

NOTES ON POLITICAL ECONOMY

DESIGNED CHIEFLY FOR JAPANESE READERS

CHAPTER I

ORIGIN AND TRANSMIGRATION OF MATTER—THE LAW OF CREATION—
HUMAN POWER TO UTILIZE MATTER—DELUSIONS OF THE
FALSE ECONOMISTS

IN this world, nothing is created except human souls and the souls of other animals, if brutes have souls.

Every particle of matter was made from some other matter already existing, which; has only been changed in shape and quality.

The flesh and bones of an infant are made of its mother's milk. The milk of the mother is made from the fish, rice and other vegetables which she eats. When the infant ceases to suckle his mother, he makes his own flesh out of fish, fruit, rice and other vegetables. Such animals as men feed upon, make themselves out of grass and other vegetables.

The vegetables make themselves out of the air, the water, the soil and the manure which is mixed with the soil.

The soil is made from the rocks which crumble to pieces and are washed down from the hill tops to the valleys at the bottom; also from the decaying branches and leaves of the trees and other vegetables which grow upon the sand, which is the rock in powder.

Air, water, rocks and earth can all be decomposed into few gases and a few mineral bases such as iron, sulphur and lime.

Everything except souls, comes out of the earth, the water and the air. Everything except souls, returns to the earth, the water and the air. There is no increase of matter, no diminution of matter. The only possible increase is in the souls, which live a little time in human bodies but never perish. As the number of souls living at any one time in a nation increases, its strength and wealth increase; for their intelligence directs and controls the changes of matter, so as to make every change contribute some fresh advantage to mankind – more food, more clothing, more clothing, better houses, more spare time to refresh the body by rest from labor and the soul by innocent amusement and by studies which give it greater power to control the changes of matter.

This power of man to control the changes of matter—his ability to labor and thus increase the utility of matter—is the one thing which perishes if it is not immediately put to use. An hour that is wasted, is gone for ever. It can never be brought back. Therefore the most important duty for every government is to secure the continual employment of all its people, so that no man shall be idle who is able and willing to work.

There are writers in European languages, whose books are unfortunately used in Japanese schools, who fear that population may increase more rapidly than the means of subsistence. This is Delusion No. 1.

They are also so much bewildered by the notion that Foreign Trade is the greatest

interest of a nation, that they imagine a nation gains some advantage when it buys foreign goods for a smaller number of “copper cash” (for example) than it would cost in “cash” to manufacture them at home—even if the people sit idle and can earn no “cash” with which to buy foreign merchandise. This is Delusion No. 2.

These delusions are the foundations of the policy which looks at a nation as if it was nothing more than an enormous many-headed shopkeeper.

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CHAPTER II

POLITICAL ECONOMY SIMPLY DEFINED—EARLIEST STRUGGLES FOR SUBSISTENCE—COMMUNITY OF LABOR—DENSITY AND SPARSENESS OF POPULATION—BELGIUM *versus* BRITAIN—VALUE OF INCREASED POPULATION—POPULATION IS WEALTH—TRADE RESTRICTIONS—GRADUAL PROGRESS OF PRODUCTION AND CIVILIZATION—HOME MANUFACTURES *versus* IMPORTS—INDUSTRIAL PROSPECTS OF JAPAN

The first thing everybody has to do is to get some breakfast. The object of Political Economy is to teach how nations can so manage their affairs that their subjects—all of them—shall get all the breakfast that is good for them and shall get that breakfast with the least trouble. "Economy" comes from a Greek word which signifies the domestic management by which the wife, the mother or the steward provides for the comfort of their household. Political Economy means the same kind of prudent management extended from the affairs of a family to the necessities of an Empire or State.

In the first stage of every people,—while they are savages,—they try to get breakfast by hunting and fishing, as the Ainos of Yezo do. These employments are very precarious, specially hunting. It is shown by experience, and science gives the reasons why it *must* be true, that one "cho" of land well cultivated furnishes as much food as a hunter can find on sixteen hundred "cho." Therefore when a new hunter intrudes upon the sixteen hundred "cho" which is no more than enough for one, the first hunter thinks that the population is too dense. The two are very apt to fight to determine which of them shall be driven away and search for new hunting grounds which nobody has yet appropriated.

On the other hand, the man who feeds his wife and children and servants by the rice, radishes, beans and other vegetables which he cultivates upon one "cho," is very glad to have a neighbor on the next "cho," who cultivates cotton, and the tea plant and the mulberry tree and feeds silk worms. Both are glad when a third neighbor settles upon an adjoining, "tan" and, with the aid of his wife and daughters, spins and weaves the silk and cotton, taking pay for their labor in changing the forms of raw cotton and raw silk into cloth, from the rice and the vegetables the unspun cotton and unreeled silk. Each helps the other to find work for himself in what he knows best how to do, and in the cultivating of what his land is best fitted for.

It has always been the least populous nations—those in which men are farthest apart, where there are the fewest souls to a square "ri," that have felt themselves to be most crowded, and have been most scantily provided with food and clothing and comfortable shelter. The kingdom of Belgium is more densely populated than any other

country which we have accurate information. But the Belgians, besides feeding themselves, raise beef and mutton, pork, eggs, butter and grain which they send to feed the people of Great Britain; while hundreds of thousands of people flee away, or are driven away, from Great Britain every year because the policy and government of Great Britain are directed by writers and speakers who falsely imagine that there are too many people in that kingdom to be able to live comfortably on its islands. When these emigrants go to the United States of America they are computed to be worth from eight hundred to one thousand yen to the country, each person; counting men, women and children. That is to say, that each one of them after providing food, clothing and other necessaries for himself, or herself, will produce enough more in the course of an average natural life, to add at least eight hundred yen to the wealth of the nation. When black men were bought and sold in the southern states of America, they often brought higher prices. But a free man working for fair wages always does more work than the man who toils only from fear of the lash. He, the free man, is found to be a more profitable servant to an employer, and therefore he is more valuable to the nation. It is because the people of the United States know that Population is Wealth, that they have grown strong and rich more rapidly than any other nation in the world. Only one century ago they were but 3,000,000 and were almost afraid to fight Great Britain. They were forced to fight for their independence because the government of Great Britain would not permit them to exert their industry in profitable ways—because Great Britain forced them to submit to Trade Regulations which allowed an American to hunt and kill a beaver, but would not allow him to make its skin into a hat; compelled him to send the skin to England to be manufactured and let him bring back what was worth no more than the beaver's tail. Today the people of the United States are fourteen times as many as, they were in 1776. Japan recently sent Commissioners to inspect the Exhibition of the fruits of American industry, but Japan submits to Trade Regulations, which, if they had been allowed to operate in America, would have made the Centennial Exhibition impossible for at least another hundred years.¹

After the savage has provided himself with breakfast, by killing a deer, he can make its skin into clothing. If he is lucky, he may get skins enough to make for himself a tent. He may use his spare time—if he has deer-meat enough for one or two days—in making a boat to fish in, either of skins—as the ancient British savages did—or by scooping out a log, with a shell, or sharp stone, or by burning a hollow in the log by fire. But the first question is the food question.

The second stage in the process of civilization has been—wherever we can learn the early history of a country—the pastoral or nomadic stage. The savages learn that it is better to tame animals like sheep and goats and cows, and to pasture them upon the natural grasses than it is to chase wild game. In this stage of society men continue to wander over large tracts of land, looking for fresh meadows after their flocks and herds

¹ It is noteworthy that England does not, and cannot, now enforce, in her own colonies, the trade regulations which are exercised with respect to Japan, and which her manufacturers are resolved shall continue in force to the last possible moment. This determination has been repeatedly proclaimed without any effort at concealment. For example, at a recent meeting of the Iron and Steel Institute, the president of that body, after acknowledging the loss of European and American markets, stated that the English manufactures “must frankly accept the position,” and “prepare to seek new markets in countries which, if they had the will, had not yet the power to impose restrictions on their trade.”

have browsed all the herbage from the fields first used.

We can not learn that the people of Japan proper ever went through the pastoral stage. They appear to have been an agricultural people cultivating rice, tea and different grains even from the days of Jinmu Tenno. The Ainos of Yezo have hardly reached the pastoral stage. When religious prejudices prevented men from eating the flesh of sheep or cows from drinking the milk of the latter, and when cotton was thought to be good enough for clothing in any weather, men had few inducements to keep flocks and herds. At this time it is a great misfortune, that millions of “cho”—on which sheep could pasture and multiply at a very trifling cost for watching and shelter—which would furnish the most nutritious food and the warmest clothing with very small expense—are suffered to remain unproductive and uninhabited. Where sheep are many and men are few the sheep have little Value and the men are very poor. About the time that Commodore Perry came to Uraga, flocks of sheep could be bought in the interior of South America for three tempos a head. As late as July, 1875, a French traveller, writing in the *Revue des Deux Mondes*, one of the best magazines in the world, describes the pasturing of cattle in the *Pampas* (immense plains) of Buenos Ayres by Irish herdsmen, who were not suffered to get a living in their own island, although nearly one-third of it is uncultivated. He says that the animals when killed are cut up and all the parts are sent away—the flesh which is dried in the air (jerked beef or pemican) to Brazil and Havana; the salted hides and the tallow to Antwerp, Liverpool and Havre; the bones as well as the horns and the hoofs to England. The blood itself is dried to a powdery and exported like guano (as a fertiliser or manure). Local industry keeps nothing. It is cheaper (so this writer imagines) to buy back candles made of their own tallow, from Antwerp, leather from, the hides that were carried to Milan, to be tanned, and beef which has been smoked at Hamburg, than it is to workup these products and make them ready for use in the country where they fed and grew. When a man sends tallow many thousand miles across the ocean, he gets back very little of it in the shape of candles, whereas he would get nearly all of it if the candles were made by a neighbor. So it is with the beef, air-dried in one place, shipped three or four thousands miles to be smoked in another, and then shipped back again. So it is of the hide, a small piece of which returns in the shape of leather. The greater part of all the material is wasted in paying for the cost of transportation. It is certain that the man who buys the leather must pay the transportation both of that and of the hide. Five hundred years ago England made very little cloth, and that of the coarsest and poorest kind. It sent its wool to Holland for sale and bought cloth of the Flemish weavers. Hollanders laughed at this, and said: “The Englishman sells a fox’s skin for an ‘ishi’ and buys back the tail for a ‘nishi.’” Edward III, probably the greatest and wisest of English kings, saw that it was cheaper and more profitable to bring the weaver and his loom to the flock of sheep than to be always sending the sheep skins to the weaver. He therefore encouraged the Flemish weavers by wise laws to settle in England, and thus made the beginning of the great cloth manufactures in which England excelled the world until the last thirty years.²

² *The London Times*, in February, 1873, gave the following striking illustrations of the unnatural perversities of the Shopkeeper system:

“Why is it that raw cotton comes from the Southern States of America to be spun into the fabrics which are exported to: the East Indies, the native home of the cotton plant? Why is it that wool is brought from Australia to England to be woven into the broad-cloth which is sent hack to Australia in the shape of ready made clothes? Why is it that tin from Banca, that copper from Chili and Australia, that sugar from

When Japan begins to grow wool, her people will find no difficulty in eating the mutton themselves and in weaving the cloth themselves, except in some Trade Regulations contained in Treaties which can be put an end to whenever her rulers determine to do so.

As all food comes from the earth or water, and as all history proves that food never comes in sufficient quantity until men commence the regular cultivation of the soil, and because all history also proves that as men increase in, numbers—if nations are left free to manage their own affairs without foreign interference and do manage them wisely—every individual obtains a greater quantity, and a more regular supply, of food, it is important to enquire how men begin the work of cultivation and in what manner they proceed.

the Antilles and Mauritius, are poured into England, in their rough and unmanufactured condition, to be smelted and refined, and adapted for use by those who require them? It is not because we have an unusual supply of labor. Other countries— Ireland for example—have ample supplies of labor; and indeed the supplies are everywhere abundant and are also forthcoming where there are the means of employing them, to advantage. We have developed supplies of labor for this reason, and for this reason only—that we have the means of setting it at work. We owe our position simply to this—that we have got at hand the piled up natural force [in coal] in directing which human labor is most efficiently employed; that the substance in which this force is accumulated is, in itself, so bulky and cumbrous that it is less toil some to bring the raw materials to it, to be converted into the finished products than to carry it to the place of production of the raw materials; to manufacture them there. . . . The centre of gravity of the industrial world will always be found where the labor of appropriating the motive forces of nature is least.”

