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THE
DOCTRINE OF EQUIVALENTS
OR
AN EXPLANATION OF THE NATURE,
THE VALUE, AND THE POWER
OF
M O N E Y
TOGETHER
WITH THEIR APPLICATION IN
ORGANISING
PUBLIC FINANCE
BY
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PART THE FIRST.

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PART THE FIRST.

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extremely follicitous of eradicating many prevailing notions respecting money, which appear not only to be in themselves unfounded, but which have served also to involve in confusion and obscurity every subject connected with them.

I must confess at the same time, that I was urged to the full investigation of this important and much neglected science, by the desire of explaining more fully those principles of Finance, which I published some years ago, and which from being totally misunderstood were not much attended to.

How far this attempt to elucidate that work may succeed is uncertain, but I will venture to assert, that it is utterly impossible, either to ascertain the first causes of relative value, and form the science of political œconomy into a comprehensive, clear and familiar system, or to trace out any consistent theory of
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Finance from those principles of money, which are laid down by Mr. Harris, Mr. Hume, Sir James Stuart, Dr. Adam Smith, or any other writer on that subject.

Had any of those authors, who pretended to a knowledge of the nature of money, proceeded to an examination of the principles, which give rise to that difference, so evidently existing in the money price of various objects, and which sufficiently indicates, that a certain price or quantity of money is specifically or justly due to every object, they would naturally have been led to a discovery of the effects, which ensue from giving occasionally more or less than this just value, as well as of the fallacy of their general position: „ that by increasing the quantity of money in any Country, the value of every object in money must also increase.”

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An investigation of this kind would have shewn to them, that the quicker & slower motion or circulation of money from hand to hand, which in its effects is of the same consequence as increase or decrease of quantity, must of course destroy their assumed Hypothesis, and that the possibility of an increase or decrease of objects to be represented, would infallibly subvert the position abovementioned, if proved to be dependent on, or concomitant with the increase or decrease of money. By adhering therefore too much to the principles of writers in an earlier age, they deceived and perplexed themselves, as well as their readers, and have unfortunately left the subject to be further explained.

I say unfortunately, because in refuting the opinions of such celebrated authors, I feel my own want of talents as a writer, while it must be acknowledged, that their superior abilities would have
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made the truth appear more conspicuous.

I flatter myself however with every indulgence from the public, as a return for my Zeal in attempting to correct errors, which have not only been received as truths, but which, from the reputation of their authors, and from the indifference of mankind to investigations of this nature, have been adopted as fundamental principles in the policy of states.

I must at the same time observe, that it is become of the utmost importance in the present state of increasing taxation, to ascertain in the fullest extent, the nature, the value, and the power of the precious metals, and I therefore consider it incumbent on me (as professing some knowledge of the subject) to trace the origin, and progress of their use, as well as their operations in fixing the money value of every object, which human

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Industry can either obtain or produce, with the causes that contract or extend the industrious exertions of Man, in order to shew the inconsistency of the received opinions, and the political errors, which have resulted from the admission of false principles.

It must doubtless appear very extraordinary to men of reflexion, that no conclusive arguments, or consistent theories are to be found in any work hitherto written on this important subject, and that every publication has been confined to some partial explanations respecting Industry, and commerce, to some assumed and vague principles concerning money as well as public credit, and to some vain attempts to reconcile contradictory effects, which the authors of such works were under a necessity of stating, and with the causes of which they were unacquainted.

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This appears evidently to be the case even in Sir James Stuart's *political economy*, which successfully combats the opinions of Mefs. Montesquieu and Hume, by proving them inconsistent in their reasoning; but it unfortunately does not develop any fixed principles or ideas for the purpose of obtaining more uniform and comprehensive consequences.

I mention in particular the writings of Mr. Harris, Mr. Hume, Sir James Stuart, and Dr. Adam Smith, because they must be in the recollection of every enquirer into this subject, and as the last mentioned Gentleman's work *on the Wealth of Nations* has met with almost universal applause on account of the perspicuity of his style, it becomes the more necessary to shew the fallacy of his Ideas, and especially in those parts of his Enquiry, which either lead to an improper, and nowise existing distinction between Gold & Silver, by calling the lat-

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ter only *standard*, or which tend to prove, that the natural price of every commodity increases by the greater abundance of the precious metals, which is in other words: „ *that Gold & Silver from „ the circumstance of their greater relative „ abundance compared with other objects, „ lose in their comparative value with those „ objects.*”

I cannot indeed deny, that the precious metals have lost in their value within this century, but this appears only in the decreased rate of Interest, which constitutes their *real*, & I may say *only* price.

It is not less true, that the price or specific value in the precious metals, which is really due to almost every commodity, is much increased during the same period, which can easily be accounted for by the accumulation of taxes on *various* objects, and their extensive vibrations on *all* the necessaries of life, without

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out having recourse to the increased quantity of money for explaining the cause of this enhanced value, as the contrary effect would infallibly have been produced, if an accumulation of taxes had not taken place.

There would indeed be a *great impropriety of expression* in saying, that the fluctuating specific value in money of different objects should be considered as the price of the metals, because experience sufficiently demonstrates, that this fluctuation in value is for ever partial and nowise uniform on all objects, which precludes the possibility of applying it to indicate a change in the general medium called money; nor can the metals, when representing every object, be considered in any other light, than as a *measure or Equivalent*, of which more or less is *ultimately* required for the production of each object from a combination of causes, which are to be traced in this work.

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The necessity of making this distinction between Interest of money *as its price*, and the specific quantity due to each object, when exchanged for money, *as its measure*, will from the nature of the investigation appear in a very conspicuous point of view, as well as the further distinction, which I shall make between the cause of such specific value, when entirely independent of all taxation, and also when combined with it, in order to shew in the clearest possible manner the mode, in which the rise & fall of interest affect ultimately the price of every object.

A very little reflexion would indeed point out, that the fall of Interest from the abundance of money admits of a diminution in the specific value or price of all industrious productions, to which diminished value the manufacturer could on selling them cheerfully consent without injury to himself, while a rise of Interest from a scarcity of money produces on the

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the contrary an increase in that specific value, which the manufacturer could not possibly dispense with on disposing of his productions.

But mankind do not hesitate to maintain, and all authors, who have written on the subject, flatter the Idea: „ *that the relative abundance of the metals tends simply to increase the specific value of every object, and their relative scarcity to diminish that specific value on account of the faculty, which the possessors of money have to give more or less.*”

This position may to superficial enquirers appear conclusive, but a thorough investigation of the subject will shew its fallacy, and that the effects, which they point out, could only be temporary, because in the one case an encouragement to produce more objects, and in the other case a discouragement to the production of the same number must neces-

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farily arise, as will be demonstrated in explaining the principle, by which this increase or decrease of Industry is directed.

It will certainly not be denied, that some *varying* cause directs the promotion or the destruction of Industry, independent of that degree of security in property, which is afforded by each Government, and which, by being generally in the same state for a long period, cannot in itself have either a progressive or a changeable influence on the mass of Industry; nor can it be disputed, that the principle of taxing any object must infallibly add to its specific value in money, which shews the necessity of examining each cause, and each effect separately, and distinctly before any general, and positive conclusions respecting Finance can be admitted or universally assented to.

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I propose therefore to examine the primitive and immutable causes of the different degrees of value attached to every object, the principles, by which the specific quantity of the precious metals, to which all things are entitled, is regulated; the means, by which those proportions are always kept up, and how the multiplication of objects in each class of Industry originates.

I shall also add such observations on the writings of other authors, and on the application of my own principles as may appear useful & necessary.

Whatever relates to money will be more or less touched upon, and I trust that the important truths, which I endeavour to explain, will sooner or later be generally understood, and bring about an entire new system of Policy respecting Finance, not only for the purpose of extending the Population, the Agricultural-

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culture, the Industry & the Commerce of Great Britain, but also for the still more important object of diminishing the specific value of every thing, and consequently the enormous expence, to which the nation is become subject for her protection in time of peace, as well as for her defence in time of war, and which no œconomy can sufficiently counteract, because the services required are not otherwise attainable.

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POWER OF MONEY &c.

CHAPTER I.

On the proportional or relative value of different objects before the introduction of the precious metals as a representative sign.

In the first stages of society, when hunting and fishing were the only employments of man, and the means of his support, the value of every commodity relative to each other was in proportion to

to the labour employed in procuring them.

Let us suppose for instance, that the taking of ten birds required no more time than was necessary to catch one hare: the price of barter became then established at the rate of one hare for ten birds.

A little experience shewed the different degrees, and kinds of labour, which were necessary for procuring every object, and upon this principle a general scale of value took place.

