

# POLITICAL ECONOMY

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## INTRODUCTION

### DEFINITIONS, AND DIVISION OF THE SUBJECT

1. POLITICAL ECONOMY is the *Science of Wealth*. It is sometimes defined the Science of National Wealth. This definition seems not, however, sufficiently comprehensive; inasmuch as, the laws which govern the creation of wealth are essentially the same, whether they are considered in respect to man as an *individual*, or to man as a *society*.

By Science, as the word is here used, we mean a systematic arrangement of the laws which God has established, so far as they have been discovered, of any department of human knowledge. It is obvious, upon the slightest reflection, that the Creator has subjected the accumulation of the blessings of this life to some determinate laws. Every one, for instance, knows that no man can grow rich, without industry and frugality. Political Economy, therefore, is a systematic arrangement of the laws by which, under our present constitution, the relations of man, whether individual or social, to the objects of his desire, are governed.

2. *Wealth*. It has been frequently remarked, that the universe around us is composed of objects suited to gratify our desire, and thus minister to our happiness. *The capacity to gratify desire* is, therefore, the first element that enters into our notion of wealth. But as

the gratification of our desires, by means of an external object, almost always supposes some change effected in that object; and, as we could have no right to effect that change, unless that object were our own, another element, which enters into the notion of wealth, is the *idea of possession*. Hence, wealth may be defined any object, having the power of gratifying human desire, which is capable of being appropriated. He who possesses many of these objects in abundance, is termed rich. He who possesses few of them, is termed poor. He who possesses a large amount of money, is also called rich; because, with money, he can generally procure whatever else of physical convenience he may desire.

3. *Of value, intrinsic and exchangeable.* The particular quality in any substance, which renders it capable of gratifying human desire, is called its value. Thus that quality of fuel, which constitutes its value, is its power of generating heat, or of gratifying this desire in man. A particular substance may have the power of gratifying either one or several desires, and thus it may have either one or several values. Thus anthracite coal is at present known to have but one value, namely, that of generating heat. Bituminous coal possesses also another, as it is also used in the manufacture of gas for the purposes of illumination. Wood has several values, inasmuch as, besides being used for fuel, it may also be used for building, and for various purposes in the arts. Iron has as many forms of value, as there are uses to which it may be applied, in promoting the convenience of man.

The *degree* of the intrinsic value of any substance, depends upon the nature and the number of the desires which it can gratify. If the gratification of that desire to which it is subservient, be necessary to the existence or to the comfort of man, its value will be great. Such is the case with air, water, clothing, food, and fuel. If the gratification which it affords can be easily dispensed with, its value will be small. Such is the case with articles of luxury, or the means of mere amusement.

The inferiority of the value of this latter class, is evident from the fact, that, in seasons of scarcity, these are first relinquished. And again, the degree of the value of any substance, depends upon the *number* of desires which it can gratify. India Rubber, or Caoutchouc, a few years since, was used but for one purpose, that of rubbing out pencil marks. It is now used in the manufacture of shoes, and for several other very important purposes. The intensity of its value is, therefore, greatly increased.

We have thus far treated only of *intrinsic* value, or of the power which any particular substance possesses, of gratifying human desire.

If, however, we examine the various articles of value around us, we shall observe a very remarkable difference between them. Some of them may be made the means of procuring for us, *by exchange* other objects of desire. Such, for instance, are gold, silver, iron, coal, wood, &c. He who possesses a large quantity of either of these, may, ordinarily procure for himself, by exchange, any thing else that he needs. Others, on the contrary, and those of great intrinsic value, are destitute of this property. What has greater intrinsic value than air, the light of the sun, or water? Yet we can get nothing in exchange for air or sun-light, and very rarely for water. And again; substances having an exchangeable value, do not possess that value, in proportion to their intrinsic value. Iron has a far greater intrinsic value than gold; yet, an ounce of gold has a far greater exchangeable value than an ounce of iron; that is, an ounce of gold will procure for us many more articles of convenience, in exchange. This latter property, or the power of procuring for us something else in exchange, is called *exchangeable* value.