Georgia and Alabama, two of the Southern States of America above referred to contain immense quantities of coal. It is not therefore the lack of this material that causes their cotton to go to England to be spun. Nor is that the reason why wool goes from Australia, for Australia contains a great deal more coal than Great Britain. The transportation in all the cases above mentioned is costly and ruinous to the producers of raw materials but, at their expense and by their folly, it supports British trade.

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CHAPTER III

FORCE DEFINED AND ILLUSTRATED—PERMANENCY OF FORCE—HUMAN
POWER TO CONTROL IT—NATURAL AND ARTIFICIAL FORCE—TOOLS
AND MACHINES—PRIMITIVE IMPLEMENTS OF MAN—TRANSFOR-
MATIONS FROM POTENTIAL TO ACTIVE UTILITY—THE
MEASURE OF VALUE—DEFINITION OF VALUE—MONEY
PRICE UNAVAILABLE AS A TEST OF VALUE—CAPI-
TAL, WAGES, PROFIT, RENT, PRODUCTION
AND CONSUMPTION

Force or Energy is either active or potential. A man at work, earning his food and clothing, is an example of active and productive force—he changes matter from a shape in which it is of small benefit, into some other shape in which it is more useful to himself or to his fellows. A man sitting idle is an example of wasted energy; that is, with a capacity to produce food and clothing for himself, he produces nothing, but eats the food and wears out the clothing that other men have produced. He is like the drone in a beehive. Whether *kuazoku* or *heimin*, he stops the rice from going to some other person's month.

Force always comes from matter in motion. It may be a man's arm striking a blow; the wind swelling a sail and pushing a boat through the water; a stream running down hill and driving a water-wheel. There are others, like heat and electricity, that we cannot so readily see and handle, measure or weigh. The air when it is still, the water when it is stagnant, exert no force, but have potential energy. To set them in motion and to keep them in motion, it is necessary that some force should be applied to them. This is plain enough when a man uses his utmost strength to set in motion a large stone on a hill top. When it has started, it is kept in motion by gravity, the attraction of the earth, and may produce a tremendous effect before it is stopped by the resistance of a wall or a tower. The tower and the wall also owe their capacity to resist, their potential energy, to gravity—weight. The force which matter exerts when in motion is no greater and no less, than the force or forces which set it in motion and keep it in motion.

It is now known that no force can be created or destroyed. The sum total of forces, active and potential, can neither be increased nor diminished. One kind of force may be transformed, or may transform itself, into another kind; just as is true of matter. Matter and force alike are always changing in form and quality, but not in quantity. This great truth, the highest and broadest truth yet discovered in relation to physical nature—that is to say, the whole world of things, and properties or qualities of things, outside of souls, of intellectual powers and moral qualities—was entirely unknown, or at most it was only suspected, forty years ago. Until this truth became known, it was impossible that there should be anything like a *science* of Political Economy; that is, a doctrine

precise and certain, that will enable men to explain what has happened, and what is now happening, and to *predict* what will happen under circumstances that can be ascertained. A French astronomer, Le Verrier, *proved* by calculation that there must be a planet which no man's eye had ever seen in a certain quarter of the sky; because the motions of other known planets could not be such as they were, unless the unseen planet existed. He predicted that if men looked for a few nights, which he mentioned, in a direction which he also stated, they would, with powerful telescopes, discover the planet. The astronomers looked and they did discover it. No astronomer could control this planet in the heavens. But nations can control Matter and Force, upon this earth, as a man guides and manages a horse. The human intellect can rule Matter and Force to the advantage of a people, when it understands the laws by which Matter and Force are governed. How could there be a doctrine, teaching nations how to make the laws of Matter and Force work for their advantage, when the greatest of those laws was unknown?

Some kinds of Force are called natural, or are spoken of as Natural Agents, because they are seen to act without any aid from man. Such are the force of the running water and the blowing wind. Others are called artificial, such as the force exerted by a steam-engine, because men must make the machinery in which, and by which, it works. The force exerted by a steam-engine comes from two sources: 1st, the heat going out from the coal or wood under the boiler; 2nd, the property of water by which it is transformed into elastic vapor or steam, which at the ordinary pressure of the atmosphere, fills 1,700 times as much space as the water filled. Man expended no labor in giving the capacity of evolving heat to coal, nor in giving to water the capacity of expanding into steam. Neither of these forces cost him anything. They existed in the coal when it was at the bottom of the mine, in the water when it ran in the river. It is true that to make these forces his servants he must dig the coal and build the steam engine. But when he has dug the coal and built the engine, the water and the coal work for him gratuitously. He pays them no wages, gives them no food. This gratuitous co-operation of the natural agents with man, is very plainly to be seen when a running stream floats a canoe down toward its lowest level, or when the wind drives a sail boat along the bay of Yedo. It is a little more difficult to observe the fact—the gratuitousness of the working of the natural agents—when coal drives a steamer across the Pacific Ocean from Yokohama to San Francisco. It is equally true, however; the only difference is that the canoe and the sail boat are very simple machines and very cheap ones. The steamer is very complex—composed of many parts—and very costly.

A simple instrument like a hammer, or a spade, or a saw, for making the natural properties of matter useful to man, is usually called a tool. A complex instrument like a loom for weaving silk, a printing press, or a steam engine, is called a machine.

A man is born with no tools except such as his legs and feet, his arms and his fingers. By the help of these he can get other tools. He must have something to eat. In the early stages of society he feeds chiefly upon wild fruits, then upon wild animals and upon fish. Some animals like, rabbits, he can perhaps catch by running, and he can choke them with his naked hands. Others, like deer, are too swift for him to catch, or, like bears, are too strong for him to grapple with. Of fish there are a few, like crabs and oysters, that can be caught with the hand. Others, which live in deep water, can only be taken by the hook, the net or the spear.

The first tool that a savage gets is a club. He may break it from a fallen tree with

the edge of an awabi shell; or, with a flint, he can fashion it to a convenient shape. He can throw the club at a deer and thus overtake him and stop his flight. He may break the head or the leg of a bear with the club. By its aid he obtains a great deal more meat, perhaps more in a single day than he could in three days with his naked hands. It comes to the same thing to say that he gets by help of the club in one day, as much as he could have done in the same time by the aid of two other men, none of them having clubs. If two other men had helped him he would have been obliged to divide the meat with them. The club has done the work of two men for one day, or of one man for two days and has eaten no meat. Its service was gratuitous. Consequently the hunter has two days of rest, which he can employ in preparing the skin of his bear or his deer for clothing. When he gets skins enough, he can make them into a tent, to shelter him at night. He can dry the entrails of the deer, and make them, into a cord. He can fasten to the end of the cord a fish hook made of a crooked bone. With the hook and line he catches more fish than he could pick up with his hands in the shallow, water, where he could wade. The hook and line eat no fish; they work for nothing. The hunter and fisherman has more time to rest, and has more security for getting food.

The hunter has noticed that a bamboo bends to the wind, and springs back to its upright position. He sees that other trees and stronger woods than bamboo, have the same quality, elasticity. A dozen savages, or a hundred, may observe this fact, before the intelligence [soul] of one of them discerns that he can make this property of matter useful. Call him the wise man who saw potential utility, where a hundred blunder-heads saw nothing but an accident. He makes a bow combining the elasticity of bamboo, and of the cord made of the entrails of an animal. He makes an arrow of a slender bamboo and fits a sharp flint or piece of shell to its head. He has now a most powerful instrument, by which to overtake the swiftest or kill the strongest beast. He has converted a potential utility, a natural agent, into an active utility. The rifle and the leaden ball are only a small advance beyond the bow and arrow. Both of them give active utility to a quality of matter which, had formerly been allowed to lie dormant (sleeping). The rifle calls into action the quality of gun-powder, by which at the touch of fire it is made to expand immediately, so as to fill many hundred times as much space as it did before the spark of fire was applied to it. In both cases, the great fact is that human intelligence turned to its own advantage, by the aid of very little animal strength vast natural forces which had before been of no utility whatever.

The hunter with his bow can perhaps kill as many animals in one day as he could have done in three when he had no better weapon than a club. He carries his head high, thinks a great deal more of himself and a great deal less of the wild beasts, than he did before. He estimates three beasts as of no more account than as one beast, previously, because he can obtain the dead bodies of three with the same labor it formerly cost him to obtain one. The utility of a beast running wild is three times as much as it once was, and its value is but one third as much. The hunter will reckon the beast that he killed, three days before, with a club, as worth no more than the beast that he kills today, or thinks he can kill tomorrow, with his bow. He measures the value of a thing not by the trouble that it cost him to get it, but by the trouble that it will cost to get another, just like it, with his improved tools and better intelligence. Value is measured not by the cost of production in the past, but of reproduction in the future. What every man has, as the means of getting the things he wants, is his ability to labor, mentally and physically, with the aid of

the tools by which he makes the natural forces work for him. The natural forces labor gratuitously, so that their work does not make any part of the estimate of value. When a man reckons, "how much does a thing cost?"—he asks himself, "how much labor will it cost me?"—not how many yen or how many sen. If he thinks of yen and sen at all, he is also compelled to think—"how many hours, or how many days, must I work to get the sum required?" A skillful and diligent workman may perhaps make eight pairs of straw shoes in a day, worth from two to three sen a pair. A man who does not understand the trade, might, spend more than a day in making two pairs, worth five or six sen. This last man may be a carpenter, who could earn fifty sen in a day if he could get employment. It would be very foolish for him to make shoes if he could get work in building a house. His shoes would cost him twenty-five sen a pair, and he may be said to have lost twenty sen. But if he makes shoes worth but five sen when he would otherwise have been idle, he is just five sen the richer. Money price is wholly deceptive as a test of things being cheap or dear. A nation which grows cotton may become very poor by buying cotton cloth of foreigners at five sen a yard, although it would cost ten sen to grow and spin and weave the cloth at home. Such has been the case with India, where the making of cloth was a household industry, employing women and children who would otherwise have been idle. The British Government has forced them to be idle in order that English traders may bring cotton from India and send back the same cotton, mixed with chalk and earth, to the fields where it once grew. The people of India have been made so poor that they can scarcely wear cotton enough to cover themselves decently.

It is very important always to remember that utility is one thing, value is another, and money price is a third. Price is not an accurate measure, either of utility or of value. A yen may have more utility at one time and one place than at another time, and a different place; that is to say, the gold or the silver yen may purchase more rice, or more silk, today than three months ago; it may purchase more of them on the same day in China than it will in Japan. In that case, it may be said to have more utility in China; that is to say it saves more effort, in making rice or silk, to the Chinaman than to the Japanese. But, at that same time, it may cost more effort—labor—to the Chinaman than to the Japanese. To the Japanese it therefore has less value. The saving of effort in getting the yen may, or may not, counterbalance the excess of effort which would be necessary to get the rice and the silk. Gold and silver, like other things, change in price. Silver has fallen a great deal, in comparison with gold, in the last year. Neither of them is a perfect measure of value; nothing can be, which, having value in itself, changes in utility and in value from time to time, and from place to place. Great confusion has happened because writers and speakers have often reasoned as if the profit or the loss to a nation, from the importation and exportation of merchandise, could be determined by the money price of the things imported or exported.

Let us now define other words, which there is frequent necessity to use. The bow is the instrument by which the savage increases his power to control nature, that is, all things outside of himself. The bow and arrows are Capital. They, and all other means of increasing his power, such as the accumulated food and clothing, which give him spare time to do something else than look for food and clothing, these and any other tool he may contrive, in addition to the bow, constitute Capital. We call the owner a Capitalist, in common language, only when his Capital is large in comparison with that of his neighbors. But the word is necessary, for use in reference to a small stock as well as to a

large one. Capital is useless without labor. They must work together, or both must perish; the one rots, and the other starves, to death. If the Capitalist hires a laborer to use his tools, he pays the latter with a part of what he makes or gets with the tools. This part is called Wages. The part that is left for the Capitalist is called Profit. The things made and got may be divided in proportions agreed upon, so that both parties share the risk, and the reward of each may be great or may be small. In another form, the Capitalist may take all the risk upon himself and agree to give the laborer a fixed amount of wages in food, in clothing or in money. There is still a third method, by which the laborer takes all the risk, and gives work for a fixed number of days, or a fixed quantity of products, or of money for the loan and the use of Capital. When the use of land is borrowed, what the farmer pays is called Rent. When money is borrowed, what is paid to the lender for its use, is called Interest. It is well to preserve the usual restricted meaning of these words, and employ Hire as the general name for the compensation given for the use of Capital, in whatever form the Capital may exist.