This necessary, and to appearance regulated proportion, was indeed sometimes disturbed by a more general consumption of one article in preference to another, as we may suppose that fish might in many places have been preferred to hares; such a circumstance would naturally discourage the hunters, and encourage the fishermen by the latter being over-

overpaid, and the former underpaid in this general barter of labour against labour.

Self Interest however prompts the generality of mankind to follow the most lucrative employment, and to increase their exertions, wherever they are most wanted; the greatest quantity of food, cloathing, and conveniencies for the least trouble was at that time, as at present, the price, or *lucre* to be derived from the possession of any object that was much wanted, and being a sufficient inducement to alter the mode, or to increase the quantity of labour, a greater number of persons would naturally take to fishing, and restore by those means the necessary proportions of value for keeping up both employments.

In this manner did a tendency to disorder produce the Remedy itself by encouraging a greater production of the ob-

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ject that had been overpaid; and this unerring principle will ever continue to be the groundwork of human Industry, whenever the number of objects is not limited by nature, as may frequently be the case.

The precious metals derived also their relative value from the labour employed in procuring them, and were at first only made use of as ornaments and utensils.

It may be here necessary to observe, that a contribution in kind on every production for the purposes of Government could not in any degree alter these regulated proportions, because the act of levying a twentieth, a tenth, or any other moderate proportion of each man's industry, produced simply the consequences of diminishing every individuals stock (whether his own production or what he procured by barter) and of inducing him to increase his labour for the purpose of
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supplying the deficiency, in case his wants should require it.

Public contributions therefore were at that time rather incentives to further labour, and did not check the progress of Industry, as at present appears to be the case from their *partial* exaction and complicated effects.

When civilisation advanced, a relative value established itself between mental and corporeal labour solely by competition, as there could be no fixed standard of value between them.

This competition was however well poised by counteracting principles; a too arbitrary evaluation of the mental powers was prevented by a more general cultivation of the mind, while the limited mental endowments of by far the greatest number of individuals prevented their being underrated.

A new sort of property must also have arisen in an early period of society from the cultivation of certain spots of ground, which became annually productive, and to which the established rules would not apply, because nature acted her part as well as labour in producing the objects required.

The more enlightened part of mankind must at the same time have discovered that there existed a general inconvenience with a consequent impediment to the further extension of Industry from the want of a medium, by which every object might be more quickly exchanged, and retained at its due proportion of value.

Cattle and hides were consequently first thought of as proper intermediate signs of value for the purpose of facilitating every kind of Exchange.

It may seem extraordinary, that such un-

unwieldy objects should have been preferred to others, but it must be considered, that every thing, excepting the metals, or some object of as small volume, and of equal durability, would have been as troublesome, that Cattle and hides were objects of general use, were easily transported from one place to another, and that the first in particular had a great affinity to land with respect to its naturally productive powers.

The evident distinctions, which existed between corporeal and mental labour, as well as between either of them and the produce of nature, made it then necessary to adopt several new considerations in ascertaining the relative value of one thing with another, and particularly when both objects to be exchanged had the quality of annual production adherent to their nature, in which case the three following circumstances required a very attentive investigation viz.

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The labour employed or difficulty in procuring by competition each object; the probable ratio of annual increase from its *natural* powers, and independent of that assistance from labour or other materials, which are required in order to give its *general* produce; and lastly the probable term of possession.

All these considerations might be absolutely necessary for ascertaining the relative value of different objects; in the first place, because, if of the same nature, their quantities might differ, as also their produce, while the circumstance of their being naturally different (as Cattle and Land) would of course subject them to a competition value between themselves; in the second place, because the labour and other materials to be added yearly in order to obtain the *general* produce might be of different proportions; and lastly, because the period of possession might be of longer or of shorter duration,

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Cattle for instance ran wild, and were at first to be caught by labour, while uncultivated land was to be procured every where.

The latter cannot certainly be said to be created, or obtained by any particular exertion or degree of labour in man (although exchangeable against it), and from its abundance would be of little comparative value, as is yet the case in many places, had not the assemblage of many individuals on one spot of ground, and the general tendency of human nature to increase in numbers, wherever the necessary means of existence can be procured, occasioned an almost universal demand for it.

Competition may therefore be said to constitute the price of land when considered relative to labour, (the point being duly ascertained to whom the soil originally belongs) and to local circum-

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stances must be further attributed the various and widely differing values for the same kind of ground.

Such competition value must consequently be determined by the relative quantity of land compared with the quantity of labour or number of inhabitants, and the local differences, from the advantages to be derived by assembling in large bodies on commodious spots of ground, compared with those, which arise from living at a distance or in places of difficult access.

Those differences must naturally be very great while uncultivated land is to be procured, and that the produce of its cultivation must be transported to any distance.

It becomes useful therefore to observe, and to keep in view, that no just proportion of the relative value either of

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of uncultivated land, or of mental exertions with corporeal labour is to be traced, as is the case where the last only is employed, but there can be no doubt at the same time, that the abovementioned competitions have certain bounds, beyond which they cannot proceed, and which depend on a variety of circumstances too numerous, and complicated, to be stated with any degree of precision by the human mind.

The second consideration of the probable ratio of annual increase from its *natural* powers meets with less difficulty.

Some part of the *natural* produce was indeed always supposed to depend on chance, or on the uncertain degree of effects, which arise from the seasons, and which no human Industry could provide against, but the experience of former years established at least *data* for some calculation, and the distinction between the

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natural and the artificial effects required to be particularly attended to for the following reasons, viz.

Every soil has more or less the power of producing spontaneously, but by adding labour and other materials to it, this produce is considerably increased.

In one case $\frac{3}{4}$ th of such produce might be attributed to natural causes, and $\frac{1}{4}$ th to labour, and other ingredients.

In another case $\frac{1}{4}$ th only might be attributed to the latter, and $\frac{3}{4}$ th to the former.

These proportions of labour and other materials remained always to be added yearly, in order to obtain the *general* produce, and it became therefore necessary in the first instance to deduct such required proportions from the respective values of annual produce, in order to ascertain

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tain what *nature* did, as it made a material difference to the owners whether they had in future $\frac{3}{4}$ th or $\frac{1}{4}$ th of the real value to purchase.

This additional labour and those materials, which I have been endeavouring to point out as absolutely necessary to obtain any production, must however be understood as independent of what may be further added for the purpose of increasing its future *spontaneous* powers, or what is called improving an Estate, which gives it an additional value after its produce is disposed of.

There remains then ultimately to be considered the probable term of enjoying such produce, which depended on its limitation by agreement, and if nowise limited from that cause, either on the uncertain events of nature, in the cases of Life and Death, or on the stability of Government, with its due observance
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of justice in enacting, as well as executing such laws, as were necessary towards the security of property.

In order to form a clearer Idea of these different causes of relative value by the proportion of Numbers, I shall suppose, that two annually productive objects, limited to a certain number of years, are to be mutually exchanged.

One shall be as 1000 in natural or competition value, 8 pCt its productive powers by nature, and 2 pCt more by artificial exertions; in all 10 pCt. and 10 years its duration.

The other shall be as 1200 in natural or competition value, 7 pCt annually its productive powers by nature, and 4 pCt more its artificial powers; in all 11 pCt. and 11 years its duration.

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The general result in comparative value of these varying causes in different objects will be as 800 for the first, to 924 for the last.

8 pCt on 1000 is 80, multiplied by 10 years is 800.

11 pCt on 1200 is 132, multiplied by 11 years is 1452.

There might also arise a further distinction of one stocks produce being inert and consumable, and the other reproductive, in which case the latter would be further entitled to the compound ratio of its *natural* produce during the term of its duration, in the same manner as compound Interest is calculated on money.

The joint powers of nature and of labour may therefore be said to have formed the component parts of every thing produced, and altho' a relative value sub-

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sisted even in an early period of society between both upon the principles already described, yet no determinate medium or price could be said to exist, excepting that of numbers for defining each.

Dr. Adam Smith has indeed endeavoured to prove, that the real price of every thing is the labour employed in producing it. It appears however beyond a possibility of contradiction, that nature acts her part also, which destroys his Hypothesis.

There does not even (in this state of things) appear a possibility of tracing any foundation of value in many cases, excepting the competition value between nature and labour, according to their respective bounds and powers, and altho' a specific measure in the precious metals, under the denomination of money, has since that time been generally adopted, yet such measure when considered in its ori-

original abstract situation of a commodity procured by labour, would still have been subservient to the same principles, did not its universality, and consequent powers of production called Interest, give it a new Character, which will be further explained in a subsequent Chapter.