If, now, we compare those substances which have not, with those which have exchangeable value, we shall find them to differ in the following respects.

1. Those which have no exchangeable value, are every where *abundant* and *inexhaustible*. The supply of the others is limited in *quantity* or is limited in *place*.

Air, and the light of the sun, are inexhaustible every where. Coal is in some places inexhaustible, but it is not so in others. Where it lies, for miles together, immediately upon the surface, and in beds of unknown thickness, it has no exchangeable value. Where it must be carried to any distance, to be brought to the consumer, it then acquires an exchangeable value.

2. The value of the first class of substances has received no *addition from human labor*, but derives whatever qualities it possesses, directly from the gift of God. The value of the other, has always received some addition, and, frequently, it is derived altogether from human labor. Neither air, nor the light of the sun, can receive any additional power of gratifying human desire, from any effort of man. On the contrary, all the most important values of iron, are derived from human skill. A lump of iron ore is as valueless as granite or sandstone. The peculiar properties of the metal, are the result of the processes through which it passes. When, however, a substance which ordinarily possesses only intrinsic value, is placed under such circumstances that human labor must be added to it in order to enable it to gratify desire, it then acquires exchangeable value. Thus water, which ordinarily, has no exchangeable value, is frequently sold by the gallon in cities, because it can be procured in purity only from a distance, and hence, before it can gratify the desire of particular individuals, it requires the labor of transportation to be added to it.

We see, then, that every substance on earth may have, and, doubtless, it actually has, intrinsic value. If we then consider all those qualities which are necessary to prepare a substance for the gratification of human desire to be intrinsic values, these maybe divided into two kinds; first, those which are imparted to the substance by the immediate act of God; and, secondly, those that are imparted to it through the intermediate agency of man. The former, being the gift of God, are gratuitously received, and gratuitously parted with. The latter have cost human labor, and therefore cannot

be obtained without an equivalent. Hence it is the latter alone, that enter into computation, in fixing exchangeable value. Thus the exchangeable value of iron and of gold, respectively, does not depend upon the uses to which these metals may be put, but upon the labor which must be employed in preparing them to gratify desire.

But it is plain, that if a man expend labor in the creation of a value, this labor gives him a right to the exclusive possession of that value; that is, supposing the original elements belonged to no one else. Now, as almost all the qualities which gratify human desire, can exist only by the exertion of this labor, it follows, that all such objects must have already become the exclusive possession of some human being. Hence, he who wishes to possess such objects, must either himself expend the labor necessary for producing them, or else he must procure them by voluntary concession, from some one who has already expended it. But he who has expended labor upon a substance, will never voluntarily surrender it up, either for nothing, or for that which he can obtain without labor. He who makes knives, will neither give them away, nor exchange them for air, or water, or sun-light. Hence, he who wants knives must either make them himself, or else he must offer the knife-maker, in exchange for them, some value which he himself has created. Hence, every man who desires the means of happiness, must labor to obtain them. And, as every man has his preference for some particular kind of labor; and as, moreover, every man can succeed better by confining his labor to one thing, than by devoting it to twenty things, every man is desirous of exchanging some portion of the value created by himself, for that created by others. So soon as this is the case with any one substance, it then has acquired exchangeable value: that is, just so soon as other men are willing to give me a value which they have created, for that which I have created, then the result of my labor has exchangeable value, and not before.

The *degree* of the exchangeable value of any one

substance, depends chiefly upon the amount of labor and of skill necessary to create that value. No one would exchange what has cost him two days' labor, for that which has cost another man of the same skill, but one day's labor; because, rather than make such an exchange, he would create this second value for himself. Thus, if a hundred pounds of fish could be procured by a day's labor, and only twenty-five pounds of venison, men would exchange, not pound for pound, but labor for labor: that is, at the rate of four pounds of fish for one pound of venison. The amount of labor expended in the creation of a value, is commonly denominated its cost. This is always the standard by which, for long periods, the degree of exchangeable value may be estimated.