The wages of labor and the hire of capital, both come out of the product of their cooperation in directing the natural forces to the service of man. This joint work of labor, capital and the natural forces, we call Production. When the product is, itself made to serve as an instrument of fresh production, by going through, a new transformation, this is called Consumption. Fish, radishes and rice when consumed by man, are converted into flesh and blood and bones and brain, which are themselves the instruments of further Production. It is only when a product is consumed that it gives out Force. When it is in course of production, it may be said to consume Force. So long as it is unconsumed, it is no better than an idle man; except in this, that the idle man must be fed and clothed. Most products require no food, but they require warehouses to shelter them from storms and fire, and thus are an expense to their owners. From this it is plain that the more quickly Consumption follows Production, the less is the waste of Power, the quicker is the giving out of Force, and the more rapid is the growth of Wealth.

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CHAPTER IV

MAN'S POWER OF ASSOCIATION—IMPORTANCE OF CO-OPERATION—
DIVERSIFICATION OF INDUSTRY—POWER TO CONTROL GRATUITOUS FORCES OF
NATURE—THE PRINCIPLE OF DISTRIBUTION

Man has been defined as a “tool-making animal.” The monkey, it is said, though a very intelligent and imitative beast, has never learned even to make a fire. Man is also the only animal having the faculty of articulate speech. This enables him to communicate to his fellows and to transmit to his children whatever he has learned himself. It enables him to agree with others upon plans by which mutual help may be given and obtained, so that two men may do in a day what one man alone could not do in six days. By articulate speech, man has a power of association, of combining with others and of interchanging good services. Probably animals have some means of communicating their ideas to others of their own kind. Wolves hunt in packs. Crows hold Parliaments. But the power of association is very imperfect in animals, and they have small capacity for improvement, being born with instincts which are sufficient for the narrow purposes of their lives. The fox, the bear, the deer were just as wise a thousand years ago as they are today. Their appetites and desires were the same. They have learned nothing. Man, from one generation to another, keeps all the knowledge he received from his father and hands it down to his son with additions gained by his own observation and experience. His desires increase with his knowledge and power. The food, the clothing, the houses, the education, and vehicles and the roads with which one generation was contented are not satisfactory to the next. It wants more of each kind, and wants each kind better than before. New wants must be satisfied by increased production. Association not only makes production more easy but also stimulates the desire for it. When a man sees his neighbor having something better than he has himself, he becomes anxious to share in the advantage, and he wishes to do this not by diminishing his own Capital but by producing more than he formerly did, that he may offer his surplus in exchange. In making an exchange, one person may give a part of his Capital and may receive from the other his Labor, as if the hunter having, by the aid of his bow, got more meat than he wants, should employ the fisherman to hunt for him a day or two, paying him in meat, or, if the fisherman has more fish than he can eat himself, he may offer his fish in exchange for meat. In either case, each of the parties makes a comparison between the Utility to himself of the thing he wants and its Value to him—that is the amount of labor it would cost him to procure it by his own exertion and his own tools. The fisherman may know that the hunter spent only an hour in obtaining the meat he wants, while to him, not having a bow, it will probably cost a day's labor. To the hunter the value of the meat is measured by an hour's labor without the bow. The hunter thinks that if he obtains for his

meat any more fish than the equivalent of the one hour's labor it will cost him to replace the meat, the differences will be so much advantage to him—clear profit. The meat represents—as between him and the fisherman—one twelfth in Value, eleven-twelfths in Utility; and the utility has come from the gratuitous co-operation of the natural forces. On the other hand, the fisherman thinks that if he can get the meat for any less labor—or the product of any less labor—than the twelve hours it would require for him to get it by hunting with a club, he makes a good bargain. He knows that the huntsman, besides the advantage he has in owning a bow, has learned the habits and the haunts of the beasts, and has another advantage in this knowledge. To him, if he must buy the meat by giving his labor for it, the meat represents twelve sen in utility, but also unfortunately, twelve sen in value. There are eleven-twelfths of the amount which were the free gift of nature, to be divided between the hunter and the fisherman, upon such conditions as they can agree to. It is obvious enough that if the capitalist, with his bow, deals with a man who has nothing but his animal strength, unaided by any tool whatever—a bare naked laborer not so strong as a horse or bull—the capitalist can force upon the laborer almost any conditions that he likes. Man commands the services of a horse, computed to be nine times as strong as a man, by giving the horse nothing more than his food and shelter. But the huntsman knows the horse cannot make a bow and that the laborer can. He must therefore give the laborer more than his food and his clothing. He must make him content, so long as he can, to use his master's bow without making a bow for himself. If the laborer is not permitted to make it, or if he must give it, when made, to the capitalist, he is a slave—a kind of breathing machine for which, it would appear, there is no word in the Japanese language. It is practically impossible to prevent a laborer who has had the use of a bow from making a bow for himself. When he has made it, he is as powerful as his former master. Even supposing that he return, to his master, the bow which was lent to him to hunt with, it is an even chance, if they quarrel, which of him shall kill the other. Each of them can get a great deal more meat than he wants for his own eating. It is to the advantage of both that one of them should hunt for the two, while the other fishes for the two. When both have equal Capital, the same command by the bow of the natural forces, they will divide on equal terms—one pound of venison for another pound of venison, or perhaps a little less of bear's meat. But there is a scarcity of fish. Suppose that the laborer, before he made a bow himself, received two-twelfths of the meat—twice as much as he could have obtained with no other aid than his club—and the Capitalist retained the other ten-twelfths. When each has a bow, or each has the same power to get a bow, the laborer will insist that he shall have a greater proportion of the meat he procures. If both continue to hunt the result may be that the capitalist will secure eighteen out of every twenty-four pounds of meat and the laborer six. The capitalist, instead of having ten-twelfths of all the meat produced, as was the case when he alone had a bow, gets but eighteen twenty-fourths of all that is obtained by the doubled capital. His proportion of the product has diminished, but the *quantity* has increased; he has eighteen pounds, where he had but ten before. On the other hand, the laborer's share has increased in *proportion*, being six twenty-fourths instead of two-twelfths, and it has also increased in quantity, being six pounds instead of two pounds.

Having power to obtain more than enough meat for both, it is natural that our two savages should think of the advantage of a division of labor, of diversifying their employments, so that one should hunt while the other should fish. A man who spends his

whole time in studying the habits of fish will soon learn that one kind of fish lives in shallow water while another is fond of deep water, further from the shore—that one kind of fish can be caught more easily and in greater numbers in the morning, another at noon, and a third at night—that the light of a torch attracts one kind while it frightens another. One man employing himself constantly in fishing will catch more in a day than two men who fish half the time and hunt the other half.

The fisherman will expect for the product of a day's work in fishing, not merely as much meat as he could get by hunting one day, but the equivalent of as many fish as the huntsman could catch in two days. We have called the laborer's share six pounds of meat for a day.³ The fisherman will be disposed to ask twelve pounds of meat for as much fish as he can catch in a day. The huntsman has improved his skill in shooting, and his knowledge of the habits of beasts. He can get twelve pounds of meat in less than a day. Though he gives to the fisherman for the product of a day's work twice as much meat as he did when he hired the fisherman to hunt as his servant, he nevertheless gets more fish for less labor. Two savages, by diversifying their industry without any increase in their *physical* capital—only by cultivating their intelligence—have got twice as many fish and a little more meat than they had before. Their brains, the instruments of mind, have given larger Utility to their tools, and have diminished the *Value*—the difficulty of being obtained—of meat and of fish. The gain is divided. The man who made the latest addition to the gain, the fisherman, who did it by his labor of mind and body, taking the larger share.

All progress shows itself in the diversification of industry. Men co-operate most effectively by making themselves different, not by aiding each other in doing the same thing. The first great difference is established by nature. It is that between man and woman. The savage man takes upon himself the duty of hunting and fishing and fighting. He leaves it to his wife to cook his food, to make and mend his clothes. Between them there is greater difference than exist between any two men or any two women. Yet their association is the closest, and their mutual help the most profitable to themselves and to the nation, which cannot grow in numbers, in power and in wealth without their co-operation to raise up new laborers to control the force of nature for the good of all. These forces will do anything and every thing gratuitously, provided only that there are men enough and intelligence enough to manage them. If there is not—that is, if there are too many men, or the men have too little intelligence, the natural forces remain inert, like idle men, helping nobody. They often do worse. When they are suffered to run wild, they spend themselves in producing fevers, and thunder storms and earthquakes, destroying men and houses, and thus punishing nations who are not wise enough to turn them from destructive ways of going, to productive ways. The same force, Electricity, which in the form of lightning shatters temples, burns houses, kills men and the cattle that serve him, can be harnessed like a bullock—can be made to drive sewing machines—to run over the land and under the sea, carrying messages, so that men, thousands of miles apart may talk to each other as if they stood face to face. There is nothing that a nation cannot do, in the

³ This may seem enormous to Japanese readers. But a British company which was engaged in killing buffaloes and other wild beasts, for the sake of their fur only, on the Western plains of America, gave eight pounds of buffalo meat as the daily allowance for each of its servants. The proportions of food in Japan appear nearly as strange to foreigners. It is said that an active laborer here – a *jin riki sha* drawer, for example – eats about two quarts (unboiled) of rice a day; a quantity which about one hundred years ago was enough to feed ten British soldiers who were working hard, and fighting hard, during the siege of Gibraltar.

fullness of time, if it has a government which will secure to its subjects the power to do as they wish without the interference of foreign methods of trade;—in other words, give them real Free Trade with each other.⁴

The hunter and fisherman who have provided more than enough food and have learned a little of the advantage of diversifying industry, will be glad to hire a third savage who offers to make bows and arrows, fishing lines, hooks, nets and canoes. In order to induce him to work heartily, they must give him more food and clothes and shelter in a tent or hut. When he has all these, he is as well off as a beast but no better. He makes bows, fish-hooks, nets and canoes with no better knife than a shell, and with an axe made of stone sharpened by rubbing against another stone and tied to the end of a stick. He may spend a life time in this fashion, gradually getting a tent or a hut for himself and making tools for himself in his spare hours. He may discover copper and may succeed in softening it by fire and hammering it with his stone axe; in making better knives and axes than he had before—in making a hoe or a spade to dig with. His son, armed with copper tools may be able to dig iron out of the ground—to smelt and forge it. A grandson with iron tools has vastly more power than the grandfather who had nothing better than shells and stones. We know from history that all savages have slowly passed through the three stages, which we have, for the sake of illustration, crowded into the lives of grandfather, son and grandson. Many generations have lived and died before they gave up stone tools for those of copper, but not so many more before they obtained tools of iron. Antiquarians divide the history of nations into the age of stone, the age of copper or bronze, and the age of iron. At every step in improvement—every increase of intelligence giving man more power over the natural forces, and getting from their gratuitous help more capital without the expense of proportionate muscular labor,—the capitalist has taken a diminishing share of the products of labor, but that diminished share has given him a greater quantity. The laborer on the other hand has been continuously obtaining both a larger share and a greater quantity. In the natural course of things, the laborer has been passing from the condition of a beast, or slave, towards equality with the class of men who were formerly absolute masters; approaching them not only in wealth, but in social privileges and in political power, till he takes to himself not only a part of the government, but, as in one great Republic, the entire control of the government. This is the law of civilization. It is the explanation of national progress, which cannot be explained by any other theory. It shows that the interests of the Capitalist and the laborer are in harmony, that one prospers when the other prospers, and that the poor who are many, gain at a more rapid rate than the rich who are few. Proofs could be given, at great length, that this principle or rule has always prevailed, except where its operation has been prevented by bad government, producing unnecessary war which turns men into destructive agents—or excessive taxation, so arranged as to bear harder on the poor than on the rich, and thus taking away the inducements to be industrious and to pile up a little capital. Some wars are necessary, and even profitable, when they secure the independence of a nation against foreign interference. Taxes are always necessary, and when they are wisely adjusted they are advantageous to all. Some of these proofs will be

⁴ “To prohibit a great people from making all that they can of every part of their produce, or from employing their stock and industry in the way that they judge most advantageous to themselves, is a manifest violation of the most sacred rights of mankind. . . . Those prohibitions . . . are only impertinent badges of slavery imposed upon them, without any sufficient reason” – Adam Smith, *Wealth of Nations*.

given as it falls in our way to give them; but it is hoped that the reasons of the rule have already been shown. This great principle governing Distribution was first published nearly forty years ago, by the eminent American teacher, Henry C. Carey. It has been received as a noble truth by the most enlightened men of all nations,—with, possibly, one solitary important exception.