To trace in the meantime how a comparative value was established between Land, Cattle, and other property, which was annually to produce, and objects, which were not to produce, it is necessary for me to observe, that the foundation, from whence arose all produce whatever, consisted in natural and in artificial labour, represented by *Soil, Cattle, Slaves & Freeman*, jointly or separately, the possessors of which considered them as so much stock in hand, whereof the annual produce was to be afterwards exchanged for whatever their exigencies might from time to time require.

A productive and an unproductive object had therefore the same kind of origin or foundation, and the relative or competition value of every foundation was ascertainable in the manner already defined.

The productive stocks natural or competition value, and its consequent natural produce, became then to be compared with one year's general produce of another stocks natural or competition value.

Suppose for instance that the competition value of the former was 1000, 8 pCt annually its natural produce, 2 pCt its artificial powers; and 10 years its duration.

The full value must be 800, or 10 years purchase of 80, being 8 pCt on 1000.

If this produce should however be natu-

turally reproductive, the compound ratio of natural produce must still be added to it, as before stated.

Let the competition value then of the latter, from whence the unproductive object arose, be as 1200 and 10 pCt the general produce.

The full value of the consumable object must be 120, or one year's purchase.

The power of thus converting, or exchanging an unproductive object by a fair barter into a stock, or foundation, giving an annual and independent income for a certain number of years, until an equal value was returned, induced individuals to be more industrious, and particularly so, when from the wisdom of Government security in property became better ascertained.

It must appear evident, that however
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much mankind were inclined to produce such objects only as would reproduce, yet the necessity, that must have existed for producing consumable objects of indispensable use to each individual, would at all times prevent the former being over-rated when exchanged against the latter, while there can be no doubt at the same time from the naturally reproductive quality of many objects, and the general desire of mankind to accumulate, that the mass of stock reproducing annually would continue yearly to increase from the general savings, until a complete maturity, or that degree of Population & Industry, which any given tract of country would admit of, had taken place.

The impediments, which often arose to this increasing principle in Industry, could formerly only be traced to the want of proper protection, to which may now be added, that of an additional quantity of the medium of representation, which

which will soon appear to be a necessary cement in every increase.

We must not however from this circumstance lament the introduction of a medium of representation, as the nature of a mature state would have been very different (in the case of its nonexistence) from the physical impossibility of promoting the same degree of population and industry on any given tract of ground, without the facility which arises from such medium.

Before I proceed however to this new order of things, which took place on the introduction of the metals as representative signs, it is necessary to recapitulate what I have said, as I wish to impress very strongly on the minds of my readers the first principles of relative value.

It has been stated above, that those objects, which were procured by corporeal

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labour only, were exchanged according to the nature & degree of it, which each required, and that any deviation from such principle, occasioned by the desire of man for one thing in preference to another, was checked by the encouragement which immediately arose to produce more of the objects preferred, excepting in cases where nature limited the number of objects, when the competition price could have no bounds set to it.

The same principle applied also in some degree to establish, or at least to check the relative value between corporeal and mental labour, altho' competition was the foundation of their primary value.

It has also been stated, that the comparative value between uncultivated soil and labour arose from the relative quantities of each, or given number of inhabitants on any particular tract of Land, and that great local distinctions arose from the

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the assemblage of many individuals on one spot, and the advantages resulting therefrom, compared with what might be obtained in a more solitary, and distant situation.

I have also mentioned, that an intermediate sign was found necessary, in order to facilitate and multiply exchanges, and that cattle and hides, tho' inadequate to the objects in view, were first adopted for that purpose.

My readers will further recollect that three considerations were necessary to ascertain the relative value of each species of property, which produced independent incomes, viz.

The labour employed or difficulty in procuring each by competition against labour, their probable annual produce from *natural* causes, and lastly the positive or probable term of years, du-

ring which each property would be possessed.

The first proceeded from the soil and its natural powers, as also from different kinds of bodily and mental labour combined together & brought to consistency; the second depended on the species of object with the experience of its naturally productive powers in former years, and the last on a limitation by positive engagement to a period of years, but if unlimited, on the uncertain events of nature in the cases of Life & Death, or on the stability of Government with a proper administration of justice.

The further principles necessary to trace a comparative value between objects, that were to produce, and others, which were not to produce, consisted in tracing the comparative or competition value of the stocks or foundations, from whence each arose.

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The ratio of the natural produce of the productive stock multiplied by the term or years of its duration was then to be compared with the absolute ratio ascertained to have arisen in producing the consumable object either by nature, or art.

With all these principles it was in the power of every man to trace a relative value between all things, leaving that part necessarily to chance where nature was concerned, and every object was even exchangeable with each other, without the intermediate and incompetent signs of Cattle & Hides; but the introduction of the precious metals as a general medium of representation procured more completely the object of facilitating greatly and multiplying considerably every kind of exchange, while they simplified at the same time the first principles of relative value.

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It will also be found that they possessed from their natural and acquired qualifications the most *unbounded powers* in organising public finance; their virtues have however unfortunately been so much misrepresented by mankind, as to have occasioned the introduction of the most perplexing and dangerous theories, which human ingenuity could invent.

CHAPTER II.

On the principles, by which the specific quantity of the precious metals due to each object is regulated.

In the preceding Chapter I have stated the cause and the nature of a relative value, which subsisted between all things; and although it appears, that when the objects to be exchanged were not of the same nature, the great principle or ground work of such relative value was competition; yet it is equally evident, that this competition was always counterpoised & regulated by the interest and industry of Individuals, from whence we may conclude that there has always been traceable from experience a just and relative value for all things, excepting in those

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cases, where nature limited the number of objects.

To retain all things at that just and relative value with one another is consequently an unerring principle, which self Interest implants in the mind of man, and no human laws can so effectually operate to that purpose as the natural pursuit of the whole community.

It has been already observed that the metals derived originally their relative value from the labour required in procuring them, and that they were at first only made use of as ornaments or utensils.

The reasons, which induced mankind to adopt them as the properest representative signs, were no doubt, because they were divisible to the smallest purposes, sufficiently durable in their nature, and easily transported from one place to another.

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A relative value being already established for these precious metals, it is natural at first to conclude, that the specific quantity of them to be given for any particular object was ascertainable upon the original principle of their being an unproductive property, procured out of the soil by labour, and that there was of course no necessity for taking any new principle of value into consideration.

When we reflect however on the great demand, which inevitably took place in consequence of their adoption as a medium of representation, we shall find no difficulty in tracing the necessity of admitting a new principle of value, and at the same time discover in what manner, Interest, or annual production arose, as well as the wonderful arrangement of power, and profit, that ensued to every community.

It is in reasoning on this point, that all

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all writers on the subject of money depart from the first principles of its institution as a representative sign, and to their imperfect suggestions may be attributed a series of errors, which have produced many superficial, confused, and discordant theories.

To trace then the origin of Interest of money, we have only to suppose, that many individuals perceived a great advantage in the possession of pieces of Copper Silver or Gold for the purpose of Exchanging them, upon the principles already established, for what things they might want in sowing, superintending and gathering in their yearly crops, or in carrying on their manufactories, and that they were therefore willing to procure a quantity of them, not in exchange against any thing, but on the simple condition of their being returned again to the proprietor *with a certain additional number,* (from ten to fifteen per Cent possibly

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It is Capital and Gold and Silver for which interest is paid. Silver and Gold are only mediums by which Capital is transferred

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in those days) after the realisation of their Crops.

It is evident, that as those individuals, who had occasion for these metals, could on the one hand afford to add this premium to the sum borrowed, on account of their having been the means of extending considerably the general produce of their Industry, so these metals, on the other hand, were fully entitled to this new consideration of annual hire, for their use, from the generally good effects, which they produced.

The metals became then of course classed with that kind of property, which produces annually, and from their universal utility they obtained the right of precedency in estimating all things.

They indeed soon lost their original principles of relative value, but the reproductive power of Interest, which they had

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had obtained, gave ample encouragement to raise a greater quantity of them by labour.

By the attraction also of this annual premium, money was constantly moving from hand to hand, as every person lost so much increase by retaining possession of more than was necessary for his daily occurrences.

The most common observer will perceive that this constant and inevitable activity in the metals, enabled a small mass of money to transact the business of a great community, and that each time it moved was tantamount in its general effects to doubling the quantity.

The rapidity therefore, with which money moves from hand to hand, forms a material part of its powers, and it consequently becomes necessary, to state every principle which affects it, before I proceed

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ceed to explain those causes, which by raising or lowering the money value of the objects to be represented, occasion equally a relative scarcity or plenty of money, as if the number of objects had increased or diminished.