When, however, we here speak of labor, we speak of it as *simple* labor; that is, without taking into consideration the *degree of skill* which may be combined with it, or the other circumstances which may conspire to create variation in its value. These are to be considered hereafter. We suppose, in the remarks above, that, in all cases, labor of *the same kind* is to be compared together.

I have said above, that cost forms the standard by which the *degree* of exchangeable value for *long periods* is to be estimated. Temporary circumstances may create a variation from this standard; and may, for a short time, elevate this value above, or depress it below, the cost. These, however, can continue to operate but for a short period; the tendency of exchangeable value is always to gravitate towards cost. The causes of this variation, we will now briefly illustrate:

1. Suppose, that by the use of better tools, or from any other cause, the supply of fish became more abundant, so that a man could, by one day's labor, procure two hundred instead of one hundred pounds. The hunter would not then be willing to exchange as before, since he would now rather catch fish for himself. He would demand eight pounds of fish for one pound of venison; that is, the exchangeable value of fish would fall; or,

in other words, it could not procure as much venison in exchange as it did before. But as, in consequence of this reduction in price, there would be an increased demand for fish, that is, more persons would want it, and they would also want a larger quantity than before, the fisherman would not be obliged to exchange at half the former rate, but would be able to exchange at a rate somewhat above it; say, perhaps, six or seven pounds for a pound of venison. Thus, both parties would be gamers. The fisherman would procure more venison; the hunter more fish, by a day's labor. Thus, a benefit to one, is a benefit to all. And thus we see, that, other things being equal, the *greater the supply* of any article, the *less* is its exchangeable value; that is, the less amount of other things, can it procure in exchange.

2. Supposing the labor necessary for taking fish to be doubled; so that, by the labor of a day, no more than fifty pounds could be procured. The fisherman, then, would not sell, as at first, four pounds of fish for one pound of venison; he would rather hunt venison for himself. He would offer but two pounds of fish for a pound of venison. But as, at this rate, the number of his customers would be greatly diminished; and as every person would use less fish than before, he would find it difficult thus to dispose of the results of his labor and would be obliged to offer it on more favorable terms say two and a half, or three pounds, for a pound of venison; thus, with a day's labor, he would procure less venison, and the hunter less fish. That is, the evil would be shared between them; and thus, an injury to one, is an injury to all. Thus, other things being equal the *less the supply*, the *greater* is the exchangeable value.

3. Suppose the labor necessary for procuring fish remain the same, but that, from some cause, twice as many persons desired fish as before. Suppose that every person desired five pounds, but that there was only enough to supply half the population with this quantity. Then there would arise a competition among the buyers, and he who obtained, this quantity must ob-

tain it by overbidding his neighbor. Thus, fish would command a larger amount of venison in exchange than before; that is, the exchangeable value of fish would rise, and it would continue at this point, until the demand decreased, or, until a sufficient number of men devoted themselves to fishing, to furnish enough to reduce it to its mean exchangeable value. Thus, the *greater* the *demand*, the *greater* the exchangeable *value*.

4. Suppose, that, while the labor of taking fish continued as before, the number of purchasers was from any cause diminished, so that, while there was fish enough caught to supply every person with five pounds, only half the population wanted any. In this case, as a large residue would, at the close of every day, be left on the fisherman's hands, there would be a competition among the sellers; and each one would be desirous of disposing of his stock at a diminished price, rather than lose it altogether. Hence he would offer to exchange it for a less amount of venison than before; that is, the exchangeable value of fish would fall. It would remain at this point, until either the demand arose to its natural rate; or a sufficient number of persons turned their attention to some other occupation, to reduce the supply to a level with the demand. That is, the supply being the *same*, the *less* the *demand*, the *less* the exchangeable value.