NOTES ON POLITICAL ECONOMY

DESIGNED CHIEFLY FOR JAPANESE READERS

CHAPTER V

EARLY SETTLERS OF JAPAN—FIRST CULTIVATIONS OF THE SOIL—
NATURAL PROGRESS OF LAND CULTURE—FORMATION OF SOIL—
SOCIAL ADVANCEMENT—TRUTHS OF ADAM SMITH—DELUSIONS
OF MALTHUS AND RICARDO—INFLUENCES OF ASSOCIATION

Man cannot live upon the flesh of flesh-eating beasts. He feeds upon those which eat grass and vegetables. These are mild and docile, and they are so little adapted to fighting—as the animals must be who prey upon other animals—that they welcome the protection of men. They are tamed and taught. They feed men with their milk, they carry burdens and they draw carts for their owners. Even in the hunter state the horse carries its master while he chases the wild bullocks. In Japan proper we can find no history or tradition of the period in which its inhabitants subsisted as herdsmen and shepherds, living on the milk and flesh of goats, sheep and cattle. This is called the Pastoral or Nomadic (wandering) age. The race which now inhabits Japan, it may be supposed, must have come from the mainland of Asia after they had passed through the Pastoral stage of barbarism and had become regular tillers of the soil. Perhaps those whom the Japanese conquerors found in these islands had themselves passed through the Hunter and Pastoral ages. Rice was cultivated in the remotest period of which any information can be obtained. Rice is cultivated mainly in the lowlands, lying on the banks of the rivers or the sea. Jimmu Tenno, the first historical emperor, made his appearance 660 years before Christ—in a hilly province badly suited for the growth of rice. His descendants to this day celebrate their accession to the throne by cooking rice with their own hands and eating it in the presence of the great officers of the empire. The impression is irresistible that this ceremony is evidence of a dim remembrance—transmitted through one hundred and twenty-two generations—of a great change from a people who did not cultivate the land in any regular or profitable way, to a people who did cultivate rice. This change is so great in its results that it is ascribed to a Son of Heaven.

A foreign writer finds himself unable to tell how it was, and by what slow degrees, the people of Japan became numerous enough and powerful enough to cultivate rice on the lowlands. It is known, however, from the history of all other countries, that agriculture has uniformly commenced on the light dry soil of the uplands, where the rain runs off, down the hill sides, where natural vegetables are small and thin, and where, consequently, the crops which men plant and gather are small in proportion to the labor that is spent upon them. History tells us that everywhere, as population has increased, and men have obtained better tools, they have worked their way down to the flat lowlands, where the fertility of the soil showed itself in the natural growth of thick and heavy trees, but which were swampy and malarious. These lowlands, when they were

cleared of their forests, laid open to the sun and air, and drained of their superfluous water, yielded crops as much surpassing those of the uplands as the natural vegetation did. The cultivation of the lowlands demands much more labor, both of man and of beasts, but produces such larger returns that every man and every beast gets more food than their predecessors did on the uplands, and wealth of all kinds increases more rapidly. It is easy to trace why the natural progress of civilization must have been what history teaches that it in fact has been. Any traveler can see soil in the process of formation. Soil is made, first the lower layer—subsoil—out of fragments of rock: second of decayed vegetable matter like the leaves and branches of trees, and of the droppings of birds and beasts or of their dead bodies. On the hardest rock rain falls and finds its way into some crevice. It freezes and cracks off some particles of rock. The lowest form of vegetation, the lichen, can and does fasten upon this loosened crust and it holds more water upon the stone. The growth of the lichen and the freezing and thawing of water, loosen the stone a little more. Soon the decay of the lichen makes soil enough for mosses to grow. The moss holds more water, the stone decays more and its sand mixes with the decaying moss. Soil keeps increasing till some shrubs can grow. All the while the rains wash down the sand and the vegetable matter to lower spots on the hill sides where larger shrubs begin to grow. They in their turn furnish a richer material for soil to the flats at the foot of the hill. Any body who rides through a mountainous country can see the soil in all stages of its formation, from the bare rock at the mountain peak to the swamp, thick with trees in the valley. On the light soil of the hill-top a man can make a hole with a stick and can put a seed in it. The yield of a poor soil is very small, but a man with no better tool than a stick can get some vegetables to grow, and can make the soil a little better by manuring it with the refuse of its own growth and excrements of his beasts and of his family. No people understand as well as the people of Japan that the earth itself is, for agricultural purposes, a great machine, which has been built up by man and must be kept in repair by man. No people understand better that the earth cannot continue to work—to produce—any more than a horse or a man can, unless it is fed.

In order to cultivate the lowlands, it is necessary that there should be a large population, and that they should have spades, ploughs and axes, all made of iron and edged with steel. It was very slowly that men who worked the poor lands, who had all they could do to furnish themselves with food, bettered their condition and got spare time to make the improved tools that were necessary for the tilling of the better lands. A voyager, at the present day, can find savages in the islands of the South Pacific Ocean, who use tools made of flint and who are very willing to give the product of a hundred days labor for an iron nail. The savage can fashion the nail into a spear head; into a fish hook; into a chisel; into a knife; in short turn it into ten different tools, better than he had before. Every trade between the civilized man and the less civilized, is a barter in which the more civilized man gives what is of little *value* to him but of much *utility* to the barbarian, and gets in exchange what is of much value to him but often of little utility, like spices. Some of these islands have been known to navigators for more than two hundred years and in all that time have made no improvement in their tools. The growth of wealth or capital from agricultural labor has the same result as the increase of capital by other forms of industry. The landlord gets a smaller share of the crop but a larger quantity. The laborers, on the other hand, obtain both a larger proportion and a larger amount of each. We shall make only a few citations, in proof of this fact. Adam Smith,

the first and greatest of British writers on National Economy, whose book was published one hundred years ago, contrasts the general condition of Europe at that day and in former ages. He states that formerly the laborers were bondmen (slaves) and the landlord could require as much work as he pleased of them, either in peace or in war, and was the real owner of all their earnings. In effect, the whole produce of the land belonged to him. He then says: "In the present state of Europe, the share of the landlord seldom exceeds a third, sometimes not a fourth part, of the whole produce of the land. The rent of lands; however, in all the improved parts of the country, has been tripled and quadrupled since those ancient times; and this third or fourth part of the annual produce is, it seems, *three of four times greater than the whole had been before*. In the progress of improvement, rent, though it increases in proportion to the extent [the number of taxes] diminishes in proportion to the produce of the land."⁵

Mr. Malthus is another famous British writer. He taught that in the natural course of things, population must increase more rapidly than food. He gave as the reason for it that men would always commence with the cultivation of the most productive lands and therefore as population increased they would be forced to subsist from the less and less productive lands. The latter part of his doctrine was elaborated by Mr. Ricardo, another British writer, and is generally known by his name. Mr. Malthus, forty years after Adam Smith, says about Great Britain:—"The average proportion which rent bears to the value of the whole produce, seems not to exceed *one-fifth*; whereas formerly, when there was less capital employed and less value produced, the proportion amounted to one-fourth, one-third or even two-fifths . . . and though the landlord has a less *share* of the whole produce, yet this less share, from the very great increase of the produce, yields a larger quantity."

Mr. Senior, another eminent English author, who believed in the theory of Ricardo, wrote in 1836—sixty years after Adam Smith, these words:—"What changes in the state of England, and the southern parts of Scotland have the steam engine and the cotton machinery effected within the last sixty years! They have almost doubled the population, more than doubled the wages of labor and nearly trebled the rent of the land." Mr. Senior must be understood as estimating both wages and rent in *price*, their value compared with money. Money rent is only one measure of the value of land—it does not inform us what proportion of the whole products of the land is kept by the landlord. If the money price of rent trebled in sixty years, it is certain that the money price of the produce was much greater than three fold. The land of which Mr. Senior speaks was no larger at one time than at another, but if the laborers upon it had doubled, and each one got double the former wages, then *four* times as much went to the laborers. Suppose that in 1766, eight measures of wheat or rice represented the value of the land, or the landlord's share, and sixteen measures represented the share of the workmen. Multiply the value of the land by three and we have twenty-four measures of rice. Double the workmen and double the wages of each and the value of the men amounts to sixty-four shares—at first the land took half as much as the men who worked on it, at the second period it took but one-third.

It is very important to notice that Mr. Senior attributes this improvement, first to the steam engine, which at that time had not been used in the cultivation, but only in the preparation of land for cultivation, by draining large tracts, and second, to the machinery

⁵ *Wealth of Nations*, Book II, Chapter 2.

for spinning and weaving cotton, which is not used at all in cultivation. Both the steam and cotton machinery increased the money price of land and of the products of land by making the spinners, weavers and other artisans who make and manage the steam engines and dig the coal that feeds them, *purchasers* of food, instead of *producers* of food. In short, it was because industry was diversified, and a smaller proportion of the laborers were employed in cultivation, that the wages, not of those laborers only but all other laborers, were doubled and the price of land and its products, so greatly increased.

In regard to France we have a very careful and exact computation of the shares which went to the landlords and to the laborers during five successive reigns from A.D. 1700 to A.D. 1840. These were made by the most eminent authority in statistics, with all the records of France at his command. In 1700, the proportion of the crop paid to the agricultural laborers was 35/100th; in 1840 it was 60/100th. The money price of the laborer's wages increased *four-fold*, but the increase in the total product was so great that, after paying the agricultural laborers their augmented wages, there was twice as much left for each one of the remaining people—including the landlords, mechanics and other classes, although they had doubled in number—as had left for them in 1700. Instead of comparing the condition of things in the same country at different periods, we may compare countries which are in different stages of development. By both methods we find that food is most abundant, and wages are highest where population is largest and thickest; while food is the most scanty and wages are small where men are few and widely separated. The most fertile regions of the globe are almost uninhabited. In South America a man can go one hundred *ri* without seeing a human being. But in those districts and in the West Indies, the Banana is a native plant. The bananas grown on the *tsubo* will give more than one hundred and ten *kin* of very nutritious food. A *tan* of bananas will give more nutriment—that is will keep more men in a good healthy state, fitting them to work well—than one hundred and forty three *tan* of rice fields. The rice requires a great deal of labor before it can be made ready to eat; the banana requires hardly any more labor than to pluck the fruit from a tree. Natural vegetation grows so rapidly in tropical climates that the ruins of large towns and great temples are found buried in forests and unknown to the natives who live within a few *ri*. In India less than one hundred years ago, a British regiment marched fifty *ri* through a thick forest, where, a few years before, every *tan* had been cultivated, till the inhabitants had been so thinned by famine that the wild beast and the spread of the jungle drove them away.

The London Economist, a weekly paper of the highest credit with practical men in England, recently said:—"Nobody except a few mere writers now troubles himself about Malthus on Population or Ricardo on Rent. Their errors may yet linger in the Universities, the appropriate Depositories of what is obsolete." Writing for those who are, and who hope to be not mere scholars, but active workers for the good of their country, we shall waste no more space upon such delusions."

NOTES ON POLITICAL ECONOMY

DESIGNED CHIEFLY FOR JAPANESE READERS

CHAPTER VI

LABOR AND WAGES—VALUE, UTILITY AND MONEY PRICE—GROWTH OF WEALTH—LABOR AND CAPITAL—HIGH WAGES AND NATIONAL WEALTH—EXCHANGE—MUTUAL BENEFITS OF PRODUCTION—TRANSPORTATION—CIRCULATION—APPLICATION OF FORCES TO LABOR

Everybody earns his living by selling labor. He may sell his personal labor, from day to day. This is done by the largest part of every people. He may sell his own labor embodied in products. The farmer does this when he sells rice or cotton. The weaver, when he sells cloth, the tailor when he sells clothing, sells not only his own labor but also that of the man who cultivated the cotton, which labor the tailor bought by labor of his own. A man may sell the use of products, as when he lets out for hire a house, a mill, or a *jin riki sha*. In all cases it is the selling of labor which is being done at present time, or of labor which has been done in past time, or of the two combined.