It has been observed in the preceding Chapter, that security in property was the primary cause of all industrious activity, and this principle applies with peculiar propriety to the activity of money; because the Interest of Individuals requires, that whatever is exchanged for money should be possessed, with as great a degree of security, as human justice can, upon general principles of policy, contrive to establish.

If every Government then affords a different degree of security in property from the nature of its Laws, and from the degree of justice, which is observed in carrying them into execution, there must
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naturally exist, at all times in different Countries, a considerable variation in the rapidity, with which money either circulates from hand to hand upon simple credit, or is exchanged for other property producing annually, as well as in the premium demanded for its hire.

A moment of general confusion or discredit will also produce a partial suspension in the circulation of the representative signs, but tranquility will restore it again, provided those signs have not been sent out of the Country.

The high or low rate of Interest, arising from the relative scarcity or plenty of money, may further occasion some change in the rapidity of circulation, as mankind are more or less disposed to part with their money, in proportion as they are tempted with a high or low premium for its use.

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This circumstance can, however, only be considered as a trifling check to the full consequences of plenty, or scarcity of money, and the two first causes of variation require therefore only to be attended to.

In forming an Idea of plenty, or scarcity of any commodity, it is in general to be understood, as meaning the quantity of that commodity compared with the quantity of some other object, which the demand for one against the other must ascertain, but in tracing the cause of a relative plenty, or scarcity of money compared with other objects, there appears to exist the additional considerations of degrees of motion, inherent to the first, & the specific, or nominal value of the last, both which circumstances seem to have been entirely overlooked by every Statesman, & Philosopher in their reasonings on that point.

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Whatever adds therefore to the rapidity of the circulating medium, or takes off from the specific value of any object to be represented, is in effect the same as if a greater quantity of money was produced, or a less number of objects were to be represented, and *vice versa*.

From these combined circumstances naturally arises the ratio of Interest, or price of money, and no human laws can possibly alter it in the smallest degree.

It becomes therefore not only an act of injustice, but even impolitic in Government, to fix it in any manner whatever, because every person has a right to sell his money, as well as his Estate, or House for whatever he can, from the situation of things, obtain for it, and by being a moveable property the proprietor can always contrive to send it to those Countries, where a better price is to be
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obtained; if he should be obstructed in his natural rights.

The most material principle, in the security of all possessions, is certainly founded on this freedom to make the most of every kind of property, and the reasoning of a moralist can no ways controvert it, as the principles of money, & the principles of morality, have no sort of affinity with one another, whatever Philosophers may pretend to have discovered in the vicious tendency of money, as the engine of corruption, which equally existed, by means of all other property, before the introduction of Gold & Silver.

Laws, which limit the Interest of money, will also not be complied with, if contrary to the natural situation of things, and be easily evaded by means of premiums privately given.

Government itself evaded the existing laws in raising money for the public service during the last war, while a Court of Equity thought itself obliged, at that time, to sanction a breach of money contract between man & man, because the law would not admit of borrowing at the rate of Interest then existing (above 5 pCt) in order to pay off a mortgage, which was granted at a lower rate, on condition of being redeemed at a stipulated time.

It is impossible to conceive any thing more unjust, or impolitic, than this mode of proceeding, first in preventing any Individual from borrowing money at any rate he pleases, and secondly in favoring a breach of contract by not granting a foreclosure on a mortgaged Estate.

The proprietor of money is certainly entitled to high Interest, whenever it is obtainable, if on lending it at low Interest,
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he stipulates at what time his right of being repaid is to take place; while it is evident on the contrary, that whoever has occasion for the use of money, and has the advantage of low Interest, when money is plenty, cannot complain of the necessity he is under of borrowing at high Interest, when money is scarce.

The fundamental error in this business consists, in a positive and invariable law being enacted against what is in its nature relative, and variable, and the futility of this law is evident from the facility of evading it.

The evil, however, that has arisen from the decisions of the Court of Chancery, is a discouragement to all loans on mortgage, because it is now upon record, that a Court of justice will not support a moneylender in his just, and natural rights.

The pleas urged of the low Interest
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being regularly paid, and of the hardship in not being able to borrow money at the rate allowed by law, are unworthy of a moment's consideration, while this law can be evaded, and that low Interest is not the just price for a property, which the proprietor has at that time by contract a right to claim.

Laws for the protection of minors, and for the conduct of Executors, & Tutors are on the contrary founded in policy, & justice, and may be effectual without any limitation of Interest, or any violation of natural principles.

In order then to point out the principles, by which the specific value of all objects in money is governed, I shall begin by stating, that all mankind agree in exchanging money for other property (producing annually) on such terms, as will procure an income, adequate (upon due consideration of all circumstances) to the

AN EXPLANATION OF THE NATURE, &c. 55

the existing rate of Interest, from a relative plenty, or scarcity of money.

The productive power of money, or the ratio of Interest, is consequently become the standard price, by which all other Capitals are exchanged against it.

Page

It will also be found to be the regulator of the price, due to the produce of all such Capitals, as are not limited in their extent by nature.

These two points contain the great secret of the operations of money in fixing the price of all things, and I must therefore claim the utmost attention, on the part of my readers, to the following very material explanation of the process, to which they give rise.

With regard to the first circumstance of the ratio of Interest being the competition price, by which other Capitals

are exchanged, it will be easily understood, when I state that if Interest is about 4 pCt, 25 years purchase of the stated income of a productive property (such as public funds &c.) is the fair relative value, at which to obtain such property, and if Interest is about 5 pCt, 20 years purchase, and so on progressively.

I do not indeed mean to assert by this position, that all Capitals, whether public funds, houses or land &c. &c. should give the same degree of income as money will, when lent on simple security, because each property may have qualities, which are peculiar to itself, and be consequently subject to great variation in price.

It may also not be improper to remark, that the ratio of Interest is at no time fixed to any particular point, but is subject to numberless gradations, as well as constant variations in the average price.

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These gradations arise from the collateral circumstances of trouble and risk attending the receipt of annual income, degree of security, and term of possessing the object exchanged.

It is therefore improper to state at any time a fixed ratio of Interest, as it has various prices in proportion to the quality of the object obtained in return for money, and can only be said to rule from 3 to 3½ a 4 pCent, or from 4 to 4½ a 5 pCent, and so on.

I can however affirm, that every gradation has a connexion with the average ratio of Interest, and that if certain circumstances warranted a difference of ½ pCt on a particular income, either higher or lower than the average ratio of 3½ pCent, when Interest was at that price, there would on the principles of equity and relative value arise a difference of ¼ pCent, either higher or lower than the average

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 ratio of Interest on that same income, sup-
 posing such average price to rise to 5 pCt,
 that is to say that the point of variation
 must be in unison with the average scale,
 provided nothing intervened to affect *par-*
tially that particular income.

From what I have said respecting the
 acquisition of property at 25 or 20 years
 purchase of its income, in the case of
 Interest being about 4 or 5 per Cent,
 it may be supposed, that the Capital
 only rises or falls, to answer the pro-
 portional fall or rise of Interest, that
 is to say, that a £ 100 rent in perpetuity
 should sell for £ 2500 sterl., when Inte-
 rest is about 4 pCent, and for £ 2000
 sterl. only when Interest is at 5 pCent,
 retaining thereby the income at the very
 same nominal value as before.

This is no doubt the process of nature
 with respect to all fixed and immutable
 incomes in money, but industrious in-
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 comes are of so different a nature, that
 those principles do not apply; they will
 on the contrary appear to be regulated by
 the ratio of Interest in fixing their mo-
 ney value, either higher, or lower, accor-
 ding as it rose or fell.

An examination into the component
 parts of all Estates or Capitals (money
 excepted) will evidently prove this point,
 by shewing of what they consist, and
 how *they* may be multiplied, or dimini-
 shed by a disproportion of value in some
 of their parts with the ratio of Interest.

It will also explain, in what manner
 this augmentation, or diminution in their
 quantity, will reduce or increase their no-
 minal value in money, as also that of
 their produce, called rents.

All Estates or Capitals, exchangeable
 for money, are composed of land, annu-
 ally & perpetually producing, of produc-
 tions

tions of land, either producing again, or only useful for a certain time, and of labour, as performed by animals or man.

Every production of Industry is therefore an income from some Capital, held in perpetuity, for a limited time, or on a life rent.

The possession of Land may be considered as a perpetuity; its productions, which reproduce or are found useful in building, and in manufactures &c. must perish in a certain time, and the value of labour is a life rent, by being the income for supporting animal existence.

