as in the general good; and the state has always considered itself entitled to attach to the “monopoly of land,” which it accorded to the first possessor, all kinds of limitations and conditions in the interest of the common good, [pg 266]and sometimes to consider private property in land in the light of a semi-public function.⁵²⁶ I may instance the feudal principles of the latter portion of the middle ages, which are so far removed from our ideas of private property in land; and yet, of which many echoes are heard, even in our day, and are not without their influence in practice. Thus, further, for instance, even in England, the greater number of the poor-rates, of taxes for the support of the established church, the maintenance of public highways etc., are heaped upon the rent of land. Many socialists have proposed to make the state the sole proprietor of the soil,⁵²⁷ sometimes adding the condition, that the previous private owners should be compensated in capital, when it would be at least supposable that private capital might be enticed to cultivate it, if long and sure leases of it were made. This would be a “good” demesne-
husbandry, extending over the entire country. We need only glance at those kingdoms in which something analogous is to be found, [pg 267]especially the despotisms of the east,⁵²⁸ to divine that such a system does not suffice to insure the real productiveness of a nation's economy.⁵²⁹
[pg 268]

Chapter VI.

Credit.

Section LXXXIX.

Credit In General.

Credit⁵³⁰ is the power of disposition over the goods of another,⁵³¹ voluntarily granted in consideration of the mere promise of the counter-value.⁵³² As Franklin says: A good pay is master of another man's purse. Hence, it is evident that whoever would obtain credit must be believed to possess the ability as well as the intention to fulfill his promise. Where [pg 269]this belief is based simply on the opinion entertained of the person of the debtor, we speak of personal credit,⁵³³ in contradistinction especially to the credit based on bailment, pledge, hypothecation etc. The longer the time between the making of the promise and the period fixed for its fulfillment, the less certain is the latter, where the security is simply the person of the debtor. It is chiefly in very uncivilized nations and also in nations in their decrepitude, and during periods of anarchy, and in despotisms, that personal security stands higher than any other. The same is true, though for other reasons, in very energetic civilized nations, where the people put a high estimate on the element of labor in their economy, among whose members legal security is, indeed, found, but where the peculiar sensitiveness of speculation would be too much hampered by the more sluggish nature of other credits; as, for instance, in North America, and even in ancient Rome. Civilized nations that have reached the

stationary economic state, on this account much prefer the greater security and the absence of care which accompany non-personal credit.⁵³⁴ In estimating the ability of the debtor to meet his promise, we must take into account, especially, the disposable character of his resources; otherwise it would be impossible to understand [pg 270]why the merchant may so frequently obtain a loan on his stock equal to its whole value, while the owner of land can place it as security only to the extent of half its value. Credit, on the whole, grows in importance with an advance in civilization, and this is true especially of credit intended for productive purposes. This is a consequence of the greater division of labor which causes unfinished products to be put on the market more and more frequently,—products which come to have a value only after some time, but which, when that time has elapsed, have present value. And, indeed, as the world advances and civilization grows, it becomes much easier to forecast the future with certainty. The future, also, then becomes more a source of solicitude, and fixed capital, as a consequence, plays a part which grows daily more important. The limit to the development of credit is this: it is safe only when the debtor invests his borrowed goods in the production of, to say the least, their equivalent. This is why the personality of the state, clothed with immortality and with a formally boundless power of taxation, is so often seduced into engaging in transactions of credit which are never self-discharged.⁵³⁵ The social diseases of panics and of extravagant enterprises stand in the same relation to credit that unbelief and superstition do to true religion.⁵³⁶ (*Schäffle.*)

Section XC.

Credit—Effects Of Credit.

As regards the effects of credit, we may remark, that it is as powerless directly to produce new capital as is the division of labor to produce new workmen. To every credit of the [pg 271]creditor corresponds a debit of the debtor. As Turgot said: *Tout credit est un emprunt.*⁵³⁷⁵³⁸⁵³⁹ But, on the other hand, credit [pg 272]facilitates the transmission of the elements of production, especially of capital, from one hand to another.⁵⁴⁰ When, therefore, the debtor employs the capital that he has borrowed, more productively than the creditor would have done, the whole country is a gainer; as it is a loser, on the contrary, when a person engaged in industry advances to the idler, the frugal man to the spendthrift, the solid man to the wild speculator. In declining nations, where every new development hastens decay, the latter alternative may be the prevailing one; and, especially here, may the usurious giving of credit by the shrewd to the simple lead to ruinous debtor-slavery. Among a vigorous and energetic people, the former is apt to govern, as it is only by the productive employment of the loans made that they are permanently enabled to pay interest. Here credit is an invaluable means, not only of putting idle capital in motion, and of making active capital still more active, but especially of concentrating capital, by which it may gain as much in productive power as labor does by the coöperation of labor. This is effected, very frequently, by means of joint-stock companies, the principle of which recommends them especially in enterprises where stationary capital is required rather than circulating capital, and where capital generally plays a greater part than labor; and where this labor can be subjected to provisions which may be accurately laid down beforehand; as, for instance, in the case of docks, insurance companies, banks,⁵⁴¹ [pg 273]etc. Banks, then, become real reservoirs of capital, provided they are properly and judiciously established and managed; real reservoirs which receive in one place the capital which is superfluous elsewhere, in order to supply some other place with that which is necessary to it. The

more confidence increases, the more are even the smallest dribblets of capital awakened from their slumbers, and made active and productive. It is only by means of credit that the help of foreign capital can be obtained for home production. Indeed, credit, considered as an exchange of probable future goods against actually existing goods, is one of the principal functions of the temporal solidarity of the economy of nations. (*Schäffle*.) Without credit, there would be very little place for speculation proper.

We may see how the possibility of giving and receiving credit promotes wealth, by contemplating the poorer classes, whose poverty, both as cause and effect, is very closely related to the absence of credit. And here we have a suggestion of the reverse to the bright side of the picture of credit, analogous to that mentioned in § [62](#) of the coöperation of labor, viz.: that it tends to intensify inequality among men. The man who is distinguished by the amount of his wealth, or by his position is naturally known to a much wider circle than others are. From which it follows, that he may, by the way of credit, increase his power, already so much greater in the economic world, by a much larger multiplier.^{[542](#)} Hence, it need not [pg 274]surprise us, that the great obtain credit from those in a lower position, at least as frequently as they give them credit in turn.

On the side of the creditor, the possibility of making loans is a powerful incentive to frugality. Were there no credit, those who were not in a condition to employ their capital productively would make savings only within very narrow limits.^{[543](#)}

Section XCI.

Debtor Laws.

Private credit is always conditioned, and in a great many ways, by the situation of the whole nation's business; in other [pg 275]words, by their politico-economical situation. It is especially in the higher stages of civilization, that one bankrupt may easily drag numberless others down with him; and where the laws are bad or powerless, not even the wealthiest man can predicate his own solvency for any length of time in advance. One of the most important conditions of credit is the certainty that, if the debtor's good will to meet his obligations should fail, it shall be supplied by the compulsory process of the courts. Hence, the importance of a judicial procedure, at once impartial, enlightened, prompt and cheap.⁵⁴⁴ The more vigorous the laws relating to debt are in preventing dishonesty on the part of the debtor, the more advantageous are they to honorable and honest debtors. Adam Smith has rightly said, that in countries in which creditors are not completely protected by the courts, the honorable man who borrows money is in the same condition as the notoriously dishonest man or the spendthrift, in better governed countries. He finds it more difficult to borrow and is obliged to pay a higher rate of interest.⁵⁴⁵ Rigorous debtor laws, on the other hand, diminish in [pg 276]the whole nation the amount of "bad debts," that is, a not insignificant portion of the cost of production. They, at the same time, promote, as far as it is in the power of laws to do it, national honor and the mutual confidence of man in man. The excellence of their debtor laws, in their most flourishing period, was one of the principal elements which contributed to make Athens and Rome of such importance in the history of the world.⁵⁴⁶

Section XCII.

History Of Credit Laws.

In the history of laws relating to credit, we may distinguish, in a great many countries, three stages of development.

A. The laws, in the first stage, are very severe. In the Germanic middle age the insolvent was disgraced. He became the slave of his creditor (*zu Hand und Halfter*), who might imprison him, fetter him (*stöcken und blöcken*), and probably kill him. A Norwegian law allowed the creditor, when his debtor would not work and his friends would not ransom him, to take him before the court, and “to lop off from his body what part he will, above or below.”⁵⁴⁷ To judge of [pg 277]these provisions correctly, it is necessary to bear in mind the many ways in which family resources were at this time bound and tied up, and not forget “the power of defiance in these iron natures.”⁵⁴⁸ (*Niebuhr.*)

B. The canon law introduced milder principles. Gregory the Great had already prohibited the holding on to the body of the debtor.⁵⁴⁹ On this account, during the latter portion of the middle ages, it was customary to stipulate by contract that the provisions of the ancient law should govern in this matter, to submit to imprisonment etc.⁵⁵⁰ The influence of the Roman law made it gradually more usual, in the case of insolvent debtors, to demand no more from them than the assignment of their property for the benefit of their creditors. This, however, led to numerous frauds; and these became more frequent in proportion as the laws governing the property of parties while the marriage relation existed between them, and as executions against landed property etc. were defective.

C. Hence, in more highly civilized times, there has been a return to the severity of earlier ages. Persons engaged in commerce, especially those whose capital is so volatile, and to whom time is a thing so precious, can scarcely dispense willingly with personal imprisonment for debt. Hence, legislation on bills of exchange, sanctioned especially by imprisonment of the person, plays a very

important part in the commercial cities of the seventeenth century, as it did, naturally, much earlier in Italy and the Netherlands.⁵⁵¹ Modern laws in [pg 278]many cases punish the bankrupt whenever an examination of his books, kept after approved methods, does not demonstrate his innocence.⁵⁵² The great facility of fraudulent bankruptcy, where commerce has attained a high degree of development and complication; the absence of honor shown in engaging in speculation for one's own gain with a stranger's capital, and without the real owner's knowledge; the comparatively small number of blameless and irreproachable bankruptcies,⁵⁵³ certainly justify these provisions.⁵⁵⁴⁵⁵⁵
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Section XCIII.

Means Of Promoting Credit.

One of the most efficient means of promoting credit consists in legislation intended to dry up the source of bad debts, by placing obstacles in the way of reckless or usurious credits [pg 280]for objects of luxury or pleasure, to bad customers.⁵⁵⁶ But the application of these laws should be clear and simple as to their matter, and require no inquiries, relating to the person, impracticable for a business man to make.⁵⁵⁷ Thus, for instance, a short period of limitation established by statute in the matter of advances made for ordinary money-claims is a beneficial restraint, as well on the creditor as on the debtor, since it prevents the accumulation of a multitude of small debts which almost imperceptibly but at the same time irresistibly overpower the debtor under their weight.⁵⁵⁸ Another [pg 281]efficient means is associations

of business men to circulate lists of bad debtors, and to prosecute their own demands in common.⁵⁵⁹ On the other hand, experience has shown that imprisonment for debt, as a means of enforcing a creditor's claim, where the amount of the debt is very small and such as only very poor debtors are apt to incur, is of little service. It is even injurious, because a great many sellers would rely on that means of compelling payment in the future instead of demanding it immediately, as they should do in the interest both of themselves and of their customers. As a rule, it is only rich creditors who can resort to it with success, a class who compel payment through this means by wringing it from the debtor's relations more frequently than from the debtor himself. The working out of debts in correctional institutions seems, for the same reasons, to fail of its object, since even well governed institutions scarcely cover their current expenses from the income derived from this source.⁵⁶⁰ The inequitable character of imprisonment for debt lies in this, that it punishes the unfortunate debtor as severely as it does the malicious one. It must be clearly distinguished from the imprisonment recognized by the courts as a punishment for reckless or fraudulent bankruptcy.⁵⁶¹ We must pass a judgment [pg 282]similar to that on the imprisonment of the person of the debtor on the seizure of his wages not yet due, so far, at least, as an amount absolutely necessary to save himself and family from want, is not excepted. The prohibition of such seizure, beyond this, would amount to a declaration that all workmen without capital, even the best, should be considered unworthy of credit.⁵⁶² We may also include in this category such laws as except from execution the necessary tools of a tradesman, since to deprive him of them would be to prevent [pg 283]his employing even his labor to satisfy⁵⁶³ his creditors' claims.

Section XCIV.

Letters Of Respite (Specialmoratorien).

Special letters of respite (Specialmoratorien) are a suspension of the laws relating to debt, made in favor of an individual. (*Quinquennalia.*) They were intended to protect not only the debtor, but also the aggregate of creditors against the short-sighted severity of one of their number. They were wont to be given especially when the debtor showed that immediate execution would not only have the effect of ruining himself, but of sending his creditors away empty handed; while, if time were given him, he would be able to satisfy every one.⁵⁶⁴ But the granting of such letters has, in recent times, been prohibited⁵⁶⁵ in nearly all countries as arbitrary, and [pg 284]as a species of cabinet-justice. Nor should the granting of them be compared with the pardoning power. In the case of a pardon, the offended State forgives. In this case it sacrifices the unquestionable right of one party to the very doubtful advantage of another. Where such letters are granted in great numbers, credit cannot fail to suffer. "*Quinquinnellen gehören in die Hollen!*"

Yet in troublous times, when a great many debtors are insolvent at the same time, the question of modifying the laws relating to debt, temporarily, has been mooted. It has been urged on such occasions, that it would be a matter of enormous difficulty to treat, *lege artis*, thousands as bankrupts at once; that thousands of businesses would have to be closed, their stocks cast upon the market at mock prices, and their employees thrown out of employment. But, if certain privileges were to be accorded to all who should declare themselves unable to meet their obligations before a certain day, it would be known, at least, that the others were in a solid condition; and this would have the effect to strengthen the credit which had been before universally shaken. We must, however, leaving all cases of abuse out of the question, remember,

that a really unrightful favor, granted to the debtor, may possibly entail the ruin of his creditor. Besides, the uncertainty of the law would have a much worse effect on credit than uncertainty as to the personal status of individuals.⁵⁶⁶ Where, as is the case generally in inferior stages of civilization, debtors and creditors form two distinct classes, the question of right is not, indeed, changed, but there is a solid basis afforded for the political admeasurement of opposing interests. In another [pg 285]work I have shown how, after great wars, land owners, who became involved in debt, have been protected against capitalists. (See *Roscher*, *Nationalökonomik des Ackerbaues*, § 137, ff.)⁵⁶⁷⁵⁶⁸

[pg 287]

Book II.

The Circulation Of Goods.

[pg 289]

Chapter I.

Circulation In General.

Section XCV.

Meaning Of The Circulation Of Goods.

The more highly developed the division of labor is, the more frequent and necessary do exchanges become. While the hermit engaged in production thinks only of his own wants, and the mere housekeeper of the wants of his household, the man who is part of a nation and who plays a part in its general economy, must bear in mind the MARKET in which goods of one kind are exchanged against goods of other kinds. The greater, more various and more changeable the conditions of this market are, the greater are the intellectual faculties demanded to engage in it successfully, and to the advantage of everybody concerned in it.⁵⁶⁹ Goods intended to be exchanged [pg 290] are called commodities. By the circulation of commodities is meant their going over from one owner to another.⁵⁷⁰ Among the principal causes of circulation, we may mention the difference in the nature and civilization of countries and peoples, the distinction between city and country, the division of people into classes etc.⁵⁷¹ The rapidity of circulation depends, on the one hand, on the quantity of commodities, and on the other, on the degree to which the division of labor has been carried. In both respects it is, therefore, an important indication of the wealth of the nation, and of the world.

Different commodities have very different degrees of capacity for circulation (*Circulationsfähigkeit*), that is, of certainty of finding purchasers, and of facility of seeking purchasers. The smaller, compared with its value, the

volume and weight of a commodity are; the longer and more conveniently it can be stored away; the more invariable and well-known are its value in use and value in exchange: the more readily does it go from one place to another, the more easily is it transmitted from one period of time to another and from the possession of one person into the possession of another. Thus, for instance, the precious metals circulate more rapidly than industrial products; [pg 291]these in turn more than raw material,⁵⁷² and immovable property circulates least rapidly of all. An improvement in the means of transportation naturally increases the capacity of circulation of the entire wealth of a people, and especially of those commodities which were not before transferable as well as of those of which the cost of transportation constituted a peculiarly large component part of the price.⁵⁷³ The greater the capacity for circulation of any kind of goods, the greater is the power of control of its owner in the world of trade. If we compare two men, each of whom possesses a million of dollars, but one of whom has that million in money and the other in land, we shall find that the former is able, for present purposes, such as loaning to the state in case of need, aiding a conspiracy etc., to command resources much more readily and effectively than the latter. Under the ordinary circumstances of a nation's economy, we find that the owner of money is very seldom in want of bread, fuel or clothing, whereas very many owners of other property may be in want of money.⁵⁷⁴ True, resources which may, so to speak, take the offensive most energetically, offer less resistance to unforeseen misfortune. The possessor of such resources is in a condition to lose his all on the turn of a single die. As civilization advances, the circulating capacity of a nation's wealth increases.⁵⁷⁵
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Section XCVI.