It is the operation of these principles that keeps the supply of any article throughout the world always equal to the demand; and, it is surprising to observe, with what accuracy this effect is produced. In the largest cities, there is always just enough butcher's meat and vegetables, and clothing, to supply the wants of the inhabitants, and no more. The moment the price of an article falls below cost, it ceases to be productive, until the price rises. As soon as it rises above ordinary profit, capital and labor are directed to it, and it is produced in sufficient quantity to meet the unusual demand. Thus, also, we see why the high price of any article is commonly followed by a low price of the same article, and the contrary. When the price of any article is



low, men leave off this kind of production in too great numbers, and hence follows a comparative scarcity of the product which they furnish. When the price is high, men rush, in too great numbers, into this sort of production, and hence arises a temporary glut, and a depreciation of its exchangeable value.

Again: it will be seen that this variation in the exchangeable value of any article, is dependent greatly on its *perishableness*. An article which is not liable to be destroyed by keeping, will neither fall so rapidly, nor so low, by either a diminution of demand, or an increase of supply, as one which is, in its nature, rapidly perishable. Thus, iron may be kept for years, without decay; and hence, its exchangeable value cannot greatly vary, in consequence of increase of supply or decrease of demand: that is, it is an article not liable to great or sudden fluctuation. On the contrary, fish, fruits, and articles of this nature, very often, in the course of a few days, vary one or two hundred per cent.

Another source of variation in the exchangeable value of products, is the time necessary for their production. When any amount of a commodity may be quickly produced, its rise of price will not keep pace with the increased demand; because, every one will know that, by waiting, he can be provided with it at a reasonable price. Thus, a small rise of price in a manufactured article, when the material is abundant, will cause the quantity produced to be greatly increased; hence, the rise is never excessive. But when a long time is necessary for the production of an article, and it is an article of prime necessity, the rise of price is frequently great.

And again: It will be seen, that, so far as the seller and the buyer are concerned, these variations balance each other. When products rise on the merchant's hands, he charges an additional price; when they fall, he is obliged, frequently, to sell at a reduced profit, or even to sell below cost. The gain, in one case, makes up for the loss in the other. Hence, as no one sympathizes with the merchant, when he sells at a loss, no one should complain, when he sells, for a short time, a more than an ordinary gain.

If, now, we sum up what has been said, we shall come to the following general conclusions:

1. *Cost*; that is, labor bestowed, is the foundation of exchangeable value, and from this, it can never, for long periods, materially vary: that is, an article can always be had for what it costs to produce it; including in this, the ordinary profit to the producer. Notwithstanding this, there will, however, arise various fluctuations, depending upon the following circumstances:

Other things, then, being equal—

2. The greater the supply, the less the exchangeable value.

3. The less the supply, the greater the exchangeable value.

4. The greater the demand, the greater the exchangeable value.

5. The less the demand, the less the exchangeable value.

6. And, in general, cost being fixed, exchangeable value is inversely as the supply, and directly as the demand.

7. Or, still more generally, at any particular time exchangeable value will be as the cost, *plus* the effect produced by the variation in supply and demand.

Hence, wealth consists of all objects which have an exchangeable value.

Exchangeable value is slightly distinguishable from price. The first, is the power which any object possesses of procuring for us any object whatever. The second, *price*, is the power that it has to procure for us one particular object; that is, *money*.

*Of Production.* From what has been said, it is easy to explain the nature of Production. It is the act by which we confer a particular value upon any object what ever, or by which we give to any object Its adaptedness to gratify desire. We can neither create no; annihilate any thing. All that we can do, is, to modify what already exists. When we so modify any thing that it is capable of gratifying a desire which before it was not capable of gratifying, our so doing is called *production*.