Land then taken abstractedly from the other parts of Capital is subject to the competition of its quantity against the relative plenty, or scarcity of money, that is to say, when all the land of a given Country is cultivated to the highest degree, there can be no principle to coun-

counteract its competition value relative to money, and should Interest of money fall in that state of things from 5 to 4 pCent pr. annum, a £ 100 rent, which in one case would sell for £ 2000 sterl. would in the other case sell for £ 2500 sterl.

While new ground however remains to be cultivated, or that ground, already in a state of cultivation, can be improved by labour and other materials, there must necessarily arise a counteracting cause to the proportional increase in the money price of land, corresponding to the diminished ratio of Interest; in the first place, because the new ground comes in competition with the old, and in the second place, because the addition of materials and labour makes the old ground more productive, which is in effect equal to an increased quantity of Land.

But in admitting even for argument
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fake, that the full value should be given for the land in proportion to the rate of Interest, there can be no necessity for the rent rising also, in order to do justice to all parties, as the money paid for the land would still retain its proportion of income relative to the rent of money.

The long period indeed, for which leases are held, puts a general change in the old established rents entirely out of the question, tho' new leases might admit of variation.

In order to explain these principles more fully, I will suppose, that an uncultivated spot of ground would, if assisted by labour, and other materials, produce, what would sell for £ 70 sterl. annually, but that £ 50 sterl. only of that produce could be attributed to its natural powers.

If the full value then of the natural
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productive power of this piece of land, giving £ 50 sterl. annually, is £ 1000 sterl. when Interest is about 5 pCent, there would certainly be no further encouragement to cultivate that ground, if the proprietor insisted on obtaining £ 1250 sterl., in case Interest fell to about 4 pCent.

A moneyholder would however be well pleased to give £ 1150 sterl., if Interest fell to 4 pCent, as a £ 50 rent gave him in that case $4\frac{1}{2}$ pCent Interest for his money, and should the competition arising from an increased quantity of produce lower the price of it, and force him ultimately to lower his rent (suppose to £ 48) he would still retain more than 4 pCent Interest for the money, which he had employed in the purchase.

This argument is nowise weakened by the full value of £ 1250 sterl. being given for a £ 50 annual rent, which might
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be immutable for a great number of years, as the leaseholder remains in that case exposed to the diminished money value of the produce, from its quantity being increased; nor will it make any difference, if the original proprietor should prefer the cultivation to the sale of the new ground, as he thereby puts himself into the situation of a moneyholder.

It appears then, that land, considered by itself, will acquire an additional nominal value on a relatively greater plenty of money taking place, tho' not in the full proportion of the last, but that the rent, which belongs to its natural powers of annual production has a tendency to diminish in price, not alone in conformity to the diminished ratio of income from money, but also in consequence of the increasing quantity of rents, until the whole Country is cultivated to the highest degree.

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If this were not the case, we should have very great reason for considering the introduction of representative signs, as injurious to the happiness of society, by perpetually increasing the nominal value of their wants, instead of multiplying their comforts, and the public at large would then have more cause for censuring, than for applauding, the conduct of those Statesmen, who, by commercial treaties, or any other means, are constantly aiming at acquiring a greater Balance in money, on their general transactions with other nations, than they had previously obtained.

The second component part, of all Capitals, or Estates, as consisting of natural productions, has in a manner been already fully explained: for those productions constitute in fact the rents of land, and by multiplying the one or the other, their money value will naturally diminish, without doing any injury whatever to the proprietors; in the first place because

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they still remain in unison with the diminished rent of the general representative sign; and secondly, because every consumer (including the proprietors themselves) will find his daily wants of natural produce more cheaply supplied.

It becomes apparent from these deductions, that by increasing either the quantity, or the velocity of the circulating medium, an increased mass of natural productions & artificial labour is promoted, and that those individuals, who are exposed to a diminution in the money value of their incomes by this superabundant quantity, are at the same time fully compensated by the diminution in their annual expences.

This reflexion may, perhaps, lead mankind to contemplate the characteristic of money, in a more favorable point of view, than has hitherto been the case, and particularly, as they cannot controvert a self
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evident proposition relative to its powers viz. that by increasing such medium (as is acknowledged to facilitate and extend Industry) a correspondent progress must naturally ensue, if the Country be capable of improvement.

I come now to the last component part of all Estates, called labour, as performed by animals or man, and regulated in its money value by the price of whatever may be necessary for their support, as well as that of their helpless offspring.

Animal life is prone to increase, wherever the means of preserving it is to be obtained, and the price of labour is generally something above what is immediately necessary for subsistence.

The proprietor of the animal requires some hire for the use of his property, independent of what he must pay for his food, and man requires some little fa-

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vings from his labour, for the future exigencies of his family.

Should the necessaries of life be therefore reduced in their money value, on account of *rents*, and *natural* produce having fallen in their value, from the causes above mentioned, a competition amongst the labourers for procuring, only as much, as might be necessary for their food, cloathing, and conveniences, as well as for their reasonable little savings, would naturally reduce the price of their hire.

The price of labour being of course a necessary, and a material part in the money value of all *general* productions of nature, from which new Capitals, or Estates are constructed, we can find no difficulty in ascertaining, that such part receives a sensible diminution in price from a decrease in the money value of the other part called *rents* or *natural* produce.

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AN EXPLANATION OF THE NATURE, &c. 69

It is also very evident, that rents and labour form a very considerable part of all Capitals, and that their tendency to decrease in money value must counteract the consequences of the increasing value, in the other part called land, which appears to take place on money becoming plentier.

Capitals have, therefore, upon the whole, when connected, or arising in any degree from industrious incomes, or natural productions, the same tendency to fall in money value, when Interest falls, as those incomes or productions have, and these consequences are considerably increased, by the action and reaction between the Capital, and the income, which seem necessarily and inevitably linked together by nature, and influence one another for the following reasons.

The lower nominal value of the Capital requires less income in money, (over

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and above the original deduction, which lower Interest demanded) and this additional lower income has again a tendency to diminish the nominal value of the Capital, and so on repeatedly, tho' in a less degree each time, until the decrease becomes unworthy of further attention.

In proceeding further, to state the consequences of a greater plenty of money, or of lower Interest, on the price of manufactures, it is not alone necessary to take into consideration the diminished value of the raw materials, as well as of labour, from the very powerful causes above stated, but also, that the Capital in money, employed for carrying the business into effect, or purchasing the raw materials, will not only be less, but even procured at a cheaper rate.

Suppose for instance, that a manufacturer employs a Capital of £ 100,000
sterl.

sterl. in his trade, when Interest is at 5 pCt, he will naturally expect it to produce him 9 or 10 pCt annually, which is of course to be drawn out of the price of his merchandize.

If Interest then fell to about 4 pCt, and he continued to receive the same price for his merchandize, a threefold advantage would immediately accrue to him; first from the diminution in the money value of the raw materials, and labour; secondly from their requiring less Capital than before; and thirdly from the smaller Capital being obtained at a lower rate of Interest; all these circumstances would carry his profits much beyond all principles of relative value, and altho' I by no means deny his complete right to obtain as much as he can, yet I must beg leave to suggest, that if the consumers indulged him in his demands, he would be the very first to think of extending his own profitable

business, and if indolence, or any other motive prevented him from doing it, his neighbours would not fail to begin the same trade in opposition to him, so that a sufficient stock would at last be produced, and the price of his merchandize lowered to a scale of value, more consistent with the effect, naturally resulting from a diminished ratio of Interest.

If on the contrary a still higher price (than when Interest was at 5 pCt) should be given for his merchandize, a very extensive encouragement to the progress of manufactures would inevitably ensue, and the greater abundance must necessarily produce the consequences I have been pointing out viz. a reduction in price more or less bordering on the diminution of Interest.

I flatter myself, that I have now established the two leading principles, which I have been endeavouring to prove viz.,
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that the natural relative value of all things is regulated, through circuitous operations, by the ratio of Interest, and that the encouragement to further industry arises from the market price of its productions being higher, than the current rate of Interest absolutely demands, or that the principle of equivalents will justify.

It is however necessary for me to state, that there are accidental, and local bounds, to probable and natural effects; as well as particular deviations from general principles, to which all nature, from its great complication, is subject; but that these accidental bounds, and particular deviations, are of no material consequence in the general effects, and should therefore not be kept in view by an enlightened mind: because the danger of obscuring the first, and general principles, would then become as great to the present and future ages, as has evidently been the case with the past.