Rapidity Of Circulation.

With an advance in a people's public economy, we find an increased rapidity of circulation connected, both as cause and effect. Every improvement, every thing which shortens the process of production, must facilitate and accelerate the circulation of commodities. And so, the perfecting of the means of transport of commodities, of the media of exchange and of credit, an increase in the number of middlemen who make it their business to purchase in order to sell again. On the other hand, the more rapid the circulation of wealth, the more can it promote production. The more rapidly, for instance, the manufacturer of cloth exchanges his wares for money, the more rapidly may he employ the money in the purchase of new tools and the hiring of new labor; and the sooner may he appear in the market with new cloth. It is here precisely as it is in agriculture, which is more productive where the seed returns several times in a year (several crops⁵⁷⁶) to the hand of [pg 293]the peasant than it is where this happens only once. The nearer the members of the commercial organism are to one another, the more rapid is circulation wont to be. Hence, it is more rapid in industry than in agriculture; in retail trade than in wholesale; in large cities than in the country; among a dense population than among a sparse population.

The *regularity* of circulation increases with economic culture. Its concentration at large terminal points, its interruption by bad seasons of the year, belong to the lower stages of the political economy of a people; although bad harvests, floods, wars, revolutions etc. may, at any time, lead to a sluggishness or to an arrest of circulation.

Section XCVII.

Freedom Of Competition.

But it is especially the freedom of circulation that increases with an advance in civilization, and this advance, like the two preceding, first affects the home or inland circulation. Freedom of competition, the freedom of commerce and industry, technical expressions used to designate freedom in general in the domain of a nation's economy, is the natural conclusion drawn from the principles of individual independence and of private property. Hence its development is as slow as the development of these, and attains its full growth only in highly cultivated nations, their colonies and dependencies. In very low stages of economic development, the circulation of goods is hampered by the absence of legal security; later, by privileges accorded to a great number of families, corporate bodies, municipalities, classes, etc., and later yet by the mighty guardianship which the state exercises by its power of legislation and even of education.⁵⁷⁷ Each one of these epochs constitutes [pg 294]the end of the preceding one, and is milder than it was. Finally comes the period of complete freedom, when every man is permitted to manage his own affairs even with injury to himself, provided the injury is confined to himself.

The later times of the Roman Empire are the best illustration of how, with the decline of the conditions which must precede freedom of competition, that freedom itself decays.⁵⁷⁸

Freedom of competition unchains all economic forces, good and bad. Hence, when the former preponderate, it hastens the time of a people's grandeur, as it does their decline where the latter gain the upper hand.⁵⁷⁹ We may say of economic freedom what may be said of all other freedom, that the removal of external constraint can be justified and produces the greater good of the greater number only where a stern empire over self takes its place.

Without this it would not prevent or avoid idleness, usury or over-population. Freedom must not be simply negative. It must be positive. If on account of the immaturity or over-maturity of a people, there be no sturdy middle class among them, unlimited competition may become what Bazard calls a general *sauve-qui-peut* (let the devil take the hindmost); what Fourier designates as a *morcellement industriel*, and a *fraude commerciale*; what M. Chevalier denominated “a battle-field on which the little are devoured by the [pg 295]big;” and in such case, as Bodz-Reymond says, the word competition, meaning simply that each one is permitted to run in whatever direction he may see a door open to him, is but another and a new expression for vagabondizing. But here the evil does not lie in too great competition, but in this, that on one side there is too little competition.⁵⁸⁰ The opposing principle of competition is always monopoly, that is, as John Stuart Mill says, the taxation of industry in the interest of indolence and even rapacity; and protection against competition is synonymous with a dispensation from the necessity to be as industrious and clever as other people. A protection of this nature, sufficiently effective to attain its end, would not fail to arrest the efforts of those who had accomplished something, and even to turn them backward. That freedom of competition is a species of declaration of war,⁵⁸¹ among men considered as producers, is certain; but, at the same time, it makes all men considered as consumers members of one society, in which all the members are equally interested, a fact too much overlooked by socialists.⁵⁸² It is the means especially by which the greatest and ever increasing portion of the forces of nature are raised to the character of the free and common property of the human race.⁵⁸³ “Man is not the favorite of nature in the sense that nature has done everything for him, but in the sense that it has endowed him with the ability to do everything for himself. The right of freedom of competition may, therefore, be considered

both [pg 296]the protection and the image of this provision of nature.” (*Zachariä.*)⁵⁸⁴

The person, therefore, who claims or asserts an exception from the rule of free competition, has to prove his position in every individual case, since the burthen of proof is on him. But the duty of interference on the part of the state is positively pointed out where any interest common to the whole people is not in a condition to assert itself; and negatively, when the custom which hitherto had prevented an undoubted abuse has grown too weak to continue to perform that service. In *both* regards I would call attention to the protection of factory children against the concurrent selfishness of their parents and masters.⁵⁸⁵⁵⁸⁶ *Supra*, § 39. [pg 297]

Section XCVIII.

How Goods Are Paid For.—The Rent For Goods.

Payment for goods (§ 1 ff.) of any kind can be made only in other goods.⁵⁸⁷⁵⁸⁸ Hence, the greater, more varied, and the better [pg 298]adapted to satisfy wants, production is, the more readily does any product find a remunerative market; more readily in England, for instance, in spite, or rather, because of, the great competition there, than in Greenland or Madagascar. From this it follows that, as a rule, a person is in a better condition to purchase more goods in proportion as he has produced more himself. According to official accounts, the average value of a harvest of wheat and potatoes in Prussia was formerly 332,500,000 thalers. In the year 1850, however, it was only 262,000,000 thalers. As a matter of course, the country people in that year could not purchase from the cities as much as in ordinary years, by a difference of

70,000,000 thalers. This illustrates how every class of people, who live by finding a free market for their products, are interested in the prosperity of all other classes. As Bastiat says: "All legitimate interests are harmonious." The more flourishing a city, the better off are the towns around it, which furnish it with provisions; and the richer these towns, the more flourishing is the industry of the city which ministers to their wants.⁵⁸⁹ It is important that this fact should be borne steadily in mind, especially in times of advanced civilization, when the feeling that we all have interests in common, is too apt to grow dormant. Nothing can better serve to awaken it again when it has become so. A nation, says Louis Blanc, in which one portion of the people is oppressed by another, is like a man [pg 299]wounded in the leg. The healthy limb is prevented by the sick one from performing its functions.⁵⁹⁰

Section XCIX.

Freedom Of Competition And International Trade.

Does the same rule apply to the commercial intercourse of nations? Where the feeling that all mankind constitute one vast family is stronger than that of their political and religious diversity; where the sense of right and the love of peace have extinguished every dangerous spark of ambition for empire and all warlike jealousy; where, especially, their economic interests are rightly understood on both sides, a real conflict between the interests of two nations must always be a phenomenon of rare occurrence, and an exception to the general rule, which should not be admitted until it has been clearly demonstrated to exist.⁵⁹¹ Highly cultivated nations generally [pg 300]look

upon the first steps in the civilization of a foreign people with a more favorable eye than they do on the subsequent progress which brings such nations nearer to themselves.⁵⁹² Yet the realization of the above mentioned conditions on all sides is something so improbable, unpatriotic “philanthropy” something so suspicious,⁵⁹³ the greater number of mankind [pg 301]so incapable of development except under the limitations of nationality, that I should observe the total disappearance of national jealousies only with solicitude. Nothing so much contributed to the Macedonian and Roman conquests as the cosmopolitanism of the later Greek philosophers.⁵⁹⁴

As all commerce is based on the mutual dependence of the contracting parties, we need not be surprised to find international commerce so dependent. But this dependence need not, by any means, be equally great on both sides. Rather is the individual or the nation which stands in most urgent need of foreign goods or products the most dependent. Hence, it seems that, in the commercial intercourse between an agricultural and an industrial people, in which the former furnish food and the raw material of manufactures, and the latter manufactured articles, the latter are the more dependent. In case of war, for instance, it is much easier to dispense for a long time with manufactured articles than with most articles of food.⁵⁹⁵ However, this condition of things is very much modified, for the better, by all those circumstances on which the dominant active commerce of a nation depends. It is, for instance, much easier for the English, on account of their greater familiarity with, and knowledge of the laws and nature of commerce, on account of their business connections, their capital, credit and means of transportation, but more particularly on account of the greater capacity of circulation of their national resources, to find a new market in the stead of one that has been closed to them, than it is for the Russians with their much more immoveable system of public economy.⁵⁹⁶ It [pg 302]is true, however, that an effective blockade, which

excluded both of these nations from all the markets of the world, would be much more injurious to England than to Russia.
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Chapter II.

Prices.

Section C.

Prices In General.

The price of a commodity is its value in exchange expressed in the quantum of some other definite commodity, against which it is exchanged or to be exchanged. Hence, it is possible for any commodity to have as many different prices as there are other kinds of commodities with which it may be compared.⁵⁹⁷ But whenever price is spoken of, we think only of a comparison of the commodity whose value is to be estimated, with the commodity which, at that time and place, is most current and has the greatest capacity for circulation. (Money.)⁵⁹⁸ When two commodities have

changed their price-relation to each other, it is not possible, from the simple fact of such change of relation, to determine on which side the change has taken place. If we find that a commodity A stands to all other commodities, C, D, E etc., in the same relation as to price as [pg 304]before, while commodity B, compared with the same, has changed its place in the scale of prices, we may infer that B, and not A, has left its former position.⁵⁹⁹

The words costly and dear, as contradistinguished from common and cheap, both indicate a high price. We, however, call a commodity costly whose price, compared with that of other similar commodities, is high. On the other hand, we call a commodity dear when we compare it with itself, and with its own average price in other places and at other times.⁶⁰⁰

In individual cases, the price of a commodity is determined most usually, and at the same time most superficially, by custom; people ask and pay for a commodity what others have asked and paid for it. If we go deeper and inquire what originated this customary price and may continually change it, we come to the struggle of interests between buyers and sellers. And if science would analyze the ultimate elements of the incentives to this struggle and the forces engaged in it, it is necessary that it should keep in view the entire economy of the nation, and even all national life.

Section CI.

Effect Of The Struggle Of Opposing Interests On Price.

No where in the public economy of a people are the workings of self-interest so apparent as in the determination of prices. When the price of a commodity is

once fixed by the conflict of opposing interests,⁶⁰¹ the self-seeking of every individual dictates that he should thereby gain as much as possible [pg 305]of the goods of others, and lose as little as possible of his own. In this struggle, the victory is generally to the stronger, and the price is higher or lower, according to the superiority of the buyer or seller.⁶⁰² But who, in such case, is the stronger? Political or physical superiority can turn the balance one way or another only in very barbarous times, and especially in times when legal security is small.⁶⁰³ As a rule, it is the party in whom the desire of holding on to his own commodities is strongest, and who is least moved by the want of the wares of others. As in every conflict, confidence in self, sometimes even unbounded confidence in self, is an important element of success. A party to a contract of sale or barter, who considers his immediate position decidedly stronger than that of the other party, will scarcely depart from his demands. Hence it is, that in exchange, one party so frequently holds back until the other has expressed his terms.⁶⁰⁴ How different is the [pg 306]price of the same pieces of land which a new railroad enterprise is compelled to pay and the prices it would get for them, from the adjoining owners, in case of the dissolution of the company.

But the struggle to raise prices or to lower them, which is always going on, undergoes modifications of every description among all really commercial nations, partly through the influence of the public conscience, which brands as inhuman and blameworthy the spoliation of the opposing party by acts which the laws do not reach. And this consideration by the public conscience is all the more severe in proportion as real competition in the article sold is wanting.⁶⁰⁵ But the chief modification in this struggle is produced by the fact, that where civilization has advanced farthest, every commodity is offered for sale by a great many and wanted by a great many.⁶⁰⁶ As soon as several seek the same object, there naturally results a rivalry among them, which induces each to attain the desired end,

even by the making of greater sacrifices than others. [pg 307]The greater the supply of a commodity is, as compared with the demand for it, the lower is its price; the greater the demand as compared with the supply, the higher it is. And, indeed, there is question here, not only of the *mass* of things supplied or demanded, but also of the *intensity* of the supply and demand.⁶⁰⁷

If the exchange-force of both contractants be equal, or, in other words, if both, with equal knowledge, are interested in the completion of the exchange, there results from this attitude of the parties toward each other, what is called an equitable, or average price, in which both meet with their deserts. Here each is a gainer, since each has parted with the commodity which was less necessary to him, and received in exchange the commodity which was more necessary to him. Looked at, however, from the standpoint, not simply of a nation's but of the world's economy, the value given and the value received are equal.⁶⁰⁸⁶⁰⁹

[pg 308]

As a rule, the price-relation of two commodities is determined by this relation of demand and supply,—by the desire to possess and the difficulty of obtaining them. We must, therefore, examine on what deeper relations supply and demand themselves depend.⁶¹⁰ In the case of the purchaser, the [pg 309]value in use of the commodity and his own ability to pay constitute the maximum limit of its price, which price may, however, be modified by the cost of producing it⁶¹¹ elsewhere or at another time. In the case of the seller, the cost of production is the minimum limit, which may, however, be extended by the cost of procuring the commodity by the purchaser at another time or place.⁶¹²

Section CII.

Demand.

The purchaser in his demand is wont to consider principally the value in use of a commodity, according as it, in a higher or lower degree, ministers to a necessary want, to a decency or to a luxury. The difference of opinion as to which of these categories any given want belongs depends not only on the nature of the country and the customs of its people, but, for the most part, also, on the prejudices of class and on personal individuality.⁶¹³ A reasonable man will employ only the [pg 310]surplus of the first class in the satisfaction of wants of the second, and again only the surplus of the second in the satisfaction of wants of the third.⁶¹⁴

If the value in use of a commodity rises or falls, and surrounding circumstances remain unchanged, its price also rises or falls.⁶¹⁵⁶¹⁶

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Section CIII.

Demand.—Indispensable Goods.

When the supply of articles of luxury diminishes, the price of them, it is true, rises. But as now there is a number of purchasers no longer able to pay for them, the demand for them also decreases, and their price, as a consequence, rises in a less degree than might be inferred from the amount and condition of the supply merely. And so, on the other hand, an increase of the supply which lowers the price is wont, in the case of pleasures capable of a wide extension, such as are ministered to by fine roots,

vegetables, etc., to produce an increase of the demand, and this operates to arrest the falling price.

It is quite otherwise, in the case of indispensable goods, as for instance, wheat. When there is a want of such an article, men prefer to dispense with all other articles, to some extent, rather than to practice frugality in bread; and all the more, as bread is not so much used as consumed rapidly, while clothes and metallic articles last a long time. And even after an over-abundant harvest, leaving voluntary waste out of the question, consumption is increased by a finer separating of the flour, an increase in the amount of corn fed to cattle, and the distillation of spirits. Hence, demand and supply by no means run in parallel lines at every moment; and indispensable articles tend to greater perturbations in price than those which can be dispensed with.⁶¹⁷⁶¹⁸ The price of grain, especially, varies in a ratio [pg 312]very different from the inverse ratio of the amount of the harvest;⁶¹⁹ although a formula therefor expressed in figures, like that of Gregory King, can never be applicable universally.⁶²⁰ Farmers must everywhere and always withhold a certain amount of their harvest for seed, for home use etc., from the market. Only absolute necessity can induce them to draw on the quantity thus laid by. But the ratio of this part to the whole is very different in different countries.⁶²¹ In the higher stages of civilization, where payment in money has taken the place of payment in produce, and all other kinds of payment, and where the cultivator of the ground pays the wages of his [pg 313]laborers almost exclusively in money, so that they, like all others, purchase what bread they require in the market; a given deficit in the harvest must be spread over a much larger market supply; and prices, therefore, remain much less affected than in the lower stages of civilization.⁶²² And so, it is clear that a like bad harvest must affect prices very differently, if there be a large importation or exportation of the means of subsistence,

and if several bad harvests, or several harvests yielding more than the average have preceded.

In another respect yet, the price of indispensable commodities is very sensitive, because here the mere fear of a future want of them has a far deeper and wider influence, than has the fear of want of articles of luxury. No matter how good the wheat crop may have been, if the weather afterwards interferes with its harvesting, the price of wheat, in countries in which the spirit of speculation is on the alert, will certainly rise, because the prospect of the future crop then becomes somewhat doubtful.⁶²³

Section CIV.

Influence Of Purchaser's Solvability On Prices.