In the natural course of things, the products of past labor command less and still less labor from year to year than was expended in producing them, because the improvements in machinery and growth of knowledge make it possible to produce a thing of the same kind with less labor. For the same reason, less hire can be obtained for the use of products. Everybody, therefore, desires to sell his products as speedily as possible. The *value* wastes away, little by little. In most cases their *utility* wastes by rust and decay. Because gold and silver do not rust or decay, and because they have sunk in value more slowly than other things they have been used to measure the value of other things which change in value and utility more rapidly. It saves us a great many words to talk of the money-price of things as if it truly measured their value, although it does not. The real value to a man of anything is the labor-power it will cost him to get the money price. If he can earn 20 sen a day for only half of the working days in a year, anything, whether it is rice or clothing, is twice as dear (costly) to him as if it would be if he could earn 20 sen a day. His power to purchase is measured by a comparison between the money wages which he actually gets and the money price of the thing he desires to buy.

Much the greater part of the labor of all the people of every nation is expended in producing the necessaries of life for the year that is passing. The people of Japan every year raise the rice and other vegetables, and catch the fish which they eat in that year. They plant and pluck, spin, weave and sew together the cotton for their year's clothing. They cut the firewood and make the charcoal, or dig the stone-coal from the earth, with which they warm themselves and cook their food during the year. They keep in repair the houses as they are worn out; they rebuild them as they are burned during the year. At the year's end the greater part—say nine parts in ten—of all that has been produced has also been consumed. What remains to each man is the increase of his wealth. The

aggregate surplus of all the people makes the increase of the nation's wealth.

This surplus depends altogether upon the labor-power of the nation being steadily employed—that is working all the working days—and upon its being compensated by wages more than sufficient to feed and clothe and house the laborer, in such a manner as to give him health and strength to toil, and also to give him hope of improving his condition, which will encourage him to do more work than is enough to keep himself and his family in a fair animal condition—as well provided for as the horse belonging to a decent master. All experience proves that men never work as heartily as they can unless they expect to have some surplus at the end of the year. They know that some days they will be unable to work on account of sickness or of bad weather. The wages of each day must therefore be more than enough to satisfy the wants of that day. It is unfortunately true, moreover, that there are some days when the laborer, though able and willing to work, can find no work to do. If the days of sickness and of bad weather happened to be the same days when the laborer could find no work to do, his misfortune would be the smallest possible, but the days when he can find no work, are often the days when he is in the best health and the weather is finest. He must have wages enough to cover all these chances, and over and above that to leave him a surplus at the end of the year, or he will not, in truth, he *cannot* exert his utmost powers.

Capital, the heaped up labor of the past time, produces nothing except when it is used by the active labor of the present time. It is most productive when this active present labor is most intelligent, hopeful, and therefore efficient.

All these considerations explain why it is that the wealth of a nation increases in proportion to the liberality with which its laborers are paid. Where their wages are small the nation is poor, and if it is improving it is growing rich slowly. When wages are high the nation is probably rich, if not it is rapidly growing rich.

The highest rate of wages is paid in the United States of America, whether the wages are measured by gold price or the necessaries that the gold will purchase. This is conclusively shown by the fact that every year three or four hundred thousand laborers come from Europe, mainly from Great Britain and Germany, to better their fortunes in the Great Republic. More would come if they could, but a British or German laborer must have saved a little property before he can pay the expense of a voyage across the Atlantic, and of establishing his family in his new home. The Americans, man to man, earn more, spend more and save more, than any other people on the earth. Consequently their nation has grown rich and is growing rich, at a rate which has no parallel in history. The average rate of wages in England is about half of that in the United States, and is much greater than in any of the continental nations. Happily, it is rising in nearly all of them, for it is for the benefit of everybody that everybody else should prosper and grow rich. And this is as true between nations as it is between subjects of the same government.

It is important to bear in mind that if the English workman earns 75 cents a day and spends 62½ cents, leaving him 12½ cents, the American who earns 150 cents can spend 125 cents, and will have twice as much left as his English brother.

In whatever form the workman is paid, his wages are the product of some other workman's labor. The two exchange labor with each other, though this is seldom done directly. There are many middle-men. Money acts as the greatest of all bargain makers. Some of these middle-men are those who change the forms of products, as by turning

cotton into cloth, or cloth into clothing. Others are those who carry products from one place to another. Finally, there are the traders who only buy and sell the things which others have produced, and transformed and transported.

The use of money enables a workman to exchange the smallest part of the products of his labor for small parts of the products of a great many other laborers. The practical result is that no man can earn wages himself unless a multitude of other men have earned wages. For example, a cheap Japanese newspaper is published in Tokio, which may be bought by about twenty thousand persons. Those who subscribe for three months pay two thirds of a sen for each copy. The proprietor employs one hundred persons. With part of the money he receives he pays his one hundred workmen; with another part he buys the paper on which the words are printed—paying just about as much as the wages of the two hundred other men and women employed in the paper mill from which he purchases, at which paper is made from cotton rags that would otherwise be worthless. Of course there are many other workmen who get their share of the two thirds of a sen which each reader pays. What is to be remarked is that the three hundred working men and women spoken of depend for their wages upon twenty thousand readers each of whom earns enough to be able to indulge himself and his family with a daily newspaper, which helps them all to increase their knowledge and thus makes them more efficient laborers. If the wages of the twenty thousand readers are reduced two thirds of a sen a day, then not only are the wages of the before mentioned three hundred men and women reduced to nothing, so that the twenty thousand must contribute their share in taxes or some other form to feed and clothe them, but the calamity extends to many others—to the workmen who make the metallic type, to the miners who dig coal. In the making of every pound of such paper as is required, a pound of mineral coal is used. The paper costs almost nothing to the Japanese nation. It is the product of female labor that would otherwise have earned nothing, combined with cotton rages that would have been worth nothing and with coal which was worth nothing at the bottom of the mine, but has been brought to the surface and transported to the mill by men, if they had not done this would have done nothing. There are more idle men in Japan, today, than enough to make paper for the whole world.

The great truth is that the labor of every producer furnishes wages for other producers—makes a market for their labor. The idleness of every man who could produce deprives other producers of the market for their labor and condemns them also to idleness. The idle man is not simply like a sick man, who must be fed and clothed and nursed by others, but he is like a man with an infectious disease who spreads contagion to others, each one in his turn becoming a fresh source of disease. Such is the sad result of every paralysis of industry in any branch of production. It affects every kind of production. Every good and wise government does all things in its power to prevent such a paralysis, just as it endeavors to protect its subjects from the importation of the cholera, or the plague, or of opium. In general, they all come, immediately or remotely, from the interference of foreign traders.

As the wealth of the workman and of the nation is in proportion to the whole quantity of its annual productions, and as the increase of that quantity depends upon the products being exchanged, every obstacle to the rapidity of exchanges impedes the growth of wealth. Exchange is only one of the steps between Production and Consumption. Until a product is consumed it is inert or dead; as soon as it is consumed it

becomes an active force and sets in motion a new process of production. Rice makes no labor-power till it gets to the stomach; cotton makes no yarn till it gets into the hands of the spinner; yarn must get to the weaver before it begins to make cloth. The necessity for transportation to bridge over the distance the place of production and the place of consumption is the first and greatest obstacle to the growth of wealth. Good roads and navigable water-courses are therefore most powerful instruments of production. The want of these is felt, most of all, by the agriculturist, for his products have the greatest bulk in proportion to their value. Value is increased, and bulk is proportionately decreased, as food and raw materials are combined in the finished product. A piece of cloth which weighs but a few pounds contains in its value not only the value of the cotton or silk, but the value of all the food consumed by the workman who cultivated the raw materials, and by the spinners and weavers—which would weigh many times as much as the cloth. In whatever form the workman sends his products to market, he must pay the expense of transporting them and also of bringing back the products he receives in exchange. Hence it is of the utmost advantage to the laborer that he should sell his products with the largest amount of labor compressed in them—that is, in their most finished form, in exchange for products in which other laborers have compressed the greatest quantity of their labor, or food. All parties thus escape, as much as they can, from the charge for transportation, which is the largest tax on labor. The carrier and the trader add nothing to the quantity of products. Both tax the products to pay for their services and the longer a product remains in their hands, the longer it is inert and useless. If a trader can sell everything the same day he buys, no matter how small his profit is, he can get that profit every day in the year. He can, therefore, sell very cheaply and yet grow rich very rapidly. The man who buys of him is benefited by that cheapness; he has more wages left than if he bought of a trader who could not find a purchaser for his goods until a week or a month after he himself had bought them. In respect to all things, the more rapidly they circulate, the less the interval between their production and their consumption, the cheaper they become, the more the reward of labor increases and the more the wealth of the nation swells.

Lord Bacon, the father of modern philosophy, puts the doctrine in very few words when he says: “there are three things that make a nation great and powerful; a fertile soil, busy workshops and easy communication of men and merchandise from one place to another.”

A sufficient proof that Japan is a very poor country is this:—Wages are so low that men do the work which ought to be done by horses—drawing vehicles in the streets, for instance. The strength of a horse is computed as nine times that of a man, so that one horse ought to pull nine jin riki shas. The only palliation for the disgraceful fact that men are thus employed, is that one man with a jin riki sha now does what it formerly required two men to do with a kago or norimono. This is because the use of the wheel substitutes friction on the road, which one man can overcome, in the place of lifting a dead weight which required the strength of two men. The wheel-barrow is scarcely used in this Empire; every day two men may be seen carrying loads suspended from poles resting on their shoulders, which one man could push in a wheelbarrow with more speed and less fatigue than either of the two suffer. The superfluous man, who would find some other work, if his fellow had a wheel-barrow, cost—at a very modest estimate—to make [that is to grow from a child to a man, feeding and clothing him through his years of childhood]

and to keep in repair [feeding him when he is old enough to work] as much as two hundred wheel-barrows; then it is plain that the work of one hundred men with one hundred wheel-barrows is just as cheap—that is it produces as much, at the same cost—as that of two hundred without wheel-barrows. The Empire would expend no more, and get no less work done, if it kept the one hundred at work with wheel-barrows and gave rice and garments to the other one hundred, allowing them to amuse themselves by studying the Chinese classics or doing anything else which brings no good to any body.

Another cause, and proof, of the poverty of Japan is that its internal communications by road and water-courses, though steadily improving, are still very defective. In so mountainous a country, good earth roads are the first necessity, and the want of them is not only an economic, but also an essential military, weakness of the state.

Labor of different kinds ought to be rewarded in proportion to its efficiency, that is, in proportion to the advantage which it renders to the Empire. The lowest form of labor and the least effective is that in which a man uses nothing but his own weight. If you want to raise a bucket full of coal from the bottom of a mine to the mouth, one way of doing it is to put a rope over a single pulley with two buckets at the ends, one filled with coal weighing not quite so much as the man; the man steps into the other bucket and his weight brings it down while the other bucket goes up. If instead of stepping into the bucket, he merely pulls on the rope, it comes to the same thing; it is plain that no matter how strong he is he can not pull up any more than his own weight. If a bullock had hands, by which he could grasp the rope, he could do the work of several men. The addition of a second pulley enable the bullock to work on the ground and thus apply his strength to pulling up a bucket containing a great deal more coal than a man could raise. The bullock, however, needs a man to guide him, to fasten him to the rope and unfasten him. In doing this, the intelligence of man is added to the brute force of the beast, and the two accomplish as much as several men could do, and more than ten bullocks could do if not directed by human intelligence. The man who uses his intelligence to manage and control brute force produces a great deal more effect than he could do by using his own animal strength. For this reason, he earns higher wages and is paid higher wages.

Three tons of coal in a steam engine exert as much force as a man can exert in his whole life time; and this force may be produced and expended in a single day, or in less time if necessary. The man who manages the steam engine must be much more intelligent than the man who can drive a bullock, and therefore he produces more and is paid higher wages. It is a general truth that wages increase in proportion to the intelligence and skill of the workman. A physician may produce no material thing himself, but his skill enables him to restore to health, and to preserve in health, hundreds of workmen whose labor would, but for his help, be suspended and their intelligence rendered useless. He therefore deserves, and is paid, much higher wages than any one of them. A wise counselor, by whose advice good laws are enacted, may thus indirectly make the labor of ten millions of his countrymen much more productive than it would have been without that advice. No wages can be too high for such a man. But, in fact, such men are seldom paid anything like as much as they deserve. They are content to find their pay in the applause of their countrymen. Often they know that the applause will not be given in their life time, but they are willing to work hard and not to be appreciated while living, in the hope that years after they are dead their countrymen will

learn that they have labored faithfully without selfishness and that their consuls were wise and good. Such men often die poor but they get their pay in the confidence of future renown and in the satisfaction of doing patriotic duty without material reward.