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But in order to remove every doubt, which might still remain in the breast of my readers, I shall examine the consequences, to which the industrious exertions of individuals are exposed, upon a relatively greater scarcity of money taking place, which will form the counterpart of what has been stated, with respect to the effects of a relatively greater plenty of money, and cannot fail of producing the completest possible conviction, respecting the truth of the one, and the other.

Let us suppose then, that Interest of money rises from 4 to 5 pCt, and that every landholder loses in the Capital value of his Estate in the proportion of 25 to 20 years purchase or $\frac{1}{5}$ of its former amount, that is to say upon an income of £ 50 sterl. pr annum, £ 250 sterl. out of £ 1250 sterl. of its former Capital value.

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AN EXPLANATION OF THE NATURE, &c. 75

There will in that case exist no inducement whatever to buy, or cultivate new ground, because the old will not only have lost considerably in its value, but will also, from the circumstance of its being already in a state of cultivation, be universally preferred.

If we calculate further the chances of those rents, which are not fixed for any distant period, being supported at their former value, we shall find, that the scarcity of money will not admit of so many purchasers of produce at the old prices, and that the market price of natural produce may on that account immediately fall, notwithstanding that it might *bona fide*, and ought indeed to lay claim to an increase, if the value of the Capital was not lowered in such a degree, as to correspond with the increased ratio of Interest.

As this decrease of Capital value cannot
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on all occasions ensue, a still greater discouragement to cultivation must take place, until rents not only return to their old price, but even increase in their value (by a *neglected cultivation*) in conformity to the principle of an Equivalent increase from money, as they would not otherwise be renewed.

This advance in the price of rents, or even the power of supporting them at their former rates, cannot exist under the circumstance of a diminished quantity of representative signs, without a diminution in the mass of general productions, from the mathematical impossibility of a lesser representing a greater number; suppose for instance that 100 Guineas represented 100 objects at a Guinea each, 80 Guineas could certainly not represent the same number at the same value; and therefore it follows, that a diminution either in the quantity of objects, or in their value, must take place, in
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AN EXPLANATION OF THE NATURE, &c. 77

order to restore the powers of representation.

It may perhaps be thought, that an additional motion in the representative signs would supply the deficiency in their quantity, but unfortunately there can exist no motive for increased activity, excepting in the purchase of Capitals, & that only to a small degree, on account of Interest being higher, as stated above.

If the accelerated movement of the representative signs became equal, or nearly so in its effects to the loss sustained in their quantity, the interest would remain at the same rate as before, and no change of consequence would be perceptible, either in the price, or quantity of general productions.

It must be observed also, that the diminished value of many Capitals (having fixed incomes), which takes place on the
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Interest of money rising, will not sufficiently relieve the representation of money, so as to admit of the annual produce of other Capitals being represented at the same price as before, because the representation of Capitals is but a small part of the duty of representative signs, and is confined, to the transactions of those persons, who are exchanging the nature of their property, or to new acquisitions of Capital, from general savings, while the representation of incomes calls for a daily transfer, to an immense amount, amongst producers, and consumers of all articles whatever.

It should also be further recollected, that Capitals are in part productions, and that such productions will not admit of being so much reduced in price, as to correspond (in the form of Capital) with the increased ratio of Interest, because those parts are ultimately not to be procured, without their just value (as incomes)

mes) be given, although land of itself might be subject to the full effects of competition between its quantity, and the relative plenty, or scarcity of money.

The bad effects, therefore, which arise in any society, from a diminution of its representative signs, are not only very conspicuous in the neglected cultivation of its land, as well as in the diminished quantity of its annual Industry, but ultimately in the increased price of annual produce necessary for the support of animal life.

This circumstance must naturally affect the price of labour, and the increased price of labour (as forming a component part in all general productions) will again react, and increase the price of annual produce, affecting thus repeatedly one another (tho' in a smaller degree each time) to the very great disadvantage of the whole community.

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The population of a Country must then inevitably diminish, and altho' the reduced number of Individuals may have nominally higher rents from money, and higher wages from Industry, yet their expenditure will unfortunately be increased in the same degree.

If we trace also the effects of higher Interest of money on the price of manufactures, we shall find, that the Capital employed must not only be increased, in order to purchase the raw materials, & labour, at advanced prices, but that a higher annual premium must be paid for the use of money, and that this threefold accumulated charge must be made good, by the higher price of the objects made.

We shall also perceive, that as the higher wages of the labourer, the advanced price of raw materials, the increased Interest of money, and more extensive Capital, together with

with all their actions & reactions, must ultimately form such an accumulated expenditure, towards producing the same objects, it would become impossible for the manufacturer to continue his business (in the event of prices not rising in proportion to those increased charges) without a compleat sacrifice of his rights: it must in that case be more for his interest to content himself with the higher income, obtainable from money, and to divest himself of all trouble and risk, attending the prosecution of business.

Which ever way, therefore, this subject is considered, the general result will always correspond with the recapitulation, which I shall here make in as few words, as the nature of the discussion will admit.

Self Interest must in general be considered as the *primum mobile* of all human industry.

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This self Interest was originally gratified, by a proper relative value being supported between all objects, on those principles, which have been stated in the preceding Chapter: but it is now excited by the preservation of a superior proportion in their money value, either according to the ratio of Interest, if it be a production, or according to its competition value with money, from the relative scarcity or plenty of the one compared with the other, if it be land, mental labour, or any other object, whose quantity is limited by nature.

These distinctions are indeed so much blended together, through a variety of circuitous operations, that the proportion of their separate effects, or the preponderance of either, has never been properly traced, or ascertained, so as to determine the general result on money becoming, either plentier, or scarcer.

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It appears, however, from the foregoing investigation, that productions, arising either from nature, or from corporeal labour, form the most material part of all Capitals, as well as of all objects of general use; and although the price of land, mental labour, or any other object, whose quantity is limited by nature, will be influenced by competition from the relative plenty or scarcity of money, yet it is very evident, that they have, upon the whole, no power to counteract the general principle, of a diminished ratio of Interest producing a diminution in the price of almost every object, as well as an increase in their quantity, & *per contra*, of an increased ratio of Interest producing an augmentation in the price of those objects, with a decrease in their quantity.

This increase or decrease in the quantity of Industry, from an increase or decrease of that medium, which was introduced for the purpose of facilitating, and

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of course, extending the mass of Industry on a given spot of ground, appears indeed to be self evident, because it naturally follows, that by increasing or diminishing the powers of an engine, there must also arise an increase, or decrease in its general effect.

The circuituous operations of money have, indeed, hitherto so much puzzled the human understanding, that this self evident proposition has been entirely overlooked: I flatter myself, however, with its being soon generally acknowledged, that the following axioms contain the whole mystery of the proceedings of money, with respect to increasing the quantity of Industry, and diminishing its price, whenever a relatively greater plenty of money occasions a diminution of Interest, and *vice versa*.

A Country capable of improvement in agriculture, in industry, or in popula-

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lation, and enjoying such laws, as will secure to Individuals their property, must inevitably receive those improvements thro' the medium of a diminished ratio of Interest, whenever an increased quantity of the representative signs are obtained.

The market price of Industry becomes then superior to what the diminished income from money demands, and the self Interest of man will of course prompt him to extend his Industry, until the additional quantity produces the effect of diminishing the price of it, to a juster proportion (on the principles of relative value, or of an equivalent) with the income from money.

If the superabundance of money should induce Individuals to give more, than they did (previous to the diminution of Interest), this active principle of self Interest would be still more excited, and the

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consequences abovementioned must therefore ultimately take place.

A diminution in the price of articles of general use produces also the same good effects on the relative plenty of money, as a further increase of representative signs, creating thus a powerful & advantageous action and reaction between the lower price of those things, and the lower Interest from the greater relative plenty of money, as the price of one part of general produce has already been proved to act, and react upon the other part.

Improvements in agriculture, or manufactures, by means of Mechanism, Chymistry &c. or in the mode of conveying any thing with less labour from one place to another, produce also the effect of lowering more or less the price of all articles, although it should be immediately confined to one object, or even to a part of

AN EXPLANATION OF THE NATURE, &c. 87

of an object of general use, and of creating thus a still greater plenty of money, without even the introduction of an additional quantity of representative signs; to which may be further added the consequences of each part acting & reacting upon the other, so as to produce a general and sensible diminution in price upon the whole mass.

If we trace the reverse of these operations, (as far as concerns the increase of Interest) on money becoming relatively scarcer, we are immediately led to perceive, that the income from money becomes higher in proportion, than the existing price of Industry gives, and that a discouragement will ensue, until the quantity of produce is *unfortunately* reduced to such a degree, as to admit of purchasers at a price, in proportion to the increased income from money.