The purchaser, besides the value in use of the goods he desires to buy, considers his own solvability (*Zahlungsfähigkeit* = ability to pay). It is only solvent demand which can influence prices.⁶²⁴ For instance, among a people made up almost entirely [pg 314] of proletarians, there will be a great many cases of starvation and death after a bad harvest, but the price of corn will undergo only a slight increase.⁶²⁵ But where the greater number of inhabitants own property, and where the wealthy come to the help of the poorer classes by means of poor-rates and acts of benevolence, it is scarcely possible to assign limits to the increase of the price of corn. By a necessary connection, when indispensable articles grow dear, the demand for articles that can be dispensed with generally decreases, and *vice versa*.⁶²⁶ Every merchant, engaged in an extensive business, is interested in knowing in advance the results of the corn crop. The

higher the price of a commodity rises, the narrower, of course, grows the circle of those who can pay for it.⁶²⁷⁶²⁸
[pg 315]

Section CV.

Supply.

In the case of isolated chance exchanges, the seller, too, takes into consideration, first of all, value in use, and compares the satisfaction which the commodity to be parted with and that to be received are able to afford. It is true that in making this estimate, he is subject in the highest degree to error and deception.⁶²⁹ In the well ordered trade of a nation whose economy is highly developed, the seller, who had this very trade in view in his production, is wont to consider almost exclusively the value in exchange of his commodity.

Section CVI.

The Cost Of Production.

As no one is willing to lose anything, every seller will consider what his goods have cost him, and the cost of producing or procuring them as the minimum price to be asked for them.⁶³⁰ At the same time, the idea covered by the expression [pg 316]cost of production, although it always embraces whatever disappears from the resources of the producer to enter into production, varies very much

according as it is considered from the point of view of the individual's, the nation's or the world's economy.

An individual who pays taxes to his government, and who has rented land and employed labor and capital to engage in production, must indeed, besides the capital he has used in such production, call all his outlay in interest, wages, rent, and taxes, by the name of cost of production;⁶³¹ since, unless they all come back to him in the price of the commodity, the entire enterprise can only injure him.⁶³² He will, of course, add an equitable profit to remunerate him for his enterprise, since without such profit, he would not be able to live or produce; or else, he would be compelled to consume his capital. The moment the current rates of taxation, interest, wages and rent change in a country, the cost of production is also changed in the case of the individual engaged in production, however unaltered the technic process may remain.⁶³³ But taking the [pg 317]nation, or all mankind into consideration, we must not lose sight of the fact that these three great sources of income, as well as taxation, are not, rightly speaking, sources from which income flows, but rather channels through which the aggregate income of the nation or the world is distributed among individuals.⁶³⁴ Hence the wages of labor, for instance, which afford the means of living to the greater part of the population, cannot possibly be looked upon simply as a factor in economic production. The people considered in their entirety have the soil gratis. All saving made from rent, interest on capital, or wages, is nothing but a change of the proportion in which the results of production were distributed hitherto among coöperators in production. Such a change may be either advantageous or the reverse; but it is not a diminution of the amount of sacrifice which the people in general must make for purposes of production. Hence, in a politico-economical sense, to the cost of production, belongs only the capital necessarily expended in production, and which has disappeared as a part of the nation's resources, abstraction made of the

personal sacrifices in behalf of production.⁶³⁵ The value of the circulating capital which in the process is entirely used up, must, [pg 318]of course, be entirely restored in the price, that of the fixed capital used only to the extent that it has been used.⁶³⁶

The risk, which the producer runs until the commodity produced is actually consumed must also be borne in mind.⁶³⁷ There are things which are a real risk in small enterprises that by the intervention of an insurance company, or where the enterprises are large and insure themselves, become a more or less variable portion of the cost of production. The price of the product, in the latter instance, rises, by this means, very regularly. In the former case, the rise depends partly on the feeling of the people whether their pleasure in gain is greater than their grief over a corresponding loss.⁶³⁸

Those enterprises which necessarily produce different products at the same time deserve special consideration.⁶³⁹ Here we may speak of “*united costs of production,*” and all that is needed is that the aggregate of these costs should be covered by the aggregate price of both products. This complicates to a certain extent the calculations which the seller must make to determine his minimum demand for each product. To ascertain this, he must subtract from the united costs of production the amount of value which he expects with certainty for the other product.⁶⁴⁰

[pg 319]

Section CVII.

Equilibrium Of Prices.

Goods whose cost of reproduction,⁶⁴¹ that is, the highest necessary cost of reproduction is the same, have uniformly the same value in exchange. Every deviation from this level immediately sets forces in motion which endeavor to restore the level, just as the water of the sea seeks its level, notwithstanding the mountains and abysses which the winds bring forth from its bosom.⁶⁴²⁶⁴³
[pg 320]

Section CVIII.

Effect Of A Rise Of Price Much Above Cost.

If the market price rises high above the cost of production, producers make a profit greater than the average profit made in the country. This induces them, by the appropriation of new land and the employment of new labor and capital, to increase their business. Other parties also engage in this profitable department of trade. This competition not only makes the means of production dearer, but must eventually, by increasing the demand, reduce the price of the product to the ordinary level of profit, that is to an equilibrium with other commodities.⁶⁴⁴ Hence, in the beginning, every diminution of [pg 321]the cost of production⁶⁴⁵ turns to the advantage of the producer; but afterwards and permanently to that of the consumers: an economic law exceedingly beneficent in its operations, and not unlike the action of positive legislation in the matter of patents. There is no greater stimulus to the making of improvements than the certainty of reward to the person who first introduces one. The moment, however, that the improvement is imitated by all producers, the advantage gained by it becomes the common good of the whole nation.⁶⁴⁶ These are, as J. B.

Say says, conquests made over the gratuitous productive force of nature. As a consequence, the value in use of a people's resources increases; generally, also, their value in exchange, in so far as the production of the now cheaper goods increases in a degree greater than their cost of production has diminished.⁶⁴⁷

As to the alternative so frequently discussed, whether it is preferable to make a large percentage of profit on the sale of a small quantity of goods, or a small percentage on a large quantity, we find that, in the lower stages of civilization, the [pg 322]former is preferred, and the latter in the higher.⁶⁴⁸ And, indeed, the latter is not only more humane, but, in the long run, it is more profitable to the person who adopts it as his rule in business. In the case of commodities, he now runs but little risk from a change of fashion, because the fashions of the masses change much less rapidly than those of the upper circles of society. In the case of indispensable goods, on the other hand, he may now calculate with more certainty on the increase of population, and, therefore, on a future market for his wares. Competition, which in former times, devoted all its efforts to bringing about the exclusion, by law, of all rivals, is now engaged, principally, in devising means of surpassing them by superiority of workmanship, and in thus increasing the power of the real sources of a nation's wealth.

[pg 323]

Section CIX.

Effect Of A Decline Of Price Below Cost.

If the market price sinks below the cost of production, the producer naturally suffers a loss, and diminishes his stock

as soon as possible. That whole establishments engaged in industry should forsake a branch of it which is suffering from depression and enter a flourishing one, must ever remain a rare exception.⁶⁴⁹ But the discouraged manufacturer may delay renewing his stock on hand,⁶⁵⁰ replacing his machinery by new machinery; he may dismiss some of his workmen and diminish the number of days during which the others shall work. Moreover, most industries are operated by means of borrowed capital, capital which must therefore, be returned to the lender. Under certain circumstances, however, the industry may be continued for some time, even at a real loss,⁶⁵¹ so long as the loss of interest etc., which would follow the entire suspension of the work, exceeds the loss produced by the lowering [pg 324]of price, but hardly any longer. If the supply of the commodity the price of which has fallen has been diminished, the subsequent result depends on the causes which, in the first place, brought about the fall in price. If the diminution in price was caused solely by a too great supply, when this superabundant supply is gotten rid of, the price will rise again.⁶⁵² If it were produced by a decrease in the value in use of the commodity, the diminution of the supply can restore the former state of things only in so far as at least a part of the purchasers ascribe to the commodity the same value in use as before.⁶⁵³ Lastly, if the lowering of the price came from a decrease in the number of buyers, or from a decrease in their ability to purchase, the former price will be restored when production has been adapted to a correspondingly smaller circle of consumers.⁶⁵⁴ This last is true especially when the price, without having suffered any absolute change, has become relatively too low, on account of an increase in the cost of production.⁶⁵⁵

[pg 325]

Different Cost Of Production Of The Same Goods.

Most goods are produced at the same time, but under different circumstances, at a very different cost. In order to estimate the influence of this fact upon price, we must distinguish between those commodities the cheapest manner of the production of which may be extended at pleasure, and those in the production of which it is necessary, in order to satisfy the aggregate want of them, to call in the dearest mode of production to aid the cheapest.

In the former instance, the price of commodities is naturally regulated by the least cost of production. The person who is unable to sustain this competition permanently, would do a great deal better to abandon the industry altogether; for it is not in his power to raise the price by diminishing the supply; more powerful rivals would then only need to correspondingly increase theirs. ⁶⁵⁶ If the same law were applicable, in the latter case, producers [pg 326] placed in a less favorable situation would be compelled to immediately abandon the market. The market, in consequence, would no longer be able to provide for the aggregate need; and the price of the commodity would continue to rise until the producers who had been driven from the market returned to it again. Hence, here, price in the long run is determined by the cost of the production of the commodity, produced under the least advantageous conditions, while such production is necessary in order to satisfy the aggregate need. The person engaged in production under more advantageous conditions receives in the same price of the goods, which are cheaper to him, an excess of profit; one which is greater in proportion as his situation, *vis-a-vis* of production, is superior to that of his less favored competitors. ⁶⁵⁷⁶⁵⁸ [pg 327]

Section CXI.

Different Cost Of Production Of The Same Goods. (Continued.)

Hence the price of a commodity and the ratio between its supply and demand mutually condition each other. On the height of the price depends, in great part, how many purchasers shall resolve to make an effectual demand; but, at the same time, to what amount of cost of production, sellers shall extend their supply.⁶⁵⁹ We can speak of an equilibrium between supply and demand only when the former corresponds with the *wish* of those who are ready to make good the full cost of production. (*Malthus*.) It has been asked, indeed, whether it were more natural and better that demand should precede supply or supply demand.⁶⁶⁰ But the inquiry is an illogical one, when expressed in so general a manner, since supply and [pg 328]demand are only two sides of the same transaction. But, we may say that in the case of indispensable goods, the want of them (demand) is always felt sooner than the excess of them (supply), and that in the case of goods which may be dispensed with, including, originally, money, the reverse is true. Besides, a person engaging in the production of any kind of goods, can, as a rule, only seldom directly investigate the relation between supply and demand. Generally, he can do no more than compare the market price of the commodity with the cost at which he can produce it. Many mistakes are inevitable here; but the making of them is the necessary sacrifice which must be endured to purchase the more than counterbalancing advantages of free competition.⁶⁶¹

Section CXII.

Exceptions.

The rule that goods which have the same cost of production have also equal value in exchange, is applicable only to the extent that it is possible to transfer the factors of production at will from one branch of production to another. Where this really free competition does not exist, the price depends entirely on the quantity of the supply, compared with the solvability or capacity to pay of the purchaser; and hence, it may sometimes rise far above the cost of production (monopoly-price), and sometimes sink far below it (forced price, or under-price).⁶⁶² Such hindrances to competition depend, in part, [pg 329] upon natural causes. Thus, in the case of the works of art of a deceased artist, which cannot be increased in number;⁶⁶³ or in that of living celebrities who cannot extend their mental activity in the same degree that their reputation has grown. So, also, in the case of precious stones, which are sometimes found free, and therefore cost nothing, but which, at the same time, have a high price.⁶⁶⁴ Many valuable agricultural products are, together with their production, limited to a definite and sometimes very small district.⁶⁶⁵ It is to be regarded as a modification of such natural monopolies when substitutes for a kind of goods which diminish, at least in part, the demand for them, are found, at a cheaper price; for instance, ordinary table-wines in the stead of fine wines. The rule applies much more strictly to those goods which, on account of their greater quantity, can replace inferior ones,⁶⁶⁶ than it does to those where this is not possible.

[pg 330]

The principal cause of forced or under-prices (*Schleuderpreise*) is the facility with which the product deteriorates, and must, therefore, find a quick sale, especially when its storage or transportation is attended by further difficulties.⁶⁶⁷ But, very durable commodities are

also subject to under-prices, and especially those which last longest, because the supply of them can be diminished only very slowly. Thus, for instance, houses, in a declining city. Distress-prices are found most usually in the case of such commodities as are produced without any intention to produce them, as for instance, rags and excrementitious substances. The more the mere forces of nature preponderate in production, the less can the supply be increased or decreased at pleasure, the more frequently, as a consequence, do we find monopoly-prices and under-prices. (Compare § [131](#) ff.) Thus the production of wheat is invariably connected with the order of the seasons. Between seed-time and harvest, there are a number of months which neither capital nor skill can shorten to any extent. The cultivation of land, to be very much greater and more lasting, supposes so many conditions precedent, increase of live stock, buildings etc., that it can be attained only after a series of years. Hence it happens that wheat, much more than manufactured products, is subject to oppressively high prices and oppressively low ones, during a long period of time. No matter what the influence of the forces operating in the opposite direction may be, the [pg 331]price of wheat depends most largely on the result of the last crop.⁶⁶⁸

Section CXIII.

Exceptions. (Continued.)

Other impediments in the way of freedom of competition have their origin in social conditions. The rule governing prices applies only where the vendor and purchaser are equally ready to exchange. But in every case in which the producer carries on his business, not for the sake of free

gain, but simply to obtain a means of livelihood, it may be subject to many important exceptions.⁶⁶⁹ The richer a seller is, the longer can he wait for a favorable opportunity to sell. Thus, for instance, wheat is somewhat lower in price at times when payments are universally made than at other seasons of the year, because a great many country people are then compelled to sell. Where the country population are universally needy, it sinks after a harvest to an unusually low figure, and in spring rises again very high.

Sometimes price is affected by the agreements of the purchaser or seller, but most readily by those of middlemen between [pg 332]consumer and producer.⁶⁷⁰ Customs peculiar to whole classes may exert the same influence, and such customs are especially powerful in the lower stages of business and industrial development. They, even at the present time, take the place, frequently, of freedom of competition in retail business, in the book business, and in the determination of lawyers' and doctors' fees, as well as in the distribution of a nation's income among the three great branches of its general economy,⁶⁷¹ deciding, instead of competition, how much shall go to each. Wherever there are guilds, communities, castes etc. with legal privileges; wherever there are difficulties placed in the way of exportation and importation; wherever preëmption rights or monopolies,⁶⁷² in the strict sense of the word, exist, the leveling ebb and flow of the elements of production may be still more seriously interfered with. Legislation⁶⁷³ of this sort injures the non-privileged portion of the population more than it helps the privileged portion. (See § 97.)⁶⁷⁴

The word *usury*, so arbitrarily used in every-day language, should be admitted in science only to designate a famine-price, fraudulently and intentionally caused or intensified. [pg 333]

Section CXIV.

Prices Fixed By Government.

No power can, of course, fix the price of a commodity in the long run, which cannot at the same time fix the relation of supply and demand. Hence, set prices fixed by governmental authority can be made to play a part in practice only in so far as they do not establish a price in opposition to the real state of things, only to the extent that they give undoubted expression to it in a manner in harmony with natural conditions. With this restriction, set or fixed prices may, in the absence of real competition, which can always best determine prices, be useful to both parties; otherwise one party would at one time, and the other at another, profit by an unjust advantage; but it would not be long before both would suffer from the perturbation caused thereby in all commercial transactions. How pleasant it is for a traveler in Switzerland, or even in Italy, to find set prices established there.⁶⁷⁵ Especially where competition is prevented by state privileges, the establishment of set prices by the state for the protection of the public may be necessary.⁶⁷⁶ It is more difficult to fix a [pg 334]set price for a commodity in proportion to its complexity and to its variableness in quality; and where there are different grades of quality of the same commodity, and the transition from one grade to another is almost imperceptible, such price is easily evaded.⁶⁷⁷ In the case of every enterprise carried on [pg 335]by many in common, where no competition is possible, it is necessary to supply the defect by means similar to the establishment of fixed prices; as in the case of government, by fees for governmental services, and the coöperation of a chamber of deputies in the imposition of taxes and the determination of official salaries etc.⁶⁷⁸

Section CXV.

Influence Of Growing Civilization On Prices.