NOTES ON POLITICAL ECONOMY

DESIGNED CHIEFLY FOR JAPANESE READERS

CHAPTER VII

DIVERSITY OF WAGES—THE ENGLISH AGRICULTURAL LABORER—LAISSEZ FAIRE THEORIES—LABOR SAVING APPLIANCES—AN INDUSTRIAL PROBLEM—PERIODS OF DIFFICULT TRANSITION—EXPLORATION OF NEW FIELDS OF LABOR—DUTIES OF GOVERNMENT—PATENT LAWS

We do not care to dwell upon the many diversities of circumstance which induce a laborer to prefer one kind of employment or trade over another for which by his strength and skill he is equally fitted, and therefore lead him to demand higher wages for working in the one, and to accept less for a day's work in the other. One employment is more unhealthy, another, like making gunpowder, more dangerous; one can be carried on in all weathers, another only when the sun shines bright and warm. In one trade the workman can always find something to do, in another he may be exposed to earning nothing three days out of four. The economists of the shop-keeper school think there is what they call a *natural* rate of wages, just enough to keep a man living and begetting children, who in turn are to perpetuate a posterity which is never to lift itself to a higher condition than that of a hard-worked and ill-fed beast. Such natural wages belong to a class of whom Prof. Thorold Rogers says (*History of Agriculture and Prices in England*; vol. 1, page 698) "no English agricultural laborer, in his most sanguine dreams, has the vista of occupying, still less of possessing land. He can not rise in his calling. He can not cherish any ambition, and he is in consequence dull and brutish, reckless and supine."

The writers who adopt this view of "natural wages" are constrained by their instinctive sense of justice to try to reconcile the diversity of wages in different employments with the notion that every laborer exercises his free choice and receives an equitable compensation for every comparative disadvantage to which he submits. Ingenious men can do a good deal toward showing that things *as they are*—left pretty much to the devil's management—are upon the whole nearly as righteously adjusted as if they had been arranged by supreme wisdom and goodness. It adds very much to the complacency of the scholar who hopes he is also a kind of statesman in letting things alone, if he can persuade himself that there is about as much approximation to justice as human imperfection permits when one man is extravagantly paid for a very little work and another man working to the best of his ability can earn only enough to keep his soul and body together, and that with small comfort to either of them. We also should be glad to believe, with the rest of the wise men, that this is the best of all possible worlds and that we have no duty to perform in trying to make it better; but we shall make no effort to prove this. We prefer to admit that there are some diversities in wages for which no reason can be assigned except antiquated custom, sometimes hardened into positive laws enacted by the masters and compelling the workman, upon pain of imprisonment or

starvation, to accept such wages as the masters have thought fit to give.

We dismiss the subject because we are concerned mainly with the interests of the Japanese workmen in their international relations, and very little with those inequalities which exist within the Empire. Our question is not how the Japanese divide the products of their industry among themselves, but how they shall make the aggregate products the largest, and retain the most of it to be divided among themselves, wasting the least possible in their foreign trade. This and this only do we care enough about to take the trouble to writing these Notes—which are only *notes* for the consideration of practical men and by no means a formal treatise. There is a point, however, upon which we must say something, because it is a very sore point not only with workmen who keenly feel the evils which they suffer for a time from the introduction of labor-saving machinery, but also with economists of enlightened benevolence who see that what is partial evil—disaster to a comparative few—is universal good, a benefit to the community or nation, taken as a whole, but who sorrow that they can discern no proper remedy by means of which the benefit to the whole people shall not be purchased by the affliction of those who are thrown out of employment. Let us illustrate the difficulty and such palliations of it as we are able to suggest by a recent domestic example. In the TOKIO TIMES of February 24th 1877, it was stated that on the Shimosa Sheep Farm, Japanese laborers who, but a year before, with the native mattock would dig up only one-sixteenth of an acre a day, now with a twenty-inch plow turn over the sod with its hazel and chestnut roots at the rate of two and a half acres daily. This means that one man and two horses with a plow now does as much work as forty men with mattocks did, in the same time, a year ago. Now then, disregarding the horses and the plow for the moment, and supposing what cannot be doubted, that the work done was work that ought to have been done long ago and that he doing of it is of immense advantage to Japan, the immediate result is that thirty-nine men who would have been glad to do the work, have been thrown out of employment. They have been made unnecessary and superfluous (according to the philosophy of the economists of the English or shop-keeper school), their place and duty in this world being translated to two horses, a plow and the education of the laborer who guides the plow and the horses;—that is superseded by intelligence in making an improved tool and in using it, and by the substitution of rude animal force for the costly strength of a man. The thirty-nine superfluous men, according to Malthusian wisdom, in strictness ought to die, in fact ought never to have been born;—at all events ought not to be here in Japan crowding the labor market and absurdly pretending that they have a right to be fed and clothed and lodged. These thirty-nine men think differently. They believe they have a right to live. So do we. They even imagine, some of them, that the nation ought, if the worst comes to the worst, to find them some work to do. There is surely enough to be done in this world, and in every part of it, to furnish abundant employment for every man, which would not only support him but afford a surplus to swell the comforts of his fellow beings. It ought not to cost anything to any nation to supply work for every body able and willing to work. It does not follow that the government must itself hire laborers or what is worse, keep idle men in food. Again, on this same Shimosa farm, one man runs a mowing machine, drawn by two horses, and cuts ten acres of grass in place of the quarter of an acre which he formerly did with a Japanese knife. Here also is one man doing the work of forty and thirty-nine men made supernumeraries, complaining more or less. The plow, the mowing machine, the four horses, and the

impalpable intelligence, which made and directs them, have turned loose seventy-eight men—good company of soldiers—driven them out to hunt for a living. Ignorant and hungry workmen, under such circumstances, were, in former days, a good deal in the habit of smashing the plow and the mowing machine. The intelligence which was the root of all the trouble, cannot be reached or smashed. If it is extinguished in one man by killing him, it survives in another and repeats its feat of labor-saving invention.

Now let us see what has been done and what can be done for the seventy-eight unfortunates. In the first place plows, harrows, wagons, carts, hoes, shovels and in fact all kinds of agricultural hardware were made on the Shimosa farm, by Japanese mechanics, of Japanese material. Large shops have been built there and in Tokio where all kinds of machinery are manufactured "*cheaper than they can be purchased from foreign countries.*" Well, here is work for some of the seventy-eight, in making the implements and machinery. It would require but few of them and that for but a short time, to construct the plow and the mowing machine, but then there is iron ore to be mined, coal to be dug to smelt it with, timber to be cut, sawed, hewn, planed and fashioned for all the tools and for the shops in which they are made. It is stated in the article to which we have referred that the same work upon one acre, which in the old method and with the old tools cost 480 sen, is now done for 240 sen or less. The government therefore has a fund in this saving which enables it, without any increase of expense, to cultivate two acres when it otherwise would have cultivated only one. The crop of the additional acre will certainly supply food for as many laborers as were discharged, by reason of the improved implements, from the original acre, though it may not be necessary to employ them all. The constant effect of every invention which cheapens production is to greatly enlarge consumption by bringing the products within reach of a widened circle of purchasers. As production increases, it absorbs more and more of the discharged workmen, who moreover get their share of the general benefit in the diminished cost. It is, however, a great hardship and wrong that many of them should suffer during the weary period of transition from what produces a greater gain to the nation as an aggregate than would suffice to compensate for all their losses. It is a reproach to our civilization that no remedy has been devised.

For the purpose of stimulating invention and experiment it is a very general practice to grant to inventors a monopoly of the right to make, use and sell their improvement, by Letters Patent. This doubtless is sound policy, but it is contrary to the principles of true free trade, and has so little foundation in natural justice that every body recognizes the propriety of limiting the monopoly to short periods of time. The special circumstances of Japan would, it seem to us, recommend to this government that it should grant no patent for an invention to any foreigner not permanently resident in the Empire and by naturalization or otherwise, fully subjected to its laws and its jurisdiction. It might thus obtain the consolation of knowing that if a certain number of its poor and laborious subjects must endure poverty for a while in order that the whole mass of their subjects may be better and more cheaply supplied with the material for their subsistence and comfort, the latter will enjoy their advantage without being burdened by a tribute to aliens in the shape of royalties for the use of their improvements.

NOTES ON POLITICAL ECONOMY

DESIGNED CHIEFLY FOR JAPANESE READERS

CHAPTER VIII

PROFITS—THE SHIMOSA FARM ENTERPRISE—PROFITS OF AN EMPIRE—
HUMAN HAPPINESS VARIOUSLY REGARDED—VALUE AND QUANTITY OF
CAPITAL DISTINGUISHED—INDIVIDUAL AND NATIONAL WEALTH—AN
IMPORTANT PRINCIPLE OF HOME PRODUCTION—PRICES OF DOMESTIC
PRODUCTS IMMATERIAL—NATIONAL INCREASE ILLUSTRATED—
ADAM SMITH AND HIS REPUDIATORS

The surplus which is left after the original capital has been replaced and the wages paid, out of the product or out of other products for which it is exchanged or the money for which it is sold is Profit. On the Shimosa farm where the government is the capitalist, wild and tame grasses, radishes and turnips are grown and fed to sheep, also clover and oats which are fed to the laborers or exchanged for rice, as they prefer. At the end of the year an account is taken and it is found that in addition to the original flock of sheep there are, say one thousand lambs, and warehouses heaped with wool, and other storehouses holding the vegetables and grasses left after a part of the crop has been expended in feeding and clothing the workmen. The government, we will suppose, does not choose to establish a cloth factory, but sells its wool to a company at Wakayama, who make it into flannels, and thereby is replaced a portion of the *money* paid out for wages and materials. The lambs and the surplus grain constitute profit.

We may look upon Dai Nippon as a Shimosa farm on an Imperial scale and His Majesty the Emperor as the universal proprietor—every good Japanese does look upon it very much in that way. The Emperor, in that character, can estimate his profits only by counting, weighing and measuring what there is left in all the fields, houses barns and storehouses of the nation, and seeing how much more it is than what was found in them a year before. We designedly leave out of the computation what money, more or less, there may be, for all the money there ever was or even will be in a country form a very trifling part of its aggregate wealth—the proportion of money to the sum total of riches being, as a rule, the largest in the poorest nations. The Emperor having no claim to a knowledge of “shop-keeper” theories, may felicitate himself if he observes that his people have continued to feed themselves and clothe themselves better than they did the year before, and to make themselves more comfortable in a general way; and he may imagine that any advance in well being might fairly be counted as some gain. But when he learns the philosophy of the economists of the “shop-keeper” school he will find the happiness of a people goes for nothing with them and that they regard nothing as profit until it shows itself as a mercantile balance in silver or gold yen. We have indulged in this strain of remark for the purpose of drawing attention to a distinction which is of especial importance. To an individual, the increase in the *value* of his capital, not in its quantity,

is the point of vital concern. If he produced for the purpose of consuming in his own person and his family the identical commodities which he raises, the annual addition of their quantity would measure the increase in his means of enjoyment. This supposition is true, however, only of the savage. Men in civilized countries produce for the sale of exchanging the products of their industry with each other. This they do by means of money, the great go-between; and they reckon the value of their capital and of its increase of their power to command the services of others, either in their labor to be performed or in labor which has been performed and stands embodied in commodities—the proportion between their capital measured in money and its increase also measured in money. They cannot compare notes with each other in any other way.

It is natural enough to jump to the conclusion that the progress of a nation in wealth is measure by the prevailing rate of profit, and that when its subjects upon such vague average as the case admits of are found to be gaining ten percent upon their respective capital, the nation is accumulating capital twice as fast as when they report themselves as having gained but five percent. “To transfer,” says John Stuart Mill, “hastily and inconsiderately to the general point of view, proportions which are true of the individual, has been a source of innumerable errors in political economy.” The great fact overlooked in the hasty deduction which measures the progress of national wealth by the rate of profits as individuals compute it is this;—While the individual consumes personally but a small portion of his own products and is a trader in respect to all the rest, the nation consumes almost all the products of the industry and capital of its own people. It is a trader only with respect to that small portion of its domestic industry which is exported to be consumed abroad. The exports of the United States constitute but about five percent of their annual production. Those of England, the greatest exporting nation in the world, do not ordinarily exceed one-tenth of the products of its industry. In respect to what a nation exports it is of some importance that the price should be high, as on the other hand it is benefited by a low price of its imports. But in respect to all that is produced at home, exchanged at home, and consumed at home, the thing most to be desired is that the *quantity* should be the largest possible. The price is a matter of no consequence. Whether one Japanese sells rice to another Japanese for two yen per catty or for three, there is just as much rice and as many yen in the one case as in the other.