The modifications which objects need, in order to render them capable of gratifying desire, are various. Sometimes the *elements* of the substance, sometimes *its form*, and sometimes *its place*, require to be changed. Whenever human industry accomplishes any of these results, it is called *production*; the person who exerts this agency is called a *producer*; and the substance itself, on which this agency is exerted, is called a *product*.

In some cases, we find the substance, as, for instance ore in the mine, or stone in the quarry, in its natural state; in others, we receive it from those who have imparted to it one value, and we add to it another. The material which, in either case, we obtain for the purpose of combining it with our own industry, and forming it into a product, is called *capital*; and, after the labor has been exerted, and the value created, it is called a *product*. Thus, the same article may be *product* to one, and *capital* to another. Leather is the *product* of the *currier*, and the *capital* of the *shoemaker*.

The term *capital* is not merely applied to the *material* on which industry is to be exerted, but also to all the *instruments* by which human industry is assisted; as well as to *whatever is necessary to the support* of that industry.

*Of Exchange.* I have said, above, that the mode of every man's industry is decided by his individual tastes and circumstances. It is commonly, however, confined to the creation of one kind of product, inasmuch as it is thus vastly more available. His desires, on the other hand, are as innumerable as the objects created to gratify them. He creates but one value and he wants a thousand. Hence, he can be gratified by means of no less than nine hundred and ninety-nine exchanges. He thus parts with various portions of the value which he has created, for the sake of obtaining the values which others have created. Hence the necessity of universal and ceaseless *exchange*. Hence also the reason why so large a portion of mankind devote themselves to the business of effecting exchanges. Those who do so, are

called *merchants*. Those who are employed in the transportation of wares or merchandise by sea or by land, are also engaged in effecting the same object.

*Of Distribution.* In even the very first stages of society, it is found that the productive result of human power is greatly increased by union of effort and division of labor. Ten men, laboring together, can accomplish much more than ten men laboring separately. Specially is this the case where the various parts of a process are divided, and each one performs that part for which he is best adapted. And, as capital accumulates, it is commonly the case, that one who owns the capital, unites in production with another or others, who perform the labor. When the product is realized, and the gains are to be divided, some equitable law is to be adopted, in the distribution. Different laborers are entitled to dissimilar wages: and there are just proportions to be observed between the wages of labor and the wages of capital. The principles of this adjustment are treated of, by Political Economists, under the head of *Distribution*.

*Of Consumption.* Suppose, now, the value to be created, and brought within the reach of him who desires it; he uses it, and, in the very act of use, its value is destroyed. We exchange labor, or money, or wheat, for fuel; we use the fuel in our fire places, and its value is destroyed. We purchase bread; we eat it, and its value ceases forever. A baker purchases flour, and makes it into bread; the flour ceases to be flour: its value, in this respect, is gone forever. This act, by which we annihilate any particular value, is called consumption. It is exactly the opposite to production. Sometimes the utility is destroyed, with no other result than merely the gratification of desire. Such is the case with fire-works, shows, and amusements of almost every sort. At other times, the value or utility is destroyed; but it re-appears, in another and much more valuable form. Thus, a side of sole leather is cut up into soles, for shoes: its value, as a side of sole leather, is destroyed forever; but its value re-appears, in another form, and with an increased exchangeable value. The food which

we eat, disappears; but its value re-appears, in re-animated health and vigor, by which we are prepared for subsequent labor. The former is termed *unproductive*, the latter, *productive consumption*.

The whole subject of Political Economy, may be therefore divided into four parts.

The First Part treats of PRODUCTION, or the laws which govern the application of labor to capital in the creation of value.

The Second, or EXCHANGE, treats of the principles which govern men, when they wish, by means of their own labor, to avail themselves of the labor of others.

The Third, or DISTRIBUTION, treats of the laws by which those who have united in the creation of a product, receive, respectively, their portion of the result.

The Fourth, or CONSUMPTION, treats of the laws which should govern us in the destruction of value.

Each of these subjects will be treated of, in the above order, in the following work.