On the whole, prices become more and more regular as national-economic civilization advances. Progress in civilization tends to bring the parties engaged in the struggle for prices that is buyers and sellers, nearer to one another, in so far as it uniformly decreases the cost of production, and increases the purchaser's ability to pay.⁶⁷⁹ (See § 101.) The more universal division of labor makes commercial intercourse more necessary to every one, at the same time that it makes it more of a habit to him; and hence exchange ceases more and more to be a matter of caprice or chance. The better means of transportation and communication render it easier, in every way, for supply and demand to meet. With the advance of general enlightenment and education, an acquaintance with commodities also becomes more general, and every purchaser is on a better way to be able to estimate the cost of production which the seller has to bear. Hence, fraudulent prices and prices founded [pg 336]in error become less frequent; and all this is helped forward by the greater accuracy of weights and measures. The increase of population makes competition more active in all branches of trade, while at the same time, with the greater freedom of circulation, a number of causes which previously operated to produce very high prices in one place and very low ones in another are removed.⁶⁸⁰ But especially, the growth of a distinct class of merchants leads to a uniformity in price. This class are incited by their own interest to purchase at low prices and sell at high prices. Thus, their competition in the former case raises prices, and lowers them in the latter.⁶⁸¹ In all lower stages of civilization, the custom of making offers and beating down

in price plays a great part, while where culture is higher, the system of fixed prices (but not by government) gains ground continually. Here Turgot's principle is applicable, viz.: that the current price of an article is tacitly understood when one asks a merchant the price of his wares.⁶⁸²

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This proposition is true in the case of individuals, as well as of classes and of whole nations.⁶⁸³ It is plain, that under a system of fixed prices we can more certainly discover what the equitable price is, than in the heat of higgling which besides consumes a great deal of precious time. Lastly, one of the principal requisites of a well developed scale of prices is national honor, and this, doubtless, increases in the higher stages of civilization, not only because of the greater moral culture which [pg 338]then prevails, but also and especially because that which constitutes a people's real and best interests is better understood.⁶⁸⁴ Among declining nations, many of these developments take a retrogressive road. The very great distinction between rich and poor, between educated and uneducated, again produces great fluctuations in price. A proletarian people who have sunk so low as to live on potatoes will suffer much more from variations in price and of the means of subsistence than a people who live on wheat; for the reason that it is so difficult to export or to preserve⁶⁸⁵ potatoes. Nor can it be doubted, that the greatest possible constancy of prices is the most beneficial condition that the general economy of a people can be in. Where prices change while the cost of production remains the [pg 339]same, one person can only gain what the other has lost. But such unmerited gains and undeserved losses have an invariable tendency to destroy the deepest roots of a people's economic activity; and intentional speculation based upon such change usually assumes an immoral character. (Stock-jobbing.)⁶⁸⁶ Even if Macleod be right, that an increase or decrease in prices is to be regarded as a warning of excess, the former of excess of consumption, the latter of production, no one will doubt that it is the

interest of every organism to confine pain within the smallest possible limits, even if its consequences are so beneficial to the preservation of the whole body.
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Chapter III.

Money In General.

Section CXVI.

Instrument Of Exchange. Measure Of Value. Barter.

Wherever the division of labor is very highly developed, the continuance of barter, or the direct exchange of one object of consumption for another, presents difficulties well nigh insurmountable. How difficult it would be always to find the person who could supply us with precisely what we wanted, and at the same time have need of what we had a surplus of.⁶⁸⁷ But how much less frequently would it happen that one's [pg 341]want and another's surplus would correspond exactly the one to the other in quantity; that, for instance, the manufacturer of nails, desirous of exchanging his nails for a cow, should

meet a cattle-dealer who should want exactly as many nails as a cow is worth! Here there is one chief difficulty in the way, viz.: that there are so many commodities which cannot be divided without causing a diminution or even a destruction of their value; and that others cannot be stored away in any quantity without becoming a very heavy burthen to their owner. How useful it would therefore be, if there was one commodity which should be acceptable to every person, at all times, especially if in addition to this, it possessed the qualities of durability, capacity for transportation and for being stored up and preserved. Any person who possessed a proper supply of this one commodity would then be certain of being able to obtain all other exchangeable commodities through its instrumentality; and every seller would be satisfied to exchange what he had to dispose of against this “universal commodity.” If two values are equal to a third, they are equal to each other. It is, therefore, a simple matter to use this most current of all commodities, with which all others are most frequently compared, as a measure of the relative values of all other exchangeable commodities. There is need of such a measure, and it is analogous to the want experienced by the mathematician who has a column of fractions to sum up, and who does it by first reducing them all to a common denominator. (*Storch.*)⁶⁸⁸ A person entrusted with the duty of assessing [pg 342]the values of two hundred different articles would be obliged, if he had no such measure to use, to burthen his memory with at least 19,900⁶⁸⁹ different ratios. With it, he need carry only 199 in his head.

Such a commodity, universally in favor, and which, on that account, is employed as an intermediary in the effecting of exchanges of the most varied nature, in the measuring of all exchange-values and as a value-carrier (*Werthträger*) in time⁶⁹⁰⁶⁹¹ and space, we call money. (*Merce universale: Berri; produit préféré: Ganilh; marchandise intermédiaire; Bastiat.*)⁶⁹²

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The more enlightened portions of every business community gradually come to require payment in the commodity [pg 344]which has for the time being the greatest circulating capacity. If to this be added the sanction of the government, and if the [pg 345]government itself recognizes this same “universal commodity” as the means of payment of all debts, or as “legal tender” [pg 346](*puissance libératoire*), where no other is expressly agreed upon, the “universal commodity” in question then becomes money in the fullest sense of the idea conveyed by the word.⁶⁹³
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Section CXVII.

Effect Of The Introduction Of Money.

By the introduction of money, most exchanges are divided into two halves: purchase and sale.⁶⁹⁴ We may also say with Schlözer, that by its means, exchange, for the first time, becomes a sale, and obscure value in exchange, clear and definite price. (*Permatio vicina emtioni*). Were there no money, the party to an exchange, occupying the most advantageous economic position, would possess a much greater superiority over the other than he does now. Many a bread-buyer, especially, would be half starved before he could agree with the seller on the quantity of bread to be received in exchange for the commodity he had to dispose of. The producer of the means of subsistence would here possess an extreme advantage, since the urgent necessity of the exchange for the one party, and the power of the other to postpone it, would make the determination of the price an entirely arbitrary matter.⁶⁹⁵ Hence, the development of money as the instrument of trade, keeps

pace with the development of individual liberty. Payment of wages in money makes the workman more responsible for his husbandry etc., but at the same time, freer, than payment in produce. Now, also, a higher division of labor becomes possible; for the easier it is to obtain everything else for money, the easier it is for each person to devote himself exclusively to one branch of business.⁶⁹⁶ Without money, too, only ready [pg 348]commodities could be exchanged one against another. Only when money has become the instrument of trade, is it possible to separate the net from the gross returns, and, therefore, to manage income properly. (*Schäffle*). Now, also, it becomes for the first time really remunerative to produce more than one needs for his own use, and to save. Without money, the owner of any one kind of capital, who could not employ it himself, would be obliged, if he desired to loan it, to find not only a person who was in need of capital, but one who needed the very kind of capital he had. For instance, the person who had one horse too many, would be obliged to look for another who was in need of one etc. And how difficult a task it would be to determine the amount of interest, if it had to be paid in produce or kind, and even to make a return in produce or kind of capital which had been presumably used. (*Storch*). Moveable property or resources can attain importance only after the introduction of good money, since, previous to such introduction, it was by reason of its great variety,⁶⁹⁷ and of its perishable nature, immensely inferior to landed property. Hence it is, that money, in a nation's economy, is what the blood is in the life of the animal. It is, so to speak, the common reservoir in which all food is first dissolved, and by which, at a later stage, the elements of nutrition and preservation are distributed to the several organs.⁶⁹⁸ There is, indeed, no machine which has [pg 349]saved as much labor as money. (*Lauderdale*). It is true that the shadows which wealth is wont to cast, extravagance, avarice and inequality of every kind, may readily grow longer and darker in consequence of the introduction of money.⁶⁹⁹ But

may not the knife which, in the hands of the surgeon, does so much for life, become an instrument of danger in the hands of a child? The invention of money has been rightly compared to the invention of writing with letters.⁷⁰⁰ We may, however, call the introduction of money as the universal medium of exchange (money-economy),⁷⁰¹ in which goods intended for use are exchanged against money⁷⁰²—instead of barter (barter economy), which is a system of public economy (*Schäffle*), in an, as yet, very little developed form, man being there less sociable [pg 350]with his fellow men—one of the greatest and most beneficent advances ever made by the race.⁷⁰³
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Section CXVIII.

The Different Kinds Of Money.

Very different kinds of commodities have, according to circumstances, been used as money; but uniformly only such as possess a universally recognized economic value.⁷⁰⁴ On the whole, people in a low stage of civilization are wont to employ, mainly, only ordinary commodities, such as are calculated to satisfy a vulgar and urgent want, as an instrument of exchange. As they advance in civilization, they, at each step, choose a more and more costly object, for this purpose,⁷⁰⁵ and one which ministers to the more elevated wants.

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A. Races of hunters, at least in non-tropical countries, usually use skins as money; that is the almost exclusive product of their labor, one which can be preserved for a long period of time, which constitutes their principal

article of clothing and their principal export in the more highly developed regions.⁷⁰⁶

B. Nomadic races and the lower agricultural races,⁷⁰⁷ pass, by a natural gradation, to the use of cattle as money; which supposes rich pasturages at the disposal of all. If it were otherwise, there would be a great many to whom payments [pg 353] of this kind had been made, who would not know what to do with the cattle given them, on account of the charges for their maintenance.⁷⁰⁸
[pg 354]

Section CXIX.

The Metals As Money.

C. That metals were used for the purpose of money much later than the commodities above mentioned, and the precious metals in turn later than the non-precious metals, cannot by any means be shown to be universally true. Rather is gold in some countries to be obtained by the exercise of so little skill, and both gold and silver satisfy a want⁷⁰⁹ so live and general, and one so early felt, that they are to be met with as an instrument of exchange in very early times.⁷¹⁰ In the case of isolated races, much depends on the nature of the metals with which the geologic constitution of the country has furnished them.⁷¹¹ In general, however, the above law is found to prevail here. The higher the development of a people becomes, [pg 355] the more frequent is the occurrence of large payments; and to effect these, the more costly a metal is, the better, of course, it is adapted to effect such payments. Besides, only rich nations are able to possess the costly metals in a quantity absolutely great.⁷¹² Among the Jews, gold as money, dates only from the time of David.⁷¹³ King

Pheidon, of Argos, it is said, introduced silver money into Greece, about the middle of the eighth century before Christ. Gold came into use at a much later period.⁷¹⁴ The Romans struck silver money, for the first time, in 209 before Christ, and, in 207, the first gold coins.⁷¹⁵ Among modern nations, Venice (1285) and Florence seem to have been the first to have coined gold in any quantity.⁷¹⁶ Henry III. of England (ob. 1272), was the first to coin gold, but with so little success, that for a long time after, Edward III. (ob. 1377) was regarded as the first English monarch who had coined gold.⁷¹⁷ How little a barbarous people are in a condition to make use of very costly material as money, is [pg 356]proved by the account which Tacitus gives of the ancient Germans, who preferred silver to gold in trade.⁷¹⁸ England presents us with an instance of the other extreme. Since 1816, silver, in that country, has been used only as a species of change, and the circulation of gold governs in almost all commercial transactions.⁷¹⁹

D. The local usage of some countries has raised many other commodities to the dignity of instruments of exchange, especially where the population are poor and the metals which might be used as money have not existed in sufficient quantities or in the requisite proportion. But people have always limited themselves in the material of their money to such commodities as are universally acceptable, as uniform as may be, and current as articles of export or import.⁷²⁰

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Section CXX.

Money—The Precious Metals.

That the precious metals are uniformly preferred in highly [pg 358]cultivated nations⁷²¹ as the instrument of exchange, depends on the greatness and uniformity of their value in exchange, but especially on their durability and pliancy as to form.

This value in exchange is great, because their beauty, which consists in their luster and their sonorous ring,⁷²² gives them great value in use; and because, at the same time, their rarity in nature makes the supply of them relatively small,⁷²³ and not susceptible of increase at pleasure.⁷²⁴ As they contain so large [pg 359]a value in so small a volume, they are adapted to transportation from one place to another, with but little difficulty—a matter of the greatest importance in an instrument of exchange.⁷²⁵ Hence, it is much easier to keep the demand for them and the supply of them at a level all over the world, than it is the demand and supply of most other commodities. And this all the more as there are not different kinds of gold and silver, but only different qualities of their fineness.⁷²⁶ It also contributes to the uniformity of their value in exchange, that they minister mainly only to wants of luxury. The most indispensable commodities are subject to the greatest variations [pg 360]in price (see § 103), whereas, in the case of the precious metals, the diversity of uses to which they may be turned contributes greatly to render their value, as instruments of exchange, more equable. If the supply of them be small, gold and silver vessels are less in demand; a part of the old ones are melted down, and *vice versa*.

In durability, the precious metals surpass almost all other commodities. They are not at all affected by air or water, and they can be corroded only by very few fluids. Fire may, indeed, change their form, but scarcely in any degree the value of the material of gold, and that of silver very little, and then only when it is subjected to a very powerful blast or draught of air.⁷²⁷⁷²⁸ Hence, while by laying them by, they suffer virtually nothing at all (a most valuable article is an article to deposit savings in), their wear and

tear from use may be very much decreased by an admixture with other metals in the proper proportion.⁷²⁹ This durability contributes largely to keep the price of the precious metals more uniform. By the time that the wheat crop is rightly harvested, the great bulk of the previously stored wheat is, as a rule, consumed; and, therefore, the supply of wheat depends almost entirely on [pg 361]the yield of the last crop. On the other hand, it is probable that there is many a piece of money, the raw material of which was dug from Thracian gold mines in the time of King Philip or from the silver mines of Spain during the reign of Hannibal, in circulation to-day. Compared with the immeasurable stores of gold and silver which have gone on accumulating for thousands of years, the new yield of them, in any one year, is lost like a drop in a bucket. Hence, only when the yield of the mines has continued for a very long time, or when it is exceedingly great or remarkably small, can the price of their products change to any great extent.⁷³⁰ Even during the revolution in prices, between 1492 and 1560, the yearly decline in their prices was only one-half of one per cent. per annum. Their great pliability of form has, too, very important advantages for our purpose: first, that they can be divided very accurately into very small parts, and that the volume of every part corresponds exactly to the value of the part;⁷³¹ and secondly, that they take an impression at very little cost, an impression which is an authoritative and trustworthy expression of their weight and quality, thus saving the commercial public the perilous trouble of weighing and testing them every time they are used.⁷³²⁷³³⁷³⁴ This duty the state, as a rule, assumes. [pg 362](Coinage.) When its authority, however, is not recognized, as is generally the case in international trade, gold and silver bars are even now used, and have, therefore, to be weighed and tested.⁷³⁵⁷³⁶
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Section CXXI.

Value In Use And Value In Exchange Of Money.

The original value in use of the precious metals, to satisfy certain wants of luxury in the most aesthetic and the most substantial manner, continues still; but with the advance of civilization, the employment of gold and silver for this purpose has fallen farther and farther behind the more recent employment of these metals as the best material for money. And since now the services rendered by money may be divided into two classes: storing up or preservation, and the transmission (division, concentration) of values,⁷³⁷ the former always plays a greater part in the earlier states of the development of trade by money; and the latter plays the larger part in the later stages of the same development. We may best compare money to the other machines or instruments of commerce.⁷³⁸

The person who, in times when there is a dearth of goods, and especially of capital, complains of a want of money, commits the same error as if he ascribed a scarcity or absence of grain, when it exists, to a too small number of wagons to carry it, or to the narrowness of country highways. The inference may, indeed, be sometimes well-founded, but certainly only by way of exception; and yet it is generally the first which politico-economical [pg 364]quacks think of in practice.⁷³⁹ Like all tools or instruments, money constitutes a part of an individual's or a nation's, or of the world's capital. Considered from the point of view of private business or economy, money is circulating capital, but from the point of view of the world's economy, it is fixed capital.⁷⁴⁰
[pg 365]

Section CXXII.

Value In Exchange Of Money.

The value in exchange of money is said to be high when all other commodities estimated in money are cheap; and low in the opposite case. We have here to do with the application of the most general of all laws of price; therefore, with the demand and supply of money. The demand for it depends on the wants and the means of payment of its purchasers. Therefore, if a country has little trade, it will, on this account, need only few instruments of trade, that is, of little money to effect exchanges. If it be poor in other goods, it will get little money in exchange. In the former respect, there is a beneficent principle of equalization or compensation which decreases the price-variations of money, no matter of what kind, in the necessity, when the number of business transactions remains the same and money becomes cheaper, to use more of it, and less when it becomes dearer.⁷⁴¹ The supply of money is, in the long run, dependent chiefly on the cost of production. But since the cost of production in different mines is very different, the value in exchange of the precious metals is determined by the cost of producing them from the poorest mines which must be worked in order to supply the aggregate want of them. (See § 110.)⁷⁴² The more unfavorable the conditions [pg 366] of their production are, the greater is the quantity of commodities which must be given for a pound of gold, silver etc.; that producers may not be deterred from the prosecution of their work. The extremes of the value in exchange of money are dependent on the use for which it is intended. That value cannot rise higher than to the point at which single pieces of money become inconvenient on account of their smallness, nor sink lower than the point at

which a similar inconvenience is produced by their too great size. In both instances, it would become necessary to have recourse to other instruments of exchange.

Section CXXIII.