Suppose, however, the crop of rice to be increased from thirty millions of koku in one year to forty million in the next. It is very probable that the farmer would obtain no greater number of yen for his large crop than he had for the small one. Assuming his expenses for seed and labor to be the same, his profit in money will be no larger than in the former year. But the national wealth has been increased by the same profit, whether estimated in rice or in yen, which it gained the year before and moreover by ten million koku—enough, if equally distributed, to add one-third to the daily ration of rice of every man, woman and child in the Empire. Practically, as the majority, we may hope, have already as much as they need, the surplus would find its way to the mouths of those who had lived on short allowances of rice or on inferior diet. The ten million of koku enable the nation to employ the half-fed laborers to the full extent of the utility, the muscle-producing power, which that quantity of nutriment can evolve. Suppose that in the same bounteous year the industry and intelligence of His Majesty’s subjects get an extraordinary increase over the increase of the preceding year, of *all* things that men produce, in the same proportion as that of rice. Looking through their learned spectacles

at such a wonderful dispensation the economists of the schools would tell us that the relative value of all things, except money, would remain unchanged and that the price of all would fall in the same ratio, so that a man would be compelled to sell his rice for one-third less money and would be unable to show by his cash accounts that his rate of profit had swelled a particle. With his money to be sure, he could buy one-third more of cotton, silk, tea, or whatever he wanted, except labor and land, which it is necessary to except. Everybody being in the same condition, nobody could show any increased rate of profit, but it is greatly to be feared that the entire population of Japan would be stupid enough to hold high festival for the unexampled advances of national wealth. Our interpretation of the fact would be that there had been an increase of one-third in the *Utilities* reduced to possession and marketable within the value of everything except land and labor. We have shown before that as wealth grows the *ratio* of profit declines though the quantity increases, agreeing in this with Adam Smith and disagreeing with many of his professed disciples who filch his good name while abandoning his most important principles.⁶ He says: “The demand for labor increases with the increase of stock, whatever be its profits; and after these are diminished (in rate he means) stock may not only continue to increase but increase much faster than before (*i.e.* in quantity). It is with industrious nations who are advancing in the acquisition of riches as with industrious individuals. A great stock, though with small profits, generally increases faster than a small stock with great profits.” —[*Wealth of Nations*. Book 1, chapter 9.]

Moral. When you are discoursing of the interests of nations, carefully avoid being misled by the notions and the phraseology of the “shopkeeper” school.

⁶ Of which the following is an example: Francis Horner was brought into Parliament with an account of his proficiency in the knowledge on one kind of Political Economy. He was the chairman of the House of Commons’ Committee on the currency and presented its celebrated “Bullion Report” of 1819, of which he alone or in conjunction with Mr. Huskisson was the author. Both were most prominent in the *soi-disant* free trade school, and Horner obtained high repute with its disciples by his Parliamentary career and his contributions to the *Edinburgh Review*. He died early, leaving memoirs which were edited by his brother, Mr. Leonard Horner. In them he gives the history of his economical studies, and in a letter to a friend, after stating that application has been made to him to edit a new edition of Smith’s “Wealth of Nations,” with notes, he gives this reason for declining: “I should be reluctant to expose Smith’s errors before his work has operated its full effect. We owe much at present to the *superstitious worship of Smith’s name and we must not impair that feeling till the victory is more complete*. . . . Until we can give a correct and plausible and loose hypothesis is *as good for the vulgar* as any other.” — [*Memoirs of Francis Horner*, vol. 1, p. 133]. In 1838 Mr. J. R. McCulloch, next perhaps to Mill the highest authority with the free traders, had overcome the scruples which restrained Horner, so far that in the Index, pp. 663 *et seq.*, to his edition of “The Wealth of Nations,” under the name Smith, nearly one hundred important errors are specifically stated and referred to, all of which are treated fully in the notes.

NOTES ON POLITICAL ECONOMY

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CHAPTER IX

PRICE—ITS FAILURE TO REPRESENT WEALTH—PROSPERITY OF NATIONS—
PUBLIC DEBTS—RATES OF PROFIT—ADVANTAGE OF
EXPANDED MARKETS

It is impossible to insist too strongly upon the truth that *price*—valuation—money—is no just measure of wealth in respect to a nation or as between two nations. Japan is richer when rice bears a low price, which follows a plentiful harvest, than when the crop is small and the price is high. Everybody in England watches anxiously the spring rains and the summer droughts, for a scanty crop of wheat means that millions of laborers must spend more of their wages for bread, which they *must* have, and can save less to expend for things in which it is profitable to stint themselves. For everything, therefore, of secondary necessity there is a diminished market—a cessation in the manufacture of them; the wages of all the laborers who produce them are lowered, or some of them are turned loose, in idleness, to starve or be fed from the poor rates; the capitalists whose sales fall off are pressing for money to meet their engagements at the very time when gold is going out of the kingdom to pay for foreign grain and the money lenders are least able to make loans to be employed in domestic industry. A short crop means universal distress extending to all classes dependent in any way upon the steady activity of productive labor. What is true of wheat is true in an inferior degree of every other product. Each of them employs toil in producing it and gives employment to other toil in producing commodities to be exchanged for it. Suppose there was no profit whatever to the maker of it, in a pecuniary sense,—that is, suppose its price paid only for the rice eaten while it was being produced, still the product remains a positive addition to the national wealth.

The same truth is evident if we compare the accumulated wealth of different nations. If England has two hundred million bushels of wheat and the United States three hundred million bushels of wheat, is England the richer because her bushels sell for two dollars each, making four hundred million dollars, while in the United States each sells for one dollar, making but three hundred million? Can the wealth of two such nations be compared in any other way than by an enumeration of the various items of capital each possess? Thus when the census of 1870 was taken, the United States possessed 28,074,582 meat cattle, 8,935,332 milch [milk; *-Editor*] cows, 8,690,219 horses, 1,125,415 mules and asses, 1,319,271 working oxen, 28,437,951 sheep, 25,134,569 swine. Suppose this catalogue extended until it included every steam-engine plow, loom and anvil, and every other chattel in the country. Suppose a similar inventory of property to be taken in England or France, and that it should be found that in England, for example, there were many more sheep and the fleeces sheared from them in 1870 gave

vastly more than the 105,102,387 pounds of wool produced that year in the United States, while of some other products the number and weight was much inferior. We might obtain some idea of the relative wealth of the nations by dividing the several items proportionately among the respective populations and thus seeing that in the Republic there was more than a horse and a milch cow to every family of five persons, besides three sheep and a half, three hogs, and so on through the catalogue down to cups and saucers, knives, forks and spoons. If we had the statistics for England and France, we might make a similar apportionment for their people and thus compare the relative comforts and wealth of a French, and English and an American family. But every attempt to arrive at a tolerably accurate valuation of the aggregate wealth is futile. A great deal that counts as individual wealth represents national indebtedness. The debt of the United States is about two thousand millions of dollars, that of Great Britain about twice as much, in both cases owed mainly to their non-subjects. In 1862 the number of creditors of Great Britain was 264,698 to every one of whom the amount of his stock was better wealth than so much gold in his strong box; for it brought him interest, while exchangeable for cash at any moment, thus solving for him as nearly as possible the great problem of "keeping your cake and eating it too." About one-third of the national debt is actively transferred at the Bank of England every year. So in the United States, and in France, whose enormous debt, the largest in the world, seems to sit upon her like a feather's weight, so thoroughly does she protect her domestic industry. It is plain that the aggregate of these debts is not national wealth, nor, so far as they are due by either government to its own subjects are they national poverty. The annual burden of interest and of so much of the principal as is paid off is but a transfer of values from the tax-payers to the tax-consumers, neither increasing nor diminishing the wealth of the country. There is, moreover, everywhere an immense amount of corporate and municipal stocks and, besides, private tokens of credit, like mortgages and promissory notes, figuring as one man's debts and another man's riches. These considerations show that national wealth can only be estimated by the quantity of visible and tangible commodities, with a deduction for what the government and its subjects owe to foreigners. But there is no such thing as *international price* to serve as a standard of comparison for aggregate national wealth, for one plain reason, that there is no market for the possessions of a nation "in the lump." No nation can sell abroad in any one year so much as the one-hundredth part of its capital. Regarding Political Economy as the theory of productive power and methods, and its application in guiding the business of a nation as "an art remedial and directory in its nature, like medicine and civil government or anything else that has disorder to deal with, and changefulness in the character of its subjects and objects" [Dr. Elder's "Question of the Day"] we deem it needful to dwell earnestly and with what in a literary point of view many be offensive iteration, upon the truth that tests which may be adequate to measure the prosperity of an individual unit in the social organism, or even many such units, may fail entirely to determine the progress of the community; just as little currents, threads of water in the Sumida river may be seen running upwards on the surface of the stream, while the whole flood, including such eddies, is surely tumbling into the Bay of Edo.

The *rate* of profit is generally computed not by the proportion which it bears to the value, or price, of the product, but the percentage upon the capital which was disbursed before the product was brought to market, sold, and replaced by cash. The

capital is expended in the purchase raw material, in the payment of wages, in the hire and cost of repairing machinery;—if the manufacturer is himself the owner of the machinery he counts as a part of these charges (for which he hopes to be reimbursed) the interest upon its original cost and such an additional sum as will pay for all depreciation by wear and tear, including also a premium of insurance enough to replace it in case of damage by fire—the cost of transportation from the factory to the market and, if the market is distant, the commission which he must pay to the agents employed in keeping it in warehouse and in selling it. If the price of the product when sold is barely enough to extinguish such charges, the capitalist has obtained no profit; if it is less, he has suffered a loss and some fraction of his capital must be transferred to somebody or other, provided he is made to pay his debts. It may be very difficult to ascertain who has gained what he lost. If the price is less than the *value*, the purchaser has gained part, or the whole of what the seller lost. If price and value are equal, then the loss is distributed in undue gains to the middlemen, the transporters and traders who intervene between the producer and the consumers to gather toll on every commodity that passes through their hands.

On the other hand, suppose a man puts upon the market goods to the full value of his capital and sell them at a price which, after replacing his capital with all charges, gives him an addition of five percent in two months from the day when he commenced the enterprise. This repeated six times in a year would yield him an annual profit of more than thirty percent, because profit is gathered upon profit at each renewal. As the rate of interest is computed by the year, and as money is commonly hired with a view of turning it into capital in other shapes and with the expectation that from capital thus transformed will be made a profit exceeding the interest, it is natural, if not necessary, that the rate of both should be measured by their production in a year. In agricultural industry, the greatest of all industries, the profit cannot be computed until the vicissitudes of the seasons have completed their round; and other producers conform in this respect to the habits of the farmer.

We have, in the case supposed, a profit at the rate of thirty percent upon capital derived from a profit of five percent upon the amount of sales. The same profit and capital would be obtained by doubling the sales and reducing the profit on each article sold to two and a half percent, which would of course reduce the price and tend to enlarge the circle of purchasers. The rate of profit would be somewhat increased (an account of the accumulation of profit on profit in the nature of compound interest) if instead of the whole value of the capital being sold every two months one half of it should be sold every month. The truth is embalmed in the homely English proverb, “One nimble sixpence earns more than the slow shilling.” In mercantile phrase the rate of profit grows with the extent of the market and the rapidity of sales; these compensate for a reduction of price, expands the market and accelerates the rapidity of sales. This has been strikingly exemplified in the history of railways and other lines of transportation, on which it has been found that greater profits were earned by carrying passengers for one cent per mile than by charging four.