This effect of a diminution in the quan-

tity of Industry would be still more considerable, if the scarcity of money occasioned a still less price to be paid for those productions of Industry, than was previously the case, and a further evil would arise from the principle of all component parts of Industry acting, & reacting upon each other, while the higher money value of all objects must also occasion a relatively greater scarcity of money, without any further diminution in the number of representative signs.

To sum up the whole; it appears, that a greater plenty of money, by lowering Interest, becomes a very active and powerful engine in lowering the price, and increasing the quantity of industry, and population, on a given spot, if well governed, and capable of improvement; that meliorations, which the ingenuity of man is for ever contriving in agriculture, in manufactures, in chymistry, and in the mode of conveying goods from one place to an-

another, produce also the effect of lowering the price of Industry, and thereby occasion a further relatively greater plenty of money, with all its happy consequences, without an increased quantity of representative signs being introduced.

It appears also *per contra*, that a greater scarcity of money, and consequent increase of Interest, is an active and powerful engine in augmenting the price, but diminishing the quantity of industry, & population, and altho' no improvements are likely to be lost, so as to occasion the reverse of what the invention of those improvements produced, yet something analogous (in effect at least) has arisen in the political administration of all societies, by the introduction of money taxes, which has produced much confusion in several states, and which will be fatal to many more, if those, who govern the different Empires in Europe, do not lay aside the prejudices of their education,

tion, and abandon the unimportant discussions of mere forms of finance, to make way for the thorough investigation of its principles, as well as of the baneful effects of taxes, which the following Chapter will fully develope, while the succeeding one will point out the antidote against the pernicious tendency of their nature.

CHAP.

CHAPTER III.

On the effects of taxation in money.

The preceding Chapters will, I hope, have sufficiently explained the principles of relative value, which so evidently subsists between every object and money, as well as the general effects, which arise from a relative plenty or scarcity of money, independent of those, which may further accrue from taxation.

An examination into the nature, and effects, of money taxes will, however, throw a new light on every system of public finance, which the human understanding has hitherto developed, and will probably urge either the present or the

the future generation to consider, if there be not a more consistent plan of relief to be traced, than that of increasing the evil of taxation by creating a sinking fund.

I have already stated, that when taxes were levied in kind, & that all things were exchanged against each other, no inconvenience whatever arose to society at large, as every man gave a proportion of what his labour produced.

It induced him indeed to be more industrious, as the surplus might otherwise not be sufficient, either for his immediate wants, or for his plans of annual saving.

This motive, it must be owned, continues still to operate on the mind of man, whenever any new tax is levied in money; but the uncertainty of getting his additional labours, represented by additional signs, is perpetually thwarting his
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ultimate views; for, without this increased power of representation, his additional labour is not only lost, but even a part of his ordinary efforts is positively absorbed by the representation of the tax; and from thence results the inevitable necessity of selling his extraordinary, & ordinary labour for a less sum, than he previously obtained for the last.

To prove this, we need only analyse the nature and effects of a tax, whether it is considered, in the light of Interest on money, raised for the public service, or as an annual expenditure for the peace establishment.

If considered as Interest, it is then a part of the money value of an annual produce, taxed for that purpose, and of course, the annual reproduction of a new money Capital, added to that, which was previously necessary towards producing the object taxed.

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This being the case, it is impossible for that object to be produced at the same price as before, nor could the person, who gave his money, be secured in his annual income, if this additional value (equal to the tax) was not absolutely linked to the object, solely & independently for his use, as the Interest of the Capital he had furnished.

It would be ridiculous to urge, that the producer of the object taxed could relinquish a part of the preexisting value for the benefit of the moneylender, as that Idea would militate against the principle, of a just value being due to all things, so fully established in the preceding Chapters; and experience sufficiently proves, that the producer always exacts more, than the tax levied on him, which will be further explained, on tracing the progress of the Evil.

If we consider also the tax, as a pro-
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vision for the peace establishment, it then becomes equally a part of the money value of an annual produce, for the purpose of purchasing, some other income or production, annually necessary for the support of the state; should therefore the object taxed not be immediately raised, in its nominal value, in a superior degree even to the part required, the reproduction of it must soon cease, and the whole system of taxation would in this case, as well as in that, of being an annual Interest to the moneylender, become a mere fiction.

This matter may be brought very clearly to the comprehension of any man, by supposing the tax to be as two, while the previous cost of the object, considered as an income from a Capital, should also have been as two.

To continue the object in that case at its former price, must annihilate either
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the first cost, or the tax, to the detriment of the producer, or of the public service.

The stating this case in a less strong degree will by no means alter the principle, and be equally intelligible to enlightened minds, nor will it be necessary to add, that the contrary effect must be produced, whenever a tax is taken off, as it diminishes the capital employed in producing the object relieved, whether such tax existed for Interest on money raised, or was levied to exchange against some other produce, wanted annually by the state.

I shall now proceed, to state the aggravation of the evil complained of; first by observing, that the producer of the object taxed claims a profit on the tax, in proportion to the income he receives from the other Capitals, employed in his business; and secondly by recurring to the prin-

principle of the additional price of one production acting immediately upon others, & reacting afterwards upon each other, particularly if the object taxed should be necessary to human existence.

This principle acts so imperceptibly, yet at the same time so powerfully, in raising the price of all objects, that it may not be unnecessary to state a case in point, by supposing the materials, of which cloathing is made, to be taxed, at the very same time with the materials, from which shoes are manufactured.

The Taylor makes the Shoemaker pay dearer for his Cloaths, and the Shoemaker equally makes the Taylor pay dearer for his Shoes; of course both feel themselves taxed by each other in their wearing apparel, considerably beyond what Government levied (*), and both have again

(*) Not alone as a profit on the tax, but also

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again recourse to raising their price, tho' in a less degree each time, acting and reacting in this manner upon the wants of each other, until the degree of increasing price becomes so small, as not to be worthy of further notice.

It may be asked what mode of taxation does the least prejudice in the manner above described.

To this it can only be answered, that taxes laid on luxuries do less mischief in increasing the price of all things, than those laid on the necessaries of life; but that all Capitation taxes, or whatever even may be classed under that denomination, come nearer to the original plan of taking the tax in kind, than any other mode, that can be adopted; because it then levies a part of each person's profits,

on account of a necessary article being increased in price, although made by themselves.

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fits, and of course upon the last stage of their productions, which considerably diminishes the action & reaction of one thing upon another.

It must however be allowed, that no tax (which can be denominated a Capitation) will ever fall impartially & according to the faculty of each individual, which occasions its being generally reprobated; but as partial evil often produces general good, Nations would do well to give the preference to that system of taxation, because (however partially the advantages might be distributed) every individual would reap some benefit by it, and to the community at large a very considerable increase of prosperity would ensue.

If we take into consideration the multitude of taxes imposed in Great Britain within this Century, and the accumulated evil consequences, which have en-

fued on the price of all articles, we shall be nowise at a loss, to account for the great increase of expence, to which all ranks of people are exposed.

We may on the contrary be surpris'd, that Great Britain should have continued yearly to increase in her population, & Industry, under such an accumulating oppression; and that many articles of general use should still be obtainable at a moderate price.

This will however not appear so extraordinary, when we recur to the good effects of decreasing Interest on money, and of improvements in cultivation, in conveyance from place to place, in mechanism, and in Chymistry, with all their favorable actions and reactions, so fully developed in the preceding pages.

A great part of the annual importations of Gold and Silver, from the mines of

of South America, are naturally drawn into Great Britain from Spain and Portugal, either directly, or circuitously from a *General Balance* due to our trade with foreign nations, or as the purchase money of our *public funds*, in which Foreigners think it adviseable to lay out a part of their annual savings.

This increase of representative signs has of course provided, not only for the increasing mass of Industry, which has annually arisen, but also for the increased prices from taxation; while those increased prices have on the other hand been considerably checked by the good effects of the lower ratio of Interest, as well as by the daily improvements in cultivation, in conveyance from place to place, in mechanism and in chymistry, which have tended to the production of many objects with much less materials and labour.

These circumstances will, however, not justify any unnecessary extension in the number of taxes, because it produces the inevitable consequence of diminishing the produce of preexisting taxes, or at least of checking their natural increase, and of keeping the price of all objects higher than they would otherwise have been: for the increasing quantity of representative signs are not allowed by such aggravation to produce their full effect in the reduction of Interest, in the increase of Industry, and in the decrease of its price.

It may be urged, that notwithstanding all my assertions respecting the accumulated evils of taxation, our progress in Industry has been astonishing since the year 1785, while the accumulation of taxes since the year 1783 is almost as great, as during any other period.