The Quantity Of Money A Nation Needs.

How great the amount of money needed in the entire economy of any state is, cannot be always rightly determined, either by the amount of the national resources, or by the number of the population.⁷⁴³ It is a very easy thing to refute the opinion, that the aggregate amount of cash money in a [pg 367]country constitutes an equivalent of the aggregate amount of all other commodities to be found there at any time, in such a way that the two pans of this great scales (*Locke*) hang always in a state of equilibrium, and that an increase of the amount of money, the amount of all other commodities remaining the same, must be productive of an exactly corresponding decrease in the value of each piece of money.⁷⁴⁴ Think [pg 368]only of the great many commodities which are obtained and consumed without any exchange whatever! Rather does the amount of money necessary to keep the value in exchange of the money employed in a people's public economy unaltered,⁷⁴⁵ depend on the cooperation of the following conditions:

A. *The number and extent of such commercial transactions as are effected by means of money,*⁷⁴⁶ a relation which, evidently, increases (see § 56, ff.) with every advance in the division of labor. Hence the transition from serfdom and socage service to free labor, from domestic-servant labor to day-labor and piece-work, from feudal military service to that of paid and standing armies,

from land-privileges and allowances in produce, such as fire-bote etc., to the payment of officials in money, from dues in produce to taxes in money, and regular lease-hold interests, from requisitions to loans of money; in a word, from the barter-economy (*Naturalwirthschaft*) of the middle ages to the trade by means of money in the higher stages of civilization, that is, from the “feudal” to the “commercial” system must, of itself, increase the money-need (*Geldbedarf*) of a people.

B. *The rapidity of the circulation of money*; because, in most commercial transactions, one dollar which circulates ten times a year really performs the same service as ten dollars which go from hand to hand once in a year; just as the economic use of a ship employed in the transportation of commodities does not depend on its commodiousness alone but on its rapidity also.⁷⁴⁷ The economic use of money does [pg 369]not depend on its amount simply. Says *Sismondi*: “The amount of the medium of circulation in a state must be equal to the sum of the payments made in it in a given time, divided by the sum of the times the former has, on an average, changed owners within that time.”⁷⁴⁸ Under given economic circumstances, the rapidity of the medium of circulation is, taken all in all, not by any means an arbitrary matter. It will happen very seldom that one man will purchase or consume a commodity in order that another may not want money.⁷⁴⁹ Were the greater number of money-earners (and in nations with a healthy economic life this number is always made up of men noted for the good management of their own affairs) inclined to pay out the money which they had taken in, rapidly, a very active production would prevail everywhere; and this, in turn, supposes general commercial freedom and great legal security. The less these conditions are developed, the more difficult it becomes, not only to lay out the money received to-day productively to-morrow, but the more imperatively does a proper foresight demand, that a reserve-fund should be maintained for times of necessity. (See § 43.)⁷⁵⁰ Even in

the same age and among the same people, money moves most slowly under the influences of troublesome and critical epochs; for the dangers of war and sedition, of impending burdensome taxation, commercial gluts and numerous cases of bankruptcy uniformly operate to make the possessors of money hold anxiously to their present supply.⁷⁵¹

In less civilized countries, the same condition of things leads [pg 370]the people even to bury their money-treasures. In large cities, the circulation of money is generally more rapid than in the country districts; in a thickly populated than in a thinly populated country; and in trade than in agriculture.⁷⁵² Every improvement in the means of intercommunication tends to facilitate it. The rich man possesses, as a rule, less money, relatively speaking, than the poorer man. Hence, a more equitable division of a nation's resources among the people would increase the amount of money needed.⁷⁵³ While the concentration, as to time, of circulation into few great terms of payment is calculated of itself to cause a large sum of money to remain idle in the interval,⁷⁵⁴ its concentration in space in large commercial cities must dispense with the necessity of a great number of instruments of exchange. In England, it is customary for every man in comfortable circumstances, as soon as he receives any money, to deposit with a banker, and to make all his payments by means of checks upon the latter. Cash money is now employed by Londoners only in payment of [pg 371]wages, and in trade between retail dealers and consumers. The banker is there the common cashier of a great number of private individuals, and is in a condition to make their payments for them with a much smaller amount of money, especially when they are to be made by one of his depositors to another.⁷⁵⁵ This "union of money-chests" (*Kassenvereinigung*) has been effected also on a larger scale; inasmuch as bankers, in greater or smaller numbers, are wont to have one bank as a center; and the country banks, in turn, to be in constant relation with the

great moneyed institutions of London, subject to a species of general superintendence by the Bank of England. These great monetary institutions have, so to speak, a common rendezvous at the Clearing-House, where the greater part of their payments are made by a mere off-setting of debits and credits;⁷⁵⁶ and this bank is, as it were, the cashier-in-chief of the nation, and in possession of almost the entire cash stores of the English people.⁷⁵⁷

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C. The quantity and rapidity of circulation of the representatives of money. These, in so far as they are worthy of the name here given them, depend on the credit of those who issue them; that is, on the certainty that they shall, at the time fixed, be redeemed in money. To this category belong the paper money of the state which bears no interest, and the treasury-notes of the state which do bear interest, bank notes, bills of exchange, promissory notes, book-credits of private persons, sometimes even certificates of the storage of goods in public stores. It is estimated, that, at the present time, nine-tenths of all the payments made in Great Britain are effected without the aid of money, or even of bank-notes.⁷⁵⁸ The capacity of a person to make purchases does not depend simply on the [pg 373]amount of money he possesses, but on his credit likewise. The person who buys on credit, contributes as much to raise the price of commodities as the person who buys for cash; with this exception, however, that when the former eventually fails to redeem his promise to pay, the price raised by him quickly falls again.⁷⁵⁹ And, indeed, all the various forms of credit, mentioned above, agree essentially in this, however they may differ from one another in costliness and rapidity of circulation.

Section CXXIV.

The Quantity Of Money A Nation Needs. (Continued.)

Of the three conditions above mentioned, it is evident that the first operates on the amount of money needed, in a direction opposite to that of the other two. The usual course of development is this: among an advancing people, the number of money transactions increases at first; later, when education has become general, and the people have grown habituated to the giving and receiving of credit, the circulation of money is accelerated, and an increase of the substitutes for money effected. Hence, it is perfectly natural that the money-need of a people whose public economy is only half developed, should, in proportion to the number of inhabitants, be greater, not only than that of a people whose economy is wholly undeveloped, but also, than that of a people whose public economy has been carried to the highest point of perfection.⁷⁶⁰⁷⁶¹

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Section CXXV.

Uniformity Of The Value In Exchange Of The Precious Metals.

The peculiar properties of the precious metals described above (§ [120](#)), explains satisfactorily enough, why, at the same [pg 375]time, but in different countries, they have more nearly the same value in exchange than any other commodity whatever. Like a fluid in tubes which communicate with one another, the precious metals seek the one same level of value the whole world over.⁷⁶² Only, it must not be supposed that every absolute or relative increase of the amount of money in a country must

produce immediately a corresponding diminution of the value of money; and in addition to this cause an exportation of money.⁷⁶³ If the number of trade-transactions increases in the same proportion as the amount of money, the value of money remains entirely unaffected.⁷⁶⁴ The same thing occurs when the increased influx of money, instead of overflowing the channels of circulation, only swells the volume in the [pg 376]ready-money reservoirs. By means of these stores of ready money, very large payments may be made by one nation to another, without changing the circulation, or, therefore, the value of money, in the slightest degree, on either side.⁷⁶⁵ If, indeed, such payments should continue for a long time to flow in the same direction, they would certainly influence the circulation, and then produce a current in the opposite direction.

However, it may happen, that the value of money in different countries may be permanently different, when there are lasting difficulties in the way of the leveling influence of the incoming or outgoing current of money. Thus, the precious metals maintain a high value in those countries especially which can obtain them only by giving commodities difficult of transportation for them. If, for instance, an Englishman, anxious to take advantage of the high value of money in Poland, [pg 377]should cause Polish articles, such as wheat, wood, wool etc., to be imported into England, they would reach their destination very much increased in price, because of the great cost of transportation. Whether Poland or England would have to bear this cost depends on the relations of supply and demand. Certain it is, however, that the migration of money is hereby rendered exceedingly difficult, forbidden even within the limits of certain value-differences, especially where the means of communication are universally bad. And so, the smaller the number of countries which minister to the want of commodities of precious-metal districts, the more must other nations obtain the money they need only at second and third hand;

by means of which, naturally, money itself is made dearer each time. Now, it is, as a rule, nations in a low stage of civilization, that engage in the exportation of raw material, and they are the worst adapted to engaging directly in the carrying on of trade. When, therefore, they do not possess gold or silver mines themselves, money-value is, as a rule, highest with them; especially as the absence of legal security and protection, which generally obtains there, makes the value in use of the precious metals one of great urgency to them.⁷⁶⁶⁷⁶⁷

Direct legislative or governmental provisions may operate in the same direction; as, for instance, the Japanese embargo laws which, not long since, limited all foreign trade to two [pg 378]foreign nations.⁷⁶⁸ I intend to treat of the influence of taxation on the value of money, in a future work to be written by me, on the Political Economy of the State.

Section CXXVI.

Uniformity Of The Value In Exchange Of The Precious Metals. (Continued.)

Most nations can satisfy their want of the precious metals, only through the medium of foreign trade. Hence they very naturally look upon the cost of production of the articles of export by the exchange of which they obtain the precious metals either directly or indirectly, as the cost of production of these metals themselves. But, the rule that all commodities of equal cost of production have equal value in exchange is applicable only within the limits of the same economic territory (§ [107](#)), for it is frequently physically impossible, and still more frequently rendered difficult, by laws, customs and states of mind to transfer

factors of production from one country to another simply on account of the more advantageous market they would there find. Thus, for instance, when England exchanges its cotton and woolen goods, and steel instruments for Mexican silver, the cost of production of the two equivalents may be very different, and the one party in this trade may permanently make a larger profit than the other.⁷⁶⁹ According to § [101](#), that party will be most favored in whom the desire of holding to his own commodities is farthest from being [pg 379]out-weighed by his desire to obtain the other. But, at bottom, silver is no very indispensable article. Especially in highly civilized commercial communities, it is easiest to obtain substitutes for it, while the principal articles of English export are, for the most part, objects with which to satisfy wants rather urgent in their nature, very general, and of rapid growth; and which, besides, are not, to any extent, difficult of transportation. It is not a matter of surprise, therefore, that English commodities, in silver countries, are generally sold above the mean price between the English cost of production and the Mexican, for instance, or the cost of procuring them elsewhere; and that silver, on the other hand, is sold in England, under the same. But this lowers the price of the precious metals of the latter country in general. Hence a change in the channels of international trade, which in most countries is the only source of gold and silver, may make the price of the precious metals dearer in one place and cheaper in another, even when the conditions of the production of mines remain entirely unaltered.⁷⁷⁰ In an isolated country, any [pg 380]amount of gold and silver whatever would, finally, as soon as the people had grown accustomed to it, suffice for all the wants of circulation. But, in commerce with the rest of the world, the greater quantity and greater cheapness of the precious metals, that is of those commodities which are most current and are possessed of the greatest amount of economic energy, must, without fail, be of the greatest advantage to a country; and this irrespective of the fact that

they are under certain circumstances the symptom of an especially highly developed public economy. If we suppose two nations, A and B, equal in every other point, but that A has twice as much money as B, and that prices are twice as high there as in B; yet, with the same effort or sacrifice, A could levy twice as many taxes as B. In case of a war between them, A might pay in ready money for the necessities of an army which had invaded B, with one-fourth the sacrifice which B would have to make to support its army in A, if we reverse the case, and suppose that B had invaded A.⁷⁷¹

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Chapter IV.

History Of Prices.

Section CXXVII.

Measure Of Prices,—Constant Measure.

If we had a measure of prices with the same universality of application and the same unchangeableness as the measure of length, which is determined by astronomical

calculation, we should be able, not only to clearly understand all the data relating to value, that is to say, a not unimportant portion of historical science, but we should, moreover, have a practical means to condition and fix even perpetual annuities, in such a way, that they would always afford the same economic and purchasing power to the person receiving them. No wonder, therefore, that political economists since Petty's time have zealously labored to find a *constant* measure of prices.⁷⁷² If by this we understand a species of goods such that it should always maintain equal exchange-power, as compared with all other commodities, [pg 382]the idea of a "constant" measure of prices is unthinkable. We would have to suppose here, that not a single kind of goods varied in its price; since, otherwise, at least as compared with those that varied in price, the measure of prices would itself be variable.⁷⁷³ But we may, indeed, search for a kind of goods such that its inherent elements and the elements peculiar to it, so far as it is itself concerned, and which go to determine price, should exert the same uniform influence at all times. If there be such a kind of goods, and its value in exchange as compared with other kinds of goods were to vary, we should be certain, at least, that the cause of the change was not in it, but in them; that *it* had not grown dearer or cheaper, but that they had grown cheaper or dearer. Such a kind of goods would have these two characteristics: A. A given amount of it would, under all circumstances, have the same value in use for the same number of persons. B. It would require, under all circumstances, the same cost to produce it, and therefore the supply might always keep pace exactly with the number of those who demanded it.⁷⁷⁴ In this way the supply and demand of this kind of goods, abstraction made of the quantity of counter-values, would preserve forever the same invariable relation.

Section CXXVIII.

Value In Exchange Estimated In Labor.

Adam Smith is of opinion that different kinds of goods, no matter how far removed from one another they may be in [pg 383]time or space, have equal value in exchange, when an equal quantum of human labor may be purchased by their means. He adopts, because of the great differences in work, the average work of the common manual laborer. One work-day, and the sacrifice of “rest, freedom and happiness” therewith connected, are, under all circumstances, attended with the same inconvenience (value). If at one time this day's labor will exchange for more, and at another for less, of any kind of goods, it is only because the price of the latter has fallen or risen.⁷⁷⁵

But we may ask whether the same sacrifice of liberty is as great a hardship to a Russian as to a Bedouin; or whether the sacrifice of an equal amount of rest is as hard for the New Englander as it is for a Turk, or as difficult to endure on a hot day in July as in the cold of winter. Besides, we have [pg 384]here to do primarily only with value in exchange; and that value in the case of day-laborers' work is subject to very great fluctuations.

The elements on which the demand and supply of labor depend are not, in themselves, invariable, nor do their variations usually compensate for one another. In progressive nations, the value in use of day-laborers' work increases as well as the capacity of their employers to pay them; but, at the same time, as a rule, and at least relatively speaking, the supply of labor diminishes on account of the increase in the cost of production of workmen. Precisely the reverse of this happens in nations in their decline, and in over-populated nations. The workman is subjected to the necessity of accepting distress-prices for his work, and especially of accepting them for a long space of time.⁷⁷⁶ How often it happens that, if only transitorily,

when wages are declining, work improves, and *vice versa*.⁷⁷⁷

Ricardo's school employs, as the measure of the price of various kinds of goods, the quantity of work by which the goods themselves are produced.⁷⁷⁸ It is evident that the same [pg 385]amount of common labor produces very different results, according as it is well or badly conducted. Hence Ricardo must have used the word labor in the sense of labor ideally adapted to its end. But in this way it would be impossible to reduce all the different kinds of labor to a common denominator.⁷⁷⁹ Nor could the peculiar effects of capitalization, or the influence of the natural or artificial limitations of competition be estimated in terms of such a measure. (See §§ [47](#), [107](#), 189.)⁷⁸⁰

Section CXXIX.

The Precious Metals The Best Measure Of Prices.

It is no more possible to find a constant measure of prices than it is to square the circle. (*J. B. Say*.) If the two magnitudes to be compared are separated from each other in space but not in time, the precious metals constitute not only the best measure of their prices, but also a very good one. But the precious metals are subject to very sensible and accidental variations in price in long periods of time. If, therefore, we would compare sums of money belonging to different times with one another, we must first construct a price-current list of all the more important articles of commerce for the time in question, and in the quantities they are needed in every [pg 386]day life. We would next have to calculate the average of these mean prices, and thus to determine the relative value of the amounts to be estimated.⁷⁸¹ The person who should limit his comparison

to a few species of commodities, says von Mangoldt, would lose in exactness what he gained in comprehensibility.

In every such list, the wages of a day would occupy a very important place. The desire of exerting an influence over the lives and actions of other men, and the desire of relatively greater social distinction as compared with the social distinction of others, is very general; and there is scarcely any better evidence that it has been attained than the possession of the power of controlling a large number of days' work. The man who can keep one thousand day laborers is certainly, in a politico-economical [pg 387]sense, an important personage. Besides, the height of day-wages has the most direct influence on the price of many other commodities.⁷⁸²

No less important is the price of wheat, or rather of the principal article of food of the people, for the time being, with which the price of inland raw material—in so far as it can be produced from the same soil alternately with wheat—and, in the long run, also the wages of labor, are so essentially connected.⁷⁸³ The same indispensable necessity of wheat which causes its price to fluctuate so largely from year to year, and from month to month, promotes the uniformity of its average price,⁷⁸⁴ when many years are taken into the account.⁷⁸⁵⁷⁸⁶ [pg 388](*Malthus*.) If, by reason of great progress made in the art of agriculture, the cost of the production of wheat should fall to one-half of what it was, a large increase of population would certainly not be delayed long. And so, on the other hand, there would be a decrease of population if, by the destruction of artificial means of irrigation, or other steps in the direction of a retrogressive civilization, the cost of the production of wheat were to be permanently increased.

But even the average price of wheat, during a long series of years, is not entirely invariable. The increasing consumption compels the nation, as a whole, to provide for its requirement of wheat from less fertile sources, which

increases its price generally. It is true that the progress of the science of agriculture and of the corn-trade counteract this tendency, retard the advance of the price of wheat, and may, for a time, produce an opposite tendency. It is true, also, that the people are induced by their most general and vital interests to take advantage of this possibility. But spite of the frequency of exceptions to it, the rule remains.⁷⁸⁷ If, therefore, we wished to so fix a perpetual annuity that it should always be worth [pg 389]as much money as a certain quantity of wheat had cost, on an average, during the three preceding decades, the thing-value of this annuity would, on the whole, rise with an advance in civilization.⁷⁸⁸ To obtain something that would remain the same, it would be necessary to combine wheat with at least one chief commodity, the intrinsic basis of the price of which had a development independent of the price of grain; but the whole to be made payable in money. The precious metals are, in many respects, so diametrically opposed in properties to wheat, in their dispensableness, transportable character and durability, for instance, that these two classes of commodities are best adapted to act as counter-balances to each other.⁷⁸⁹

Section CXXX.

History Of The Prices Of The Chief Wants Of Life.

The higher civilization advances, the dearer all those commodities in the production of which the factor nature with [pg 390]value in exchange predominates are apt to become; and the cheaper, on the other hand, all those in which labor and capital play the principal productive part.⁷⁹⁰ This is accounted for, not only by the almost unlimited capacity of labor and capital to be increased,

while the natural forces which have value in exchange are susceptible of increase to so small an extent; but also, and especially, because new additions of labor and capital are wont to cause relatively smaller results in the production of raw material, and relatively larger ones in industry and commerce. (§ 33, ff).⁷⁹¹

Hence, from the relations the prices of the different classes of commodities bear to one another, we may draw important conclusions as to the degree of civilization which a country has attained. The above law also affords an explanation of the fact, that a young nation, which has made no great strides in the way of development, and in which, of course, the production of raw material preponderates, draw their commercial and manufactured necessities, by way of preference, from [pg 391]precisely the most highly civilized foreign nations. The latter are in a condition, and accustomed, to give the largest quantity and the best quality of manufactured articles for a required quantity of raw material; and, of course, *vice versa*. Hence, in this intercourse of nations, the most urgent want, and the completest and easiest possibility of satisfying it, meet.⁷⁹² Only very highly civilized mother-countries can hold fast to colonial possessions in our day.

Section CXXXI.

History Of The Prices Of The Chief Wants Of Life.
(Continued.)

A. In the case of a great many raw materials, we repeatedly find the following to be the course of development. In the lower stages of civilization, they grow of themselves, and in such quantities that a small amount of labor, and that only the labor of occupation, more than suffices to satisfy

the small demand for them. Here, naturally enough, the price of raw materials is very low. After this, it rises with every advance made in civilization, for two reasons: first, because the demand becomes greater and greater; and then, because the naturally free sources of production, called into requisition by other wants, now flow less and less abundantly.⁷⁹³ This rise in price continues until the point is reached at which it becomes customary, instead of the mere occupation of the free gifts of nature, to bring forth the commodities in question by the more [pg 392]laborious process of production proper. From this time forward, the usual seeking of prices for a level requires that our commodity should, like all others which suppose an equal sacrifice of the means of production, claim an equal value in exchange. If from any peculiar causes, the production of this commodity is not at all possible, or if it is capable of no great extension, its price, which would under the circumstances, be limited only by the purchasing power of the buyer, might attain the utmost extreme reached in prices under the spur of vanity or of the mere love of the commodity itself. The latter is true especially in the case of venison;⁷⁹⁴ the former, in the case of the tame cattle,⁷⁹⁵ fresh-water fish,⁷⁹⁶ and wood.⁷⁹⁷⁷⁹⁸
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Section CXXXII.

History Of The Prices Of The Chief Wants Of Life.
(Continued.)

B. The rise in prices is observed earliest in that class of goods in question which by reason of their small volume and [pg 394]their comparatively great value, and by reason of the greater capacity to be kept in a state of preservation

for a longer time, are best adapted to seeking a more favorable market. This applies particularly to the skins, fleece, hair, feathers, [pg 395]teeth, horns, etc., of animals, in which, in the breeding of stock, etc. people in a low stage of civilization are much more apt to speculate than in their meat. Here it is considered, and rightly so, to be much more profitable to raise many animals which are badly cared for, than a few, that are well cared for; for the care bestowed on animals has, as a rule, much more influence on the body itself than on their covering.⁷⁹⁹ In fisheries, [pg 396]caviar, sturgeon-bladders, oil and whalebone,⁸⁰⁰ and in forest-culture, [pg 397]pitch, tar, potash and, to some extent, building material etc., play the same part.⁸⁰¹

Conversely, the price of those portions which are most difficult of transportation, by reason of their volume or of the difficulty of preserving them, rises latest. To this category belongs milk, the production of which in a fresh state can be made an object of economic speculation, only where civilization is at its very highest, and especially in the vicinity of large cities.⁸⁰² It is indeed possible by its transformation into butter or cheese to preserve milk and make it capable of [pg 398]transportation. But to carry on such a business for the purposes of trade, a care and a cleanliness are needed which are national characteristics only of a highly civilized people (§ 229), and the preparation of a superior quality of cheese, which is always a very long process, is conditioned by the employment of capital long in advance of a return, and which no poor nation is in a condition to make.⁸⁰³ Cows are primarily milk-producing animals.⁸⁰⁴ Hence their price, as a rule, rises later than that of oxen, but, in the higher stages of civilization, it rises much more surprisingly. Something analogous is true of those products which result from what remains after the production of other goods or commodities. As long as this alone supplies the demand, the cost of production of the former commodity is almost nothing, and hence its price

is very low. For this reason hogs are relatively cheap in two very different periods of a people's national economy, in a very low stage of civilization where forests are plentiful and they are fattened on acorns and the nuts of the beech, and also when they may be considered as a collateral product of some great industry, such as distilleries and dairy-farming; and when raised by a numerous, especially a rural population of small means and laborers, in order to turn to advantage, in the former instance, the remains of production, and in the latter of consumption.⁸⁰⁵ Where neither of these two reasons obtains, [pg 399]the price of hogs is wont to increase largely with an advance in civilization.⁸⁰⁶⁸⁰⁷⁸⁰⁸ (See Roscher, Nationalökonomik des Ackerbaues, §§ 177 ff.) [pg 400]

Section CXXXIII.

History Of The Prices Of The Chief Wants Of Life.
(Continued.)

C. Those raw materials which, from the very first, have been obtained by the means of production properly so called, maintain a much greater uniformity in price. In the lower stages of civilization, they are never found permanently in excess; and as the economy of a people advances, the growing dearth of natural forces may be more or less counterbalanced [pg 401]by the greater cheapness of capital and labor. This is true, especially of wheat. (See § 129, and Roscher, Nationalökonomik des Ackerbaues, p. 43.)⁸⁰⁹

D. In the case also of those raw materials which are objects of occupation, and never of real production, as, for instance, minerals, a progressive public economy, by

altering the different elements of price in an opposite direction, may leave their price on the whole unchanged. Here, indeed, the discovery of new and especially of rich natural stores may exert an incalculable influence; but such “accidents” underlie the laws of human development only to the extent that those ages which are intellectually most active are those also which are most industrious and fortunate in the discovery of their natural resources.⁸¹⁰
[pg 402]

Section CXXXIV.

History Of The Prices Of The Chief Wants Of Life.
(Continued.)

E. The products of industry become cheaper and cheaper as economic culture advances; whereas, for instance, in England, towards the end of the middle ages, a single shirt was considered of importance enough to be made not unfrequently an object of testamentary bequest.⁸¹¹ And, indeed, the price of industrial products sinks lower the more important the part played in their production by capital and the division of labor is as compared with the part played by the raw material.⁸¹² [pg 403] On this account, in recent times, fine cloths have grown, relatively speaking, much cheaper than coarse ones.⁸¹³ Lead, which during the middle ages in England was much cheaper than iron, because of the difficulty of mining the latter, has become much dearer in our days.⁸¹⁴ Conversely, where raw material plays the most important part in manufactures, the price of the manufactured article may increase with an advance in civilization. Hence, articles made of wood are procured at the cheapest rates in

mountainous countries, where the division of labor is not carried very far, but where the raw material is cheap.⁸¹⁵
[pg 404]

F. But the price of commodities decreases, especially in the higher stages of civilization, to the extent that it is dependent on commerce.⁸¹⁶ Here capital and human labor almost exclusively are effective, and the modern improvements of communication, legal security and competition are especially striking.⁸¹⁷

G. Since personal services are, as a rule, performed and received only by individuals, the principle in accordance with which labor in general becomes cheaper in the higher stages of civilization, does not apply to them to any great extent.⁸¹⁸ Yet we may claim that advancing civilization has pretty universally a twofold influence on the price paid for personal services. In the first place, freedom of competition, with the more accurate and equitable determination of price which it produces (in contradistinction to servitude, privilege and custom) always tends [pg 405]to obtain the upper hand; and further, by the growing combination of labor and of use (§§ 56, ff. 207), a better and better and more clearly defined gradation between ordinary services and those of a higher order is effected. When the latter cannot be increased at pleasure, the price paid for them may, as the wealth of consumers increases, become, from motives of vanity or of custom (*Gebrauchsgründen*), almost unlimited. The dancing maid, to whom Herod (Mark, 6, 23) promised even the half of his kingdom, is both in a politico-economical and in a moral sense a warning example to over-refined nations.⁸¹⁹

Section CXXXV.

History Of The Values Of The Precious Metals.—In Antiquity And In The Middle Ages.

It is impossible to write a real history of the values of the precious metals in ancient and medieval times: the sources of [pg 406]information are too few. But it does seem possible to suggest some fragments and something of the development of that history,⁸²⁰ at least in outline.

Thus, for instance, the supply of the precious metals furnished by the mines, in the earlier times of ancient history, was kept from entering the market by the system which then prevailed everywhere, of hoarding treasure by the state, by the temples etc., and later by great reserves of treasure kept by individuals.⁸²¹ The revolutions in prices in ancient times were produced as frequently by the sudden opening of such reservoirs, as by the discovery of richer sources. Thus, for instance, such events as the dissipation of Pericles' treasures, the subsidies of the Persian kings, the spoliation of many temples in consequence of declining religiousness, the distribution of Persian treasures by Alexander the Great,⁸²² had a vast influence on the undeniable rise in the price of Greek commodities in the century succeeding the Peloponnesian war.⁸²³ Later, it is said that in Rome, the price of pieces of land was doubled [pg 407]by the influx of Egyptian war-booty.⁸²⁴ It is a remarkable proof of the undeveloped condition of trade in the earlier periods of ancient history, that the perturbations in prices were, apparently, at least, so entirely local. Phœnicia, Palestine etc., must have experienced, in the age of Solomon, a formal deluge of the precious metals, while Greece, for instance, was then, and for centuries after, extremely poor in them.⁸²⁵ It is not, on the whole, to be doubted, that the value in exchange of the precious metals was on a continual decline until the most flourishing time of the Roman emperors.⁸²⁶ During the middle ages, it seems to have stood much higher again;

because the great loss of treasure caused by the migration of nations etc., the almost complete cessation of production at the mines, and the slowness of the circulation of money, played a much more important part than the decrease of trade.⁸²⁷⁸²⁸
[pg 408]

Section CXXXVI.

Effect On The Discovery Of American Mines Etc. On The Value Of The Precious Metals.

The discovery of America influenced the market of the precious metals less by the peculiar wealth of the mines in that part of the world than by their almost incredible number.⁸²⁹ The sources of wealth that the conquistadores first lighted upon were, however, much over-estimated.⁸³⁰ The production of the American mines first assumed great importance after the discovery of Potosi, in 1545, which was soon followed by the working of the American mines at Guanaxuato. (1558.) [pg 409]Coincident with this was the extraordinary “chance” of Medina's invention, in 1557; by means of which, it became possible to separate silver from foreign elements by the cool process of amalgamation, instead of melting it as had hitherto been done; an invention all the more important in America, for the reason that in that country, where there is so much rich ore, there is scarcely any fuel, in the neighborhood⁸³¹ of where it is found. During the first hundred years the mines of Peru occupied the most prominent place; whereas they were afterwards completely overshadowed by the Mexican.⁸³² According to Humboldt,⁸³³ the annual export of gold and silver from America to Europe, between 1492

and 1500, amounted to 250,000 piasters; between 1500 and 1545, to 3,000,000;⁸³⁴ from that time to 1600, to 11,000,000; in the seventeenth century, to about 16,000,000; during the first half the eighteenth century to 22,500,000; during the second half, to 35,300,000.

The production of gold in Brazil began to be important after the commencement of the eighteenth century,⁸³⁵ and the working of the Mexican silver mines of Valencia, Biscaina etc. from the middle of the same century. In the beginning of the nineteenth century, Mexico produced, annually, 537,512 kilogrammes of silver, and 1,609 kilogrammes of gold; Peru, 140,078 and 782 of silver and gold respectively; Buenos Ayres, 110,764 and 506; Chili, 6,827 and 2,807; New Granada, 4,714 kilogrammes of gold; Brazil, 3,700 kilogrammes of [pg 410]gold; the whole of America together, 795,581 kilogrammes of silver and 14,018 kilogrammes of gold, worth about 60,750,000 thalers.⁸³⁶ During the uprisings between 1810 and 1825, which separated Spanish America from the mother country, the production of the mines diminished as surprisingly as it had increased in the previous generation by reason of the greater liberality of Spanish colonial policy.⁸³⁷ Since that time, a certain increase has, indeed, been noticed, which, however, had not immediately before the discovery of the gold mines of California by any means attained the height reached in 1808, but only an annual production of 701,570 kilogrammes of silver, and of 15,215 kilogrammes of gold, with an aggregate value of more than 56,000,000 thalers.⁸³⁸

In Europe, also, the obtaining of the precious metals during the fifteenth and sixteenth centuries took a great stride, especially in Germany;⁸³⁹ but, on the other hand, the Spanish gold and silver mines were closed in 1535 by a law. In the seventeenth century, there was another lull, followed, at the end of the eighteenth, by a second period of activity which has not yet closed. The great development of the production of gold in the Ural mines since 1819, and in the Altai mines since 1829,⁸⁴⁰ the

revival of the production of silver in the old Spanish [pg 411]mines since 1835,⁸⁴¹ and Pattinson's discovery, by means of which the poorest lead ores containing silver may be refined, are here of great importance.⁸⁴² Shortly before 1848, it was estimated that all the mines of the old world produced annually about 274,000 kilogrammes of silver, and 56,000 kilogrammes of gold, with an aggregate value of over 69,000,000 thalers.⁸⁴³⁸⁴⁴

Section CXXXVII.

Revolution In Prices At The Beginning Of Modern History.