The answer to this is, that the increase

crease of paper money has also been greater during that time, than any former period, but how far that system of increasing representative signs was constructed upon proper principles, the commercial disasters of the year 1793 will sufficiently explain.

The unfortunate situation of France has, however, thrown a greater quantity of Gold and Silver into other Countries; and we may therefore hope, that a part of the loss lately sustained, by the annihilation of a great mass of paper money, will be supplied in Bullion from abroad, and prevent, in some degree, the bad effects, which Great Britain had to apprehend in her future revenue, from this diminution in her representative signs.

As the great increase of money, with its attendant good consequences on the revenue since the year 1784, has been improperly attributed to the wisdom of

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administration, and that the bad effects of its decrease will now be equally attributed, with as little propriety, solely to the war with France (*), it becomes necessary for me to state, that the whole money system is in a manner entirely foreign to the administration of public affairs, and that its particular situation respecting *quantity* must be regulated by the Interest, and operations of Individuals, as well as by their confidence in one another, which is very often carried beyond all bounds in Great Britain, and

(*) Notwithstanding that large sums have been expended by our armies abroad, yet a Balance is still coming into Great Britain, by such expenditure being returned *on loan* in the purchase of *stock*. After the peace of 1763 the contrary happened, as Foreigners called for their money, by selling out of the *funds*, which threatened the industry & the revenues of Great Britain with ruin, until the revived importation of Gold & Silver from Mexico & Peru spread its benign influence over Europe, and enabled Foreigners to send back the sums previously wanted.

after producing conspicuous advantages to the community at large, ends in great individual distress, and diminishes for some time the public revenue.

But if Ministers have no right to interfere in forcing a greater importation of Gold and Silver, as well as in increasing, or diminishing, the confidence between man and man, on which paper money is principally founded, and that they must submit to every temporary evil that arises from the want of additional signs in coin, or from a diminution of paper money, from which their operations had been deriving considerable advantages, they are certainly bound to examine with attention, and to promote with becoming zeal, any plan, which is found to produce the permanent, and solid advantages of diminishing the price, and extending the mass of Industry, without the assistance even of additional representative signs.

The first step towards this object can only be founded on their dereliction of every Idea of a sinking fund, which so evidently tends to increase the annual expences of the public, as well as of individuals, and checks the growing mass of Industry.

The progressive, and accumulating, bad consequences of both these circumstances are so very conspicuous, that it will almost be needless to add, that no future good, from *ultimately* taking off taxes, equal to *the sinking fund*, as well as to *the amount of Interest redeemed*, can compensate for those evils.

The amount of the sinking fund taxes could, certainly, *from the first moment* have been desisted from, and, for *the Interest redeemed*, we have in return a much greater annual expenditure, with its permanent consequences (*), and a less mass

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(*) Greater loans, during war.

of Industry, as well as a suspension in its powers of progressive & compound increase, during the term of this fatal operation.

Nothing can be alledged in its favor, as the advantages proposed are rendered nugatory, from the immediate, and permanent effects of taxes in money; and it may not be improper also to recollect, that if the unnecessary taxes check the progress of the necessary ones, the taking off those taxes, which now produce near *two millions* p^a annum to the sinking fund, must inevitably make the other taxes more productive, and give immediately by *natural* means that financial resource, and powerful income to the state, which is now cruelly, but in vain, attempted by a sinking fund.

It appears then, that the bad consequences, which arise from taxes in money are fourfold; first by raising the nomi-

nominal value of the object taxed; secondly by the action and reaction of the increased price of that object upon others of general use; thirdly by those combined effects of increased nominal value on all objects inevitably absorbing a greater quantity of the existing representative signs, which must create a relatively greater scarcity; and fourthly and lastly, by a further action, and reaction between the Interest of money and the price of all objects, in conformity to the above-mentioned operations of the Taylor, and the Shoemaker.

It is evident also, that no human regulations can possibly alter these proceedings of nature, which cannot fail to diminish the existing mass of Industry & population.

The counteraction which may arise from the circumstances of an influx of money, or of improvements of any sort, must

must be considered as a distinct operation, producing different effects, which would have been fully developed, if other destructive principles had not taken place at the same time.

Pernicious principles cannot certainly claim any merit from a mitigation of evil, when it arises from other salutary causes; for we must keep in recollection, that the effect is exactly the same, whether the existing mass of Industry is *positively* diminished, and the price of all things *really* increased, by adopting a false system, or that such effects are only *negatively* produced, by absorbing what would otherwise have created a greater increase of that Industry, and a decrease in its price.

To be consistent then, we must also admit, that the plan of taking off money taxes, will produce fourfold good consequences; first by diminishing the nominal value of the object relieved; secondly by
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the action and reaction of the diminished price of that object upon others of general use; thirdly by these combined good effects of decreased nominal value on all objects demanding a less quantity of the existing representative signs, by which means a greater plenty of money is produced; and fourthly and lastly by the action and reaction between Interest of money, and the price of all objects, which must considerably reduce the price of both, and inevitably augment the general mass of Industry and population.

A counteraction to these happy consequences may indeed arise from some other circumstances, such as an exportation of the metals, annihilation of paper money, or partial commotions in the Empire; but it will be some consolation in that case to think, that the effect is either annihilated or mitigated by the salutary consequences, which arise from taking off taxes.

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Whoever doubts my reasoning upon the subject, and attempts to establish other principles, respecting the operation of money taxes, must inevitably fall into every sort of inconsistency, and should any person proceed so far, as to say, that money taxes do no mischief, it will be incumbent on him to explain, why any attempt is ever made, *ultimately* to get rid of some, by means of a sinking fund.

If he should on the contrary allow, that some evil arises from them, it behoves him in that case, to explain the nature, and extent of it; in order that mankind may be able to form some judgment, whether the immediate evil, from creating a sinking fund by *an excess of taxation*, is not greater, than any future good, which is expected from it.

I am indeed fully convinced, that a permanent, and annually increasing evil of *great magnitude* is generated by *such excess*,
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and that the ultimate good, which is supposed to ensue, is perfectly delusive.

Having no power, however, to alter the present unfortunate system, and seeing the general indifference to any enquiry into the merits, or demerits of it, I can only seriously lament, that neither the wisdom of our ancestors, nor the enlightened understandings of the present age, have sufficiently directed their efforts, to the comprehension, or to the explanation of this very important subject.

Much has indeed been written on Industry, on commerce, and on particular forms of finance, and taxation; but the elementary principles of all these have been misunderstood, and the subject has even been thought unworthy the notice of elevated minds, as well as too speculative to be traced with any degree of accuracy.

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How far the suppositions of those, who neglect the science, or the errors of those, who have mistaken the principles, are justifiable, I must leave to my readers to determine.

The accumulation of taxes, for the purpose of redeeming public annuities, being thus reprobated as ineffectual, and at the same time, as cruel and oppressive, I shall probably be accused of destroying every hope of redemption from the great mass, with which the nation is burdened, and it therefore becomes me to point out some other remedy.

The following Chapter will, I flatter myself, unfold the *efficient* resources of every state, and shew by the clearest mathematical demonstration, as well as by the application of established practice, that all public annuities carry naturally (upon the principle of an equivalent value being returned) their *extinction* along with them,

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whether created for a limited number of years, or granted in perpetuity, and in that case subject to be redeemed, whenever Government can substitute a new creation on more favorable terms for the public.

My readers will then perceive, that any attempt to redeem annuities by means of new taxes, becomes in fact a *double*, nay even a *triple* reimbursement, and by thus adding gratuitously to the public burthens, produces the very contrary effect to what is intended.

The wonderful financial resources of every state, not yet matured in population and industry, as well as the possibility of rendering those of an infant state indefinite, must naturally arise to our view, from an examination of the nature and power of money, combined with those principles of equivalent value, which so evidently form the ground work of
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of every transaction, or exchange, between man and man.

The particular application of those principles must, however, be more or less regulated by the circumstances of the moment, which will of course produce frequent alterations in the secondary plans of finance, such as the extent of annuities to be granted, the change in their form, and the modification of particular taxes.

The relief, to be procured for a country completely matured, must further depend on the additional knowledge of the nature, and extent of its public annuities, as well as of its taxes, and annual expenditure, in order to lighten each by new modifications.

The political existence of such a country may, by those means, be considerably prolonged, although prosperity cannot be expected in any great degree.

End of the First Part.

The first part of the document
 discusses the general principles
 of the system and the
 various components involved.
 It then proceeds to describe
 the specific details of the
 implementation, including the
 hardware and software
 requirements. The document
 concludes with a summary of
 the findings and a list of
 references.