The mere discovery of new and richer mines need not, of itself, lower the price of the precious metals. Their price depends on their cost of production; and it may be very much increased, even under the most favorable natural conditions, by the unskillfulness of labor, the dearness of the means of [pg 412]subsistence, of machinery and of auxiliary substances, by insecurity to property or to the person; by war, oppressive taxes⁸⁴⁵ etc. The new mines can produce a decline in the price of the precious metals only to the extent that, for the same amount of capital and labor expended, they, spite of all such deductions, produce a greater result.⁸⁴⁶

I opine that the price of metallic money, since the discovery of America, has diminished until the present time in the ratio of from three to four to one.⁸⁴⁷ The prices of wheat in France, [pg 413]from 1800 to 1850, were about seven times as great as in the second half of the fifteenth century; and in England about six times as great. But, it is not to be overlooked here, how wheat may have grown dearer in itself (*an sich*) and how gold declined

considerably less than silver. True, this decline of the precious metals was not an entirely steady one. We meet at the beginning of the modern era with a real revolution in prices. The prices of rye, in lower Saxony, from 1525 to 1550, were twice as high as from 1475 to 1500. According to Garnier, the French prices of wheat, from 1450 to 1500, were, on an average, 408 francs of the present time per *setier*; from 1501 to 1520, 5 francs; from 1522 to 1540, 11.26 francs; from 1541 to 1560, 11.69 francs; from 1561 to 1580, 21.33 francs; from 1581 to 1600, 32.51 francs; during the first half of the seventeenth century, 22.77 francs; in the second half, 26.83 francs; from 1701 to 1750, 19.64 francs. Similarly in England, where wheat cost, from 1560 to 1600, 2.64 times as much as from 1450 to 1500.⁸⁴⁸
[pg 414]

Now, the increased production of the mines cannot be the only cause of this great perturbation in prices. It commenced, in most countries, at a time when the supplies from America were still too small to account for such an effect. One of the chief causes of the phenomenon was, that precisely at this period, there was in so many nations a transition from a sluggish circulation of money, made still more sluggish by the custom which everywhere prevailed of hoarding treasure, to a rapid circulation, which was made still more rapid by the use of all kinds of substitutes for money. (§ 123).⁸⁴⁹ In the earliest ripe fruit of European civilization (Italy), this transition had long been accomplished; and, on that account, the value in exchange of the precious metals was there, for a long time previous, comparatively low.⁸⁵⁰

From the second third of the seventeenth century, the value of the medium of circulation seems, on the whole, to have remained stationary.⁸⁵¹ Tooke seeks to demonstrate the steady [pg 415] decline of the value of money until late in the eighteenth century, from the fact that the wages of labor increased during that time; but I should rather connect the latter phenomenon with the simultaneous elevation of the classes engaged in manual labor. And so

Adam Smith infers a rise in the price of money after the beginning of the eighteenth century, from the prices of wheat,⁸⁵² but it would be better to consider the cause of this to be the unusually long series of good crops.⁸⁵³ An equally unusually long series of bad harvests, during the second half of the century, accounts satisfactorily for the simultaneous rise of the medium prices of corn. The great war which lasted from 1793 to 1815, too, according to a very prevalent opinion, must have caused the value of money to decline; a fact which is generally accredited to the increase of paper money in so many states.

Every great war may very easily have for effect to slacken the speed of the circulation of money, to promote the hoarding and even the burial of treasure for a rainy day, and to paralyze credit and its power to supply the place of money. Hence, it seems preferable to seek for the cause of the variations in price, during the great war, in the commodities themselves whose price was affected; since their production must [pg 416]have been enormously disturbed. It rendered the brawniest men and the most powerful horses unproductive, and even employed them as agents of destruction. It interrupted trade in a thousand ways, or drove it into unnatural channels, and turned the intellectual interests of nations into every direction save that of economic industry. To this must be added the absence of security everywhere.⁸⁵⁴

The cessation of these restrictions upon production, in consequence of the restoration of peace throughout the world and the great progress afterwards made in almost all branches of industry, explain why, from 1818 to 1848, the precious metals have apparently stood higher than during the period immediately preceding.⁸⁵⁵⁸⁵⁶

Section CXXXVIII.

Revolution In Prices.—Influence Of The Non-Monetary Use Of Gold And Silver.

To understand why so great an increase in the production of the precious metals produced so small a decline of their value in exchange, we must turn our attention to the other and further uses of gold and silver. The amount devoted to these uses can never be very accurately determined, since [pg 417]governmental stamping of every new gold or silver article would afford no evidence as to the number of such articles manufactured out of old articles etc.⁸⁵⁷ Certain it is, however, that the aggregate amount of gold and silver thus employed, increases with the increase of luxury and wealth among modern nations, and that a quantity of the precious metals thus used, especially when used for purposes of gilding for instance, is irrestorably lost.⁸⁵⁸ In addition to this, there is the wear and [pg 418]tear of coin in circulation, which is naturally greater in the case of large pieces than of small, and, therefore, in the case of silver than of gold. There is, further, the damage caused by the loss of coin in conflagrations and shipwrecks, and that occasioned by buried and forgotten treasure.⁸⁵⁹

But, lastly, the principal cause consists in the powerful increase of the demand for money, which, during the last two centuries, the great impulse given to the rapidity of circulation, and the great increase in the substitutes for money, have scarcely been able to outweigh. Besides the great growth [pg 419]of population and of wealth, at least in Europe and the new world, I need call attention only to the immense advance made in the division of labor, and to the transition from trade by barter to trade through the instrumentality of money. The entire war and merchant marine of England, about 1602, had, according to Anderson, a capacity of only 45,000 tons,—that is, not one-fifth of what the small city of Bremen has now; a

capacity which at the close of the year 1873 amounted to 237,206 tons—while in 1872 its merchant marine alone had a capacity of 7,213,000 tons. The aggregate foreign trade of England, France, Russia and the United States, in 1750, amounted to about 260,000,000 thalers; in 1864, it was over 5,400,000,000, and between 1871 and 1872, in one year, over 9,000,000,000 thalers. Nor should it be forgotten that Europe's trade with the East, since the beginning of the sixteenth century, increased immensely. This, at present, produces uniformly a very “unfavorable balance” for Europe, which can be made up for only by very large shipments of silver to foreign parts.⁸⁶⁰ If China and India were suddenly to [pg 420]draw on us for other commodities instead of gold and silver, the result would be a great revolution in prices in Europe.

Section CXXXIX.

History Of Prices.—Californian And Australian Discoveries.

Tengoborski is of opinion, that the flow of gold from Siberia alone would have been absorbed by the ever-increasing want of civilized nations of money; but that the coincident discoveries in California and Australia, in September 1847, and February 1851, must sooner or later produce a revolution in prices. And, indeed, the fecundity of these countries is unparalleled. North America, which in 1846 produced only 3,600 pounds of gold, according to Sœtbeer, produced in the years from 1849 to 1863, respectively, 118,000, 148,000, 178,000, 195,000, 180,000, 165,000, 165,000, 165,000, 160,000, 145,000, 125,000, 120,000, 115,000 and 110,000. Austria produced in the years from 1851 to 1863 respectively, 27,000,

196,000, 250,000, 160,000, 170,000, 195,000, 180,000, 175,000, 160,000, 150,000, 160,000, 160,000, 170,000, pounds of gold.

From 1864 to 1867, the aggregate production of gold in the world was, according to the last mentioned authority, a yearly average of 188.4 millions of thalers, and of silver, 94.8 millions. In Europe, Russia not included, the production was, in 1863, [pg 421]3,960 pounds of gold and 405,000 pounds of silver; in the Russian Empire, 46,500 pounds of gold and 40,000 of silver; in Mexico 12,000 pounds of gold and 1,250,000 pounds of silver; in South and Central America, 12,500 pounds of gold and 520,000 pounds of silver; in Africa, India and Lesser Asia, 30,000 pounds of gold and 40,000 pounds of silver—a total of 384,000 pounds of gold, and 2,905,000 pounds of silver. F.X. Neumann⁸⁶¹⁸⁶² estimates that the whole world produced, in the years [pg 422]1868-1870, annually, 192.8 million thalers of gold, and 94 million thalers of silver; and in 1873, of both metals, 291 million thalers.

The question, whether in this second half of the nineteenth century, we are to have a revolution in prices similar to that which took place in the sixteenth century can be answered only hypothetically. The gold diggings now most productive will, probably, as we may judge from analogous cases in the past, be soon exhausted.⁸⁶³ But it is entirely possible that, for [pg 423]a long series of years, other diggings will be found equally rich. It is almost certain that the restless activity of the English and of North Americans will not cease until they have exhausted the favors of nature.⁸⁶⁴ Every improvement in agriculture, in the means of communication, and in the public security of the gold lands, makes the cost of production smaller. There are doubtless in other countries a great many *placers* which need only to be touched with the finger of European civilization to produce gold in abundance.⁸⁶⁵ It would, indeed, be necessary that this same civilization should make these same countries better

markets for the precious metals by increasing their demand.

[pg 424]

So far as silver is concerned, there can be no question that America possesses mines unlimited in extent, and, as yet, almost untouched. "The time will come," says Dupont,⁸⁶⁶ "a century sooner or later, when the production of silver will have no other limits than those put to it by the continual decline in the price of silver." There seems, also, to be no lack of quicksilver, especially in California; and the cost of its production hitherto may be lessened very much by the labor of better workmen, machines and means of transportation.⁸⁶⁷ All this supposes great progress of the mining countries in civilization in general; and yet, thus far, Mexico's republican independence etc., as compared with the later years of the Spanish colonial system there, is a great retrogression. The conquest of Spanish America by the United States would give a vast impetus to economic improvement; and here, [pg 425]again, the increase of production would be attended by an increased demand.

But especially must the demand for the precious metals, which naturally increases with the wealth, commerce and luxury of nations, constitute a decisive element in answering our question. Nothing, for instance, were a reduction in prices impending, would promote it so much as a series of devastating wars or revolutions in Europe. Moreover, it should not be forgotten, that the money market is now almost commensurable with the world, and will soon embrace it within its limits; and that market embraces not only the precious metals but the numberless representatives of money and media of credit. The basin, therefore, to which the gold and silver streams of the world are tributary is immeasurably greater than it was in the sixteenth century; its level cannot be changed as readily, and an equal addition made every year to its previous contents can increase it only by a small amount.⁸⁶⁸ Nor could a considerable decline of the value of the precious

metals be readily produced without making the circulation of money slower, and the employment of means of credit relatively less frequent, in consequence of which, the further decline would, to a certain extent, be arrested.⁸⁶⁹ In the case of other commodities a decline of prices leads only probably to an absolutely greater demand; in the case of money, it leads to a demand necessarily greater. That the money market in our days can stand pretty rude shocks is evident from the fact, among others, that the price of gold is so high as compared with that of silver.⁸⁷⁰⁸⁷¹
[pg 426]

Section CXL.

Revolution In Prices.—Its Influence On The National Resources.

The ulterior consequences of such a revolution in prices would contribute to the real wealth of a people only in the sense that they would place such a people in a way, with less sacrifice, to employ the precious metals on a large scale in ministering [pg 427]to the luxuries of life. This small advantage itself would be counterbalanced by the depreciation of the metallic stock, and especially by the necessity of henceforth devoting a larger quantity of gold and silver to the purposes of circulation.⁸⁷² But such a revolution would produce a sudden reverse in the distribution of a nation's wealth among its constituent members. All those who, by virtue of contracts antecedently made, have payments to effect, are benefited to the extent of the difference between the old and the actual price, while those who are to receive such payments lose to the same extent.⁸⁷³ Therefore, those engaged in industrial enterprises improve their condition, because

they immediately increase⁸⁷⁴ the prices [pg 428]of their own productions; and, for a time at least, continue the use of capital borrowed from others, of land leased or rented etc. at the old prices.⁸⁷⁵

Besides, at the beginning, and before a corresponding depreciation of its value has taken place, an increase of money produces as a rule a low rate of interest (§ 185), and an itch to buy on the part of the public. All this may serve as a powerful stimulant to production on a large scale.⁸⁷⁶ Those most certain to suffer loss are officials⁸⁷⁷ with a fixed salary, and so-called annuitants, creditors of the nation and of individuals. Even bankers, too, have no means to fix the value of their wares which they see disappearing, so to speak under their eyes.⁸⁷⁸ Of land owners, those who are in debt gain, that is especially the poorer, and the more speculative among them.⁸⁷⁹ On the [pg 429]other hand, owners of large estates who have alienated their tithe-rights, or right to vassal-service etc. for capital, or for fixed sums to be paid at regular intervals, that is, in a great many places the great mass of the nobility, undergo a not insignificant social fall.

The condition of those who earned a living by manual labor no doubt deteriorated in the sixteenth century, as may be inferred from the extraordinary activity of public charity in that period.

Between 1500 and 1550, silver purchased, in Orleans, from 4.1 to 4.5 times as much common labor as it does now, while silver, as compared with the average price of twenty-seven commodities, has grown cheaper in the ratio of only from 2.6 to 2.7:1. (*Mantellier*.) It was impossible for this class to raise the price of their wares as rapidly as that of the medium of circulation declined, because they could not wait, nor hold back their commodity even for a moment. (§ 164.)⁸⁸⁰ This would, indeed, be very different in our day. Wages, because of the facilities, both physical and moral, which have everywhere been placed in the way of emigration, were necessarily one of these articles which

rose soonest in price, as compared with money.⁸⁸¹ Lastly, the state itself profits by the diminished [pg 430]thing-value, that is, real value of its public debt;⁸⁸² but it loses, at the same time, on all taxes, duties etc., which are not estimated at a certain percentage of the value of the articles taxed.⁸⁸³ As a rule, therefore, it would need to impose new taxes. Now, the parliamentary right to impose taxes, however extensive it may juridically be, is, ordinarily, of great importance in practice only when there is question of increasing the existing burthen. Hence, this right, wherever it exists, is brought into the utmost activity by a revolution in prices.⁸⁸⁴⁸⁸⁵

However, the new additions of gold and silver to the already existing supply may not immediately produce a corresponding depreciation of the value of the precious metals. If the first receivers of the additional supply of money exchange it rapidly for other goods, it will probably bring them the former value in exchange of the metal. Not until it has passed into a third or fourth person's hands is the depreciation apt to be perceptible. It is, therefore, in this case, a great advantage to be the first hand. The world-threatening power of Spain, in the seventeenth century, was very essentially promoted by the American gold and silver mines;⁸⁸⁶ nor is it a matter of less [pg 431]significance to-day, that the great mineral wealth of the world belongs to Siberia, California and Australia; that is, especially to Russia and to countries colonized by Great Britain. Further, as to the classes into which a nation is divided, it was only the crown, the Church and a comparatively small number of officials, soldiers and officers who controlled Spanish America;⁸⁸⁷ and who can tell how the absolute monarchy of Spain was strengthened by this fact? In the seventeenth century, on the other hand, it is principally manufacturers and merchants, and more especially yet, workmen, who reap the immediate advantages of new discoveries of gold.

Section CXLI.

Effect Of An Enhancement Of The Price Of The Precious Metals.

A great enhancement of the precious metals would naturally and necessarily produce a revolution in prices in a direction⁸⁸⁸ opposite to the one just described, and one which would be much more injurious to a nation's economy. Such a revolution would weigh most heavily on the most sensitive, and the momentarily most productive classes of the people, inasmuch as the price of the ready product as compared with advances made for the purposes of production would be a declining one; and it would benefit those classes who live in leisure on the fruits of previous labor. There would, at the same time, be a perceptible growth of consumption in certain departments, useful, no doubt, in themselves, but apt to degenerate into excess, and which are, therefore, most easily cared for. (§ 212, seq.) [pg 432]To this extent, the gold discoveries of the nineteenth century, without which an enhancement of the price of money would undoubtedly have taken place, have warded off a great economic malady from the nations. Moreover, this inverted revolution in prices may be moderated by governmental measures, such as a diminution of taxes, emissions of paper money etc.⁸⁸⁹

Section CXLII.

The Price Of Gold As Compared With That Of Silver.

The price of gold as compared with that of silver does not, by any means, depend entirely on the ratio of the quantities of the two to each other. Rather is it, in the long run, determined by the average cost of production necessary at those gold and silver mines which exist under the most disadvantageous conditions, but which it is still necessary to work in order to satisfy the aggregate requirement of these metals. On the whole, with an advance of economic civilization, the dearness of gold as compared with that of silver has been enhanced. The former, in the middle ages, was worth from ten to twelve times as much as the latter,⁸⁹⁰ while now it is [pg 433]worth from fifteen to almost sixteen times as much.⁸⁹¹ In the same period of time, also, gold in highly civilized countries is wont to be comparatively dearer.⁸⁹²

These facts are explained as well by the demand as by the supply. As the production of gold requires so little skill or capital, and that of silver so much of both, the former may be considered a natural product to a greater extent than the latter, and therefore, the rule laid down in § 130 is applicable to it. (*Senior.*) Besides, in the higher stages of civilization, especially when the precious metals are cheap, larger payments are usual, to the making of which, gold is certainly best adapted; just as in every day trade merchants are wont to accept a gold piece in payment, even at something of a premium, while the peasantry hesitate to do so.⁸⁹³

[pg 434]

It is very much of a question whether gold or silver is, on the whole, subject to greater variations in price. The fact that gold is more strictly a natural product would of itself constitute a powerful element of variation. (§ 112). But, on the other hand, its greater durability and the greater care bestowed on its preservation, have for effect to make the existing quantity preponderate in importance over its annual increase. The demand for gold varies more suddenly than the demand for silver. In case of war or sedition, the former is more easily carried away or hidden.

It is also more desirable for the state for its military fund. On the other hand, on account of its greater capacity for transportation, it may follow such claims when made on it, more easily, from country to country. On the whole, I am inclined to think that, for short periods of time, silver maintains its value better, and gold for longer ones.⁸⁹⁴
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Section CXLIII.

The Price Of Gold As Compared With That Of Silver.
(Continued.)

If the gold-production of California should be attended⁸⁹⁵ by a notable depression of the value of that metal, it becomes a question whether or not silver would be necessarily depreciated with it. Senior claims that it would not, for the reason that the two precious metals do not, for most purposes, act as substitutes each of the other. If a country needed 1,000 pounds of gold and 15,000 pounds of silver as money,⁸⁹⁶ and these two sums of metal were equal in value, an increase of gold by one-half, which would depreciate its price in relation to silver to 10:1, would not overflow the channels of circulation. The 1,500 pounds of gold are now also equal to only 15,000 pounds of silver, and *vice versa*.

I would put very important limitations to this assertion. Even a moderate depreciation of gold would drive out the silver from all those countries which had a mixed coinage made up of the two metals; and hence the supply of silver would be increased in the other countries. And so it is quite possible, up to a certain point, that the larger silver coin should be replaced by small gold ones, ten and five franc pieces etc. Rau is certainly right in his surmise that a

general rise in the price of commodities as compared with coin, the result of a great increase of gold, would go farthest in countries in which the gold is the medium of circulation, begin later in those [pg 436] which had a mixed circulation, and continue for the the shortest time in those countries which, by force of law, had a silver circulation only.⁸⁹⁷⁸⁹⁸
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Appendix I.

Paper Money.

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Section I.

Paper Money And Money-Paper.

Paper money must be distinguished from other value-paper or money-paper,⁸⁹⁹ which may also run to the possessor or holder, and not unfrequently serve as a medium of payment. In the case of these bonds or

obligations,⁹⁰⁰ their circulating capacity is a secondary matter, and the principal thing the authentication of an economic legal relation; whereas paper money is intended principally, if not exclusively, to act as money.⁹⁰¹ Money-paper appears in a great many different forms, but it nearly always bears interest. Its value depends in great part on the rate and certainty of its interest. On the [pg 440]other hand, the endeavor to insure a more favorable reception for paper money by the promise of interest has been exceedingly seldom successful.⁹⁰² And in reality, good prospects as to interest (*Zinssaussichten*) and ease of transfer from one hand to another are two qualities which lie in very different directions.⁹⁰³

The many recent writers who claim for paper money the marks of irredeemableness and forced circulation, confound the unfortunately too frequent degeneration of an institution with its real nature. They contradict, too, usage of speech, which, in countries where silver is the standard, unhesitatingly [pg 441]calls gold coins money, although they cannot be forced on any one.⁹⁰⁴ The paper money issued by the state deserves, indeed, the appellation in the fullest measure; but starting from this point we find a number of grades in a downward direction, which may still be called money;⁹⁰⁵ and we shall see especially that the differences between state paper money and bank notes so widely asserted are, in great measure, differences not of kind but of degree.

The idea of replacing the precious metals as a medium of circulation by a less costly material, even the ancients were acquainted with; but with the exception of the Carthaginians, they scarcely ever made any use of it except in cases of need and transitorily.⁹⁰⁶

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Similarly, the middle ages in Europe; as in general all greater development of the credit-system—and all paper money is credit-money—has a natural growth only in the higher stages of civilization.⁹⁰⁷⁹⁰⁸

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Section II.

Advantages And Disadvantages Of Paper Money.

Where it is at all possible to give paper money the same purchasing power as metallic money possesses, it is unquestionable that the former must have many advantages over the latter. True, paper money is very inconvenient for small amounts;⁹⁰⁹ but all the more convenient for large amounts, as well for purposes of counting as for purposes of the storing up of values and for transmission from place to place; a matter of greater importance in proportion to the badness of a country's means of transportation, and to the cheapness of the metal of its currency hitherto.⁹¹⁰ It seems a still more important matter to most people that paper money dispenses with the use of a great quantity of the precious metals for purposes of circulation, which can now either be turned into utensils, etc. in the country itself or used in foreign countries to make investments of capital there, or in the purchase of commodities.⁹¹¹ In national [pg 444]economies whose commerce is a growing one, the same advantage finds a negative expression in this, that they are not compelled to satisfy the increasing demand for money by procuring costly metals.⁹¹² Of the individual members of the nation, all these advantages of convenience will be experienced by those who employ the paper money. The economical or saving advantages of paper money are appropriated by the issuers to themselves, in the form of a non-interest bearing loan, which they make to those owners of money or to those who are entitled to a money-claim and to whom the paper money is acceptable instead of cash money.⁹¹³ A diminution for instance of the number of bank notes or of state paper [pg 445]money does not diminish the available capital of the people. Its

only effect is that a smaller portion of it is at the disposal of the bank or of the government.

But in contrast with these advantages are the great disadvantages, since paper money is wanting in most of those properties which originally made the precious metals the best instruments of exchange and the best measures of value. In addition to this, paper money may be increased at pleasure, and at almost no cost; and an occasional surplus of it cannot flow either into other branches of employment (as a surplus of metallic money may into utensils, ornamentation, etc.) nor into other countries. And thus the constancy of value of paper money, that is, one of the chief requisites of all good money, is imperiled in the highest degree. True, the payment-power, or “legal tender” character given such money by the state may certainly supplement in some way its matter and form-value. But this supplement or addition constitutes, in the case of large amounts⁹¹⁴ a small quota; or else the quantity of money as compared with the amount of money needed for commerce would have to be fixed very accurately; a thing of peculiar difficulty in the case of paper money, which is almost costless.⁹¹⁵

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Section III.

Kinds Of Redemption.

While precious metal money carries, so to speak, by far the greater portion of its value in itself, and this to such an extent that it appears on the inscription found on its face, the inscription found on paper money is almost the only reason of its value.⁹¹⁶ (Credit-value.) The issuer promises in one form or another, expressly or tacitly, that he intends

to redeem the note, almost valueless in itself, in real goods; and the value of this promise depends on the probability of its fulfillment.⁹¹⁷ The only fully satisfactory kind of redemption consists in this, that every holder of the paper money may, immediately on demand, obtain its nominal value in good current metallic money. This only can, in the long run, keep paper money up to its full nominal value. But experience teaches that even with less perfect modes of redemption, paper money may maintain a part of its nominal value, and a part greater in proportion as the following conditions are approximated to: freedom from personal considerations, the immediateness of the redemption, and currency of the goods by means of which redemption is effected. Thus, for instance, the acceptance of paper money for all debts due the state, in countries where taxation is heavy, where there are large state industries etc.; where the lands of the state are farmed out etc., has a great influence on its course of exchange. Redemption in parcels of land is a very imperfect [pg 447]one, not only on account of the great differences in the value of pieces of land according to quality, situation, the times etc., but also because only a very small number of men, especially where money is the usual medium of exchange, are in a condition to accept parcels of land.⁹¹⁸ It is a question whether the [pg 448]threat of punishing the refusal to accept paper money, or to accept it at its full nominal value, can be called a negative mode of redemption. Certain it is, however, that it is the most barbarous and in the long run the least efficient mode, one in which the issuer calculates only on the fear of those who accept it; and, what is most demoralizing, on the hope they entertain that they in turn shall be able to dispose of it to others as timid.⁹¹⁹⁹²⁰

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Section IV.

Compulsory Circulation.

When paper money which is not completely redeemable—and it is scarcely possible that in the long run it should be thus redeemable—has sunk below its nominal value, the result in the case of all private paper money is the bankruptcy (*Vermögensbruch*) of the individual issuing it; in the case of state paper money, the legal provision that it shall have a compulsory circulation (*Zwangcourse; cours forcé*).⁹²¹ To what extent [pg 450]the real rate of exchange of paper money shall fall in any case depends not only on the amount issued as compared with the wants of trade, but also and still more on the degree of confidence which the state of public affairs inspires.⁹²² The first consequence attending a depreciated currency is, that the good precious metal money is withdrawn from circulation and even from the country; for the reason that it cannot maintain its true value side by side with the paper money; the usual effect in all untenable mixed standards or currencies.⁹²³ A second, and [pg 451]worse consequence is the unrightful revolution produced in so many income and property relations, based on old contracts, to the advantage of the debtor, to the disadvantage of the creditor, and of those who receive nominally fixed salaries.⁹²⁴ These consequences are in kind similar to those produced by the clipping of the coin; but in degree they are much more dangerous.⁹²⁵ Besides, the depreciation of paper produces, by no means, an equal rise in the prices of all commodities. The prices of those commodities, the sellers of which are most favorably situated in the struggle for prices, rise earliest and highest. This is true especially of foreign commodities, also of those inland commodities which can be easily exported, and most particularly of those commodities which have the [pg 452]greatest capacity for circulation, for instance, gold and silver.⁹²⁶ Hence, it would be a great mistake in countries where there is an

irredeemable paper currency with compulsory circulation, to measure its purchasing power at a special discount as compared with the precious metals. Therefore, a depreciated paper currency has transitorily an effect on industry similar to that of a protective tariff, and even as the payment of export premiums; inasmuch as it enables manufacturers to permit a part of their cost of production, viz.: that which they have to pay their workmen, their older creditors, and in part, also, their furnishers of raw material, to rise in a less degree than the paper money has declined in value.⁹²⁷ This is indeed a very inequitable advantage accorded to private individuals in the [pg 453]face of the universal distress of the country.⁹²⁸⁹²⁹ And these bad consequences are aggravated by the downward-path principle which a depreciated paper money always involves. The state whose financial distress introduced the evil, sees a great portion of its revenues melt away before its eyes;⁹³⁰ while in what concerns its outlay, nothing is more calculated to mislead it than such an imagined creation out of nothing. And a thing which greatly contributes to this its the frightful sensitiveness of a depreciated paper currency in the presence of complications of foreign politics, a quality which may cause the government as many inconveniences from without as the issue of its paper money produced conveniences to it at home.⁹³¹ [pg 454]Hence recourse is had to additional issues of paper, which are easily increased in the same measure as the rate of exchange (*Cours*) has declined.⁹³² Great private interests operate in the same direction. Between the increase of the volume of the paper currency in circulation and its consequent depreciation, some time always elapses; and in the mean time, either the purchasing power of the money-owner or his loaning capital is really greater than before. The former increases the demand for commodities, the latter facilitates their coming into existence. However, the flight of speculation with which the increase of paper money is wont to be accompanied⁹³³ in the beginning depends on an

error shared by many men as to its true value. Hence it does not last long, and the critical shriveling up of the inflated bubbles is greater in proportion to what the previous dimensions of these bubbles were. And now many believe that the nation's business or economy might be kept on its course by new emissions of paper money; and the wise ones hope, at least, to be able thereby to postpone the catastrophe long enough to enable themselves to get their property into a safe condition. And in fact, the restoration of a depreciated currency is accompanied by crises entirely similar to those which followed its first decline; only they are in an opposite direction.⁹³⁴ And hence conscientious [pg 455]statesmen are frequently deterred from seeking to effect such a restoration. Yet the darkest side of a paper currency severed of due connection with precious metal-money consists in the frequent and violent fluctuations of value to which it is subject.⁹³⁵ The consequence of these fluctuations is, that every commercial transaction, every credit-transaction, and even every act of saving, in which money plays any part, is made to bear the impress of a game of chance;⁹³⁶ a consequence of far and deep reaching influence, especially in the higher stages of civilization, where the importance of commerce, of the credit-system, and of money-economy as contradistinguished from barter-economy is so great; producing there a state of uncertainty which is otherwise peculiar only [pg 456]to barbarous medieval times.⁹³⁷ All this discourages the best business men and the best husbandmen more than it does any other class of people, and demoralizes the whole economy of a nation; and demoralizes it the more in proportion as it is easier for the state to influence the value of paper money as compared with specie, and as its influence is more irresistible.⁹³⁸ The compulsory circulation of paper money is a much more powerful and yet a much more simple screw by means of which to practice extortion than is the most burdensome taxation or forced loan, and at the same time the most comprehensive

power which a government can possess to carry out both these measures. (*Ad. Wagner.*)

All the horrors of the later Roman republic, the draining of the provinces by robber-governors with their publicans and sinners, the building up of monstrous fortunes without any production proper, but through usury and rapine alone: all this is made to revive again through the instrumentality of the national-economic disease called a paper crisis, in a less violent form, indeed, but in one which is much more insidious and scarcely less pernicious.

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Section V.

Resumption Of Specie Payments.

The healing of such a paper-money disease as we have described, it has been endeavored to effect in three ways more particularly.

A. By the reduction or bringing back of the depreciated paper money to its full nominal value. And this is best done by gradually drawing paper money into the state treasury by means of taxation or by loans, and refusing to allow such paper money to be again issued. The consequent rise in the rate at which the outstanding paper money notes exchange against specie is produced not only by the diminution of the quantity of paper in circulation, but also by the increasing confidence in the future which such a governmental measure inspires.⁹³⁹ While this mode of procedure has in the abstract most in its favor, yet it is not to be recommended in practice except where the depreciation of paper money has either not gone very far

or where it has existed only a short time.⁹⁴⁰ [pg 458] Otherwise the revolution in all property-relations and the disturbance of all rightful speculation—always dangerous and easily abused—produced by the depreciation would be repeated by the restoration of values, with this difference only that the disturbance would be produced the second time in an opposite direction. And that those who were previously injured should now be compensated for the damage sustained in the first instance is impossible in proportion as the depreciation has been of longer duration. Many of the sufferers from the effects of depreciation are now compelled, even as tax-payers, to contribute to the enrichment of the speculators who have accumulated the depreciated paper into their own hands.

B. The extreme opposite of such a course would consist in this, that the depreciated paper should be allowed to go on sinking lower and lower until it was practically worthless, whereupon a new currency, whether of metal or paper, would have to appear like a new world after the waters of a deluge had been abated. Hence, therefore, one of two things: universal bankruptcy entered into with the clearest purpose, or the resignation of despair!⁹⁴¹

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C. The middle course between these two has, therefore, been most frequently pursued, viz.: *the legal reduction* of the value of the coin (*gesetzliche Devalvirung*), which consists in reducing the nominal value of paper money to its current value at the moment the law goes into force, and by redeeming it either in specie or in other paper to be issued in smaller quantities.⁹⁴² Although this has been not seldom based on the false principle that the value of every separate amount of money is inversely as the aggregate amount of all the money in circulation; yet it cannot be questioned that it is only the open declaration of the state bankruptcy which the whole measure involves, and which in most instances has already happened beyond repair. Here there is no new and dangerous disturbance of the nation's economy whatever; and the fluctuations of value

in the [pg 460]future which are inseparable from the gradual contraction of the volume of paper, continued until it has reached its nominal value, are avoided: this last, of course, only on the supposition that either the pure metallic or the redeemable paper currency is rigidly adhered to.⁹⁴³ But the problem, how to protect both parties⁹⁴⁴ to contracts entered into at a rate of the currency different from that under which they are to be performed, from all damage, is one which will never be perfectly solved. Hence, of the different measures to economically preserve a state in cases of extraordinary need, the emission of paper money with compulsory circulation is much more universally disastrous to the people than the effecting of loans at the very highest rate of interest, and even than being in arrears in the matter of paying the officials and creditors of the state.⁹⁴⁵

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Section VI.

Paper Money—A Curse Or A Blessing?

Considering the double-edged-sword character of this mighty instrument,⁹⁴⁶ and the frightful consequences which its [pg 462]abuse produces, it is easy to conceive why so many political economists have expressed such serious doubts as to whether, on the whole, the invention of paper money has been more of a curse or of a blessing to mankind. The controversy is an idle one to a certain extent, since no mature nation (or individual), and no nation which considers itself mature will renounce the possibility of a brilliant growth simply because it fears that it may not be able to withstand the temptations to dangerous abuse connected therewith. Politically, the best

safeguard against such temptation is a so-called moderate constitution, which compels the supreme power in the state by wise and appropriate counterweights, to allow all rightful interests to assert themselves, or at least to find expression; and itself to make use not only of the most skillful but also of the most highly esteemed instruments and measures. Such a constitution, indeed, cannot be made; it must be the ripe fruit of a long continued and well conducted national life.⁹⁴⁷ Of the extremes of forms of government, unlimited monarchy and democracy are about equally exposed to the paper-money disease.⁹⁴⁸ Aristocracies are less exposed to it, for the reason that from their very nature they eschew centralization; and the [pg 463]paper-money system is intimately connected with the latter. Nothing so strengthens the central authority as the paper-prerogative with an unlimited power over the prices of all commodities; and, on the other hand, whenever paper money is to have a wide field for action, there is supposed⁹⁴⁹ a far-reaching and intimate interweaving of the different members of the nation's economy with one another. And in what concerns the various economic stages, paper money is far removed from all medieval times; and for the same reasons that make external commerce here preponderant and condense all commerce into caravans, staple-towns, fairs, and recommend the collection of treasure etc.⁹⁵⁰ Later, on the other hand, we find two stages especially adapted to paper money. We have first, as yet undeveloped but intellectually active (and therefore desirous of progress) colonial countries, possessed in abundance of natural means of production without however being able to concentrate them into the hands of an undertaker (*Unternehmer*) for [pg 464]want of money.⁹⁵¹ Here both the saving of the precious metals and the facilitation of transportation effected by means of paper money are of greatest utility. And then we have very highly developed and rich countries; not only because their economic popular education may protect them against the

dangers of paper money, but because the rich man has relatively least need of money and may dispense with stores of specie most readily, because of his influence over the supply of others.^{[952](#)}