NOTES ON POLITICAL ECONOMY

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CHAPTER X

PROTECTIVE DUTIES AND THEIR OBJECTS—FALLACIOUS OBJECTIONS
THERE TO—THEIR OPERATION—A PRACTICAL ILLUSTRATION—THE BESSEMER
STEEL MANUFACTURE IN AMERICA—HOW IT WAS INTRODUCED AND HOW IT
PROSPERED—EXTRAORDINARY FALL IN PRICE—WHO GAIN AND WHO SUFFER

The considerations presented in the foregoing chapter furnish an answer to one of the objections made to the policy of imposing duties upon the importation to things grown or manufactured by foreigners, not for revenue or only incidentally for revenue, but for the avowed object of encouraging the domestic industry employed, or which it is hoped and desired may be employed, in producing commodities of similar character. This is called the Protective System, though it is not always defensive merely of existing interests, but it is sometimes the means of creating *new* industries—as was that of Beet Sugar by the great Napoleon in France—or to transplant an exotic, as that of the manufacture of Bessemer Steel Rails, which had its beginning in the United States and was established, it is believed, so as to defy foreign competition, all within the last twelve years. The objection is that the commodity, when admitted free from any customs' duty, bears what may be called a natural price fixed by the competition of the foreign and the native producers, if there are any of the latter. If there are not, it is said to be because the manufacturers would not earn the usual rate of profit prevailing in the country—in other words, because they are more profitably employed. The opponents of Protection always quietly assume that every body has enough to do for his labor power and for his capital; and that he is obtaining from the use of the latter a rate of profit which,—a complex calculation and reduction for an allowance to himself in the nature of wages for his labor, skill and anxiety in the management of the business, allowance for special risk, (which in a powder mill is a great deal more than in a rifle factory) and other compensatory adjustments, to which we may refer more fully in our next number,—leaves at last a residuum of pure profit, varying very little from the interest which the capitalist might secure by turning everything into money, investing it in the least hazardous and most convertible security, the bonds of his own government, and thenceforth absorbing his revenue with about as little trouble as he inhales his breath when his lungs are in good condition.

Suppose a duty of twenty-five percent *ad valorem* to be imposed upon an article which, before the tariff, sold for one dollar; the immediate result is that what before brought four dollars must bring five. If the foreigner has a monopoly of the market, nothing hinders him from collecting the whole duty out of the customer—unless the market is absolutely indispensable to him, in which case he may pay the whole duty and not raise his price. If the price does not rise to five dollars, it is because the foreign

manufacturer consents to pay the whole, or some part, of the duty himself at the cost of reducing his profits or reducing the wages of his workmen. Suppose he is willing or for the sake of keeping in the market, is compelled to contribute ten percent to the custom's revenue of the port importation, he will sell (as long as he can) for four dollars and sixty cents. If, as this state of things implies, the article was produced in the country, the native manufacturer can add fifteen percent to the profit upon each unit of the protected articles before he comes down to the debased level of the foreigner's price. And now we ought to be shocked by a dreadfulness, which to the lively conscientiousness of the Free-trader (this word was synonymous with "smuggler" one hundred years ago) is akin to downright robbery. The consumers are compelled to pay an addition of fifteen percent to the price not only of each of the protected articles, which coming from over sea *have* contributed twenty-five percent to the revenue of their country—a soothing feature to the patriotic mind and even to the more selfish mind which reflects that every cent which the government fails to abstract from foreigners it must assess upon its own subjects in some form or other—but must also pay fifteen percent in addition to the price of all the protected articles produced and sold at home, with the aggravation of knowing that this tax does not go into the Treasury to relieve the common burdens, but is complacently pocketed by the favored native manufacturers. The victim smarting under such a grievance can hardly be expected to derive much consolation from the fact that some portion at least of the spoils of the capitalist is distributed in increasing wages to artisans and producers of his raw materials.

This state of things is but temporary, for the Economists tell us, and tell us truly, that capital will soon be diverted from those channels in which it earns only the normal average rate of profits into the new employment where it is swelled by an increment of fifteen percent until competition reduces it to the general level at which they stood aforetime,—“and thus,” say the Free-traders, “you see that Protection does not protect, but all you have accomplished is to have abstracted from the whole body of consumers enough to compensate a few for work which would otherwise have been unprofitable.” Well, if so, prices fall and may fall more than fifteen percent and the *amount* of profit upon a greatly multiplied number of sales still furnished the usual *rate* upon the capital concerned in production.

A brief history of the incidents attending Bessemer steel-making in the United States furnishes an illustration and may relieve the tedium of dry discussion. In 1864, just before the completion of the first Bessemer steel-works in that country, the price of English steel rails in New York and Philadelphia was one hundred and sixty two dollars per ton, payable in gold, which then bore a very high premium above the paper money issued during the war that was still raging—a war costing an expenditure of three millions dollars *per diem* on the loyal side alone. Two great railroad corporations had dispatched an agent to England to endeavor to contract for steel rails on the cheapest terms, and were told that they could not be furnished at less than one hundred and fifty dollars a ton in gold delivered in England, which with duties and transportation would have amounted to three hundred and ninety dollars in the paper money of the United States, laid down at Philadelphia. The companies determined that rather than pay such a price they would try to make rails for themselves. They built extensive works at Harrisburg, Pennsylvania, imported a thousand steel makers with their families from England and began the manufacture. In 1865 additional works were started at Troy, New York, and the price of

gold having fallen greatly on the conclusion of the war, the two manufacturing companies offered to supply the railroads at one hundred and thirty dollars in currency. The duty at this time was thirty percent *ad valorem*. No sooner was this known in England than the English agents were canvassing the market, offering rails at one hundred and twenty dollars a ton. In 1867 other works had been started; the American production of rails in that year amounted to 2,550 tons, and foreign rails fell in that year to one hundred and ten dollars per ton in gold. The manufacture was still feeble, but the prospect was encouraging if it could be saved from being “strangled in its cradle,” for which object Henry (Lord) Brougham had said in Parliament in 1815 and the renowned Joseph Hume had repeated in 1828, “England can afford to incur some loss on the export of English goods.”⁷ To give the infant a chance to live and to grown, the duty was increased to forty-five percent. It did grow vigorously, until in 1869 nearly five million dollars had been invested in the business and the foreign rails were put down to eighty dollars, in gold, per ton. At that price they could not be made in America and the business was threatened with destruction. Ninety-seven intelligent consumers of steel rails, representatives of railway companies, alarmed at the prospect of being placed at the mercy of foreign makers (and it must be remembered that of the total miles of railway in the world fully one-half are in the United States)—appealed to congress to save the domestic manufacturers by increasing the duty. They were tired of fiddling with *ad valorem* rates, which rise when the foreign price is high and the home producer least needs protection, but fall when that price is low and his want is the keenest—so they asked for a plump specific duty of two cents per pound. Honorable members thought that inordinate, but they did grant a duty of one cent and a quarter by the pound or twenty-eight dollars on the ton, at which it has stood since 1870. More mills were erected, the number is now eleven, the price came down to one hundred and five dollars a ton, currency, at which by increased skill and the economy of large manufacture it became remunerative. In 1875 the American production had risen to 290,863 tons and the price has been steadily falling. In the first week of March a careful investigator on a visit in Pennsylvania, rode on the Lehigh Railroad over the rails which had cost two hundred and sixty-five dollars (currency), per ton, past a factory standing beside the track, which was

⁷ How willing English manufacturers have been in past years to incur such losses may be seen by the following extract from a report in Parliament by Mr. Tremenheere, submitted in 1854: “The laboring classes generally in the manufacturing districts of the kingdom, and especially in the iron and coal districts, are very little aware of the extent to which they are often indebted for their being employed at all to the immense losses which their employers voluntarily incur in bad times, in order to destroy foreign competition, and to gain and keep possession of foreign markets. Authentic instances are well known of employers having in such times, carried on their works at a loss amounting in the aggregate of £300,000 or £400,000 in the course of three or four years. If the efforts of those who encourage the combinations to restrict the amount of labor and to produce strikes were to be successful for any length of time, the great accumulations of capital could no longer be made which enable a few of the most wealthy capitalists to overwhelm all foreign competition in times of great depression, and thus to clear the way for the whole trade to step in when prices revive, and to carry a great business before foreign capital can again accumulate to such an extent as to be able to establish a competition in prices with any chance of success. The large capitals of this country are the great instruments of warfare against the competing capitals of foreign countries, and are the most essential instruments now remaining by which our manufacturing supremacy can be maintained; the other elements—cheap labor, abundance of raw materials, means of communications, and skilled labor—being rapidly in process of being equalized.”

selling rails at fifty dollars a ton, currency, with no great profit, it is true, but still without loss.

Who pays the duty? The people who buy for fifty dollars what ten years ago cost them one hundred and fifty?—(we are waiving any distinction between *kinsatsu* and gold)—or the people who must now sell for twenty-two dollars—(*i.e.* fifty dollars, less twenty-eight duty)—what formerly brought them one hundred and fifty? It is sad to think that so much of it is paid by the shortened rations of the poor operatives in British mines and mills, locked out or working half-time; for they are innocent of any responsibility for that mad system under which the ruling classes of England are content to grind to paste the bones and blood of her people in the hope of keeping her forever the workshop of the world. The mill owners can save themselves by transferring their plant—as two leading English firms from Sheffield are said to have gone this spring to Syracuse in the state of New York. But for the workmen to transplant themselves, put themselves by the side of American wheat and corn, beef, pork and beans, cotton, and wool, schools for children,—everything for which wages are worth the earning—for them the outlook is desperate enough.

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CHAPTER XI

PROTECTIVE DUTIES FURTHER EXPLAINED—THEIR PRACTICAL OPERATION—
NATIONAL DEPENDENCE AND INDEPENDENCE—AMERICAN PRODUCTS IN
ENGLISH MARKETS—RATES OF PROFIT—PERILOUS FLUCUATIONS OF TRADE—
STEEL AND IRON INTERESTS—PROTECTION AS PRACTICED BY THE ZOLLVEREIN

The effect of protective duties in diminishing the price of the commodities on which they are imposed has often been illustrated in the history of American tariffs, to the extent that a specific duty, amounting when laid to thirty or forty percent upon the value of the article, has in a very few years become *more* than the price; that is, the protected article was sold constantly and regularly for less than the duty. American protectionists insist that judicious duties, sufficiently high to stimulate to domestic competition in the production of goods, to the growth of which the country is adapted, universally lower their price, and they challenge their opponents to produce an instance to the contrary. In order to be protective in effect, a duty must be so high that the foreign producer and his agents cannot pay it and still have a sufficient profit on sales. They aim at such a development of the national industry as shall render the importation of the dutiable articles impossible. In 1850 Mr. McCulloch, discussing in the supplement to his commercial Dictionary the effect of the imposition by Great Britain of a discriminating duty on corn and flour from America, to continue as long as certain duties on cotton goods and iron imported into the Union should continue, said: "Americans must come to us for iron and cottons and must therefore themselves pay the duties imposed on them. But we may supply ourselves with iron in fifty other places besides the Union, and hence the duty on it would fall entirely on the United States grower and exporter and not on the English consumer." Undoubtedly the people who *must* carry their corn to a foreign market must also pay the freight and duties, and so long as they must depend upon Great Britain for cotton and iron they must pay if not the whole of the duties on these latter too. Since Mr. McCulloch's death the condition of things has so changed that American cottons are sold at Manchester as cheaply as the stuffs of similar quality manufactured in that town—the wonder and shame being that it should not have been done long before—and the Americans have redeemed themselves from the necessity of going to England for iron or any of the manufactures of iron and steel, except very few of delicate workmanship, requiring hand labor in large proportion to the cost. All this concerns us here only as it bears upon the theory of profits.

It is easy enough to see that American steel makers could get an adequate rate of profit by a much smaller profit upon each pound, when they sold 290,863 tons in a year, than when they sold 2,550 tons. It is no less easy to see that the English manufacturers, who lost the profit which they formerly made on the 290,863 tons sold in the American market, must make it up by doubling the profit and thus increasing the price upon an

equal number of pounds to be sold in other markets, or must go without that profit, unless they can diminish the cost of material or of wages. A large portion of the profits, when their price was \$150 a ton, was no more a fair indemnity for the risk which they must have foreseen and which has at last overtaken them, of being excluded from the American market. A trade thus exposed to the peril of hostile tariffs is an eminently hazardous one, and subjects both capital and labor to trying fluctuations. Thus we learn from the commercial history of 1874, Scotch pig iron, which was 57s. 6d. (sterling) per ton, advanced to 145s. in February 1873, and receded to 76s. 6d. on the 31st December 1874. Welsh bar iron, which was £7 per ton at Liverpool in midsummer, 1871, advanced to £13, from which it receded to £8. 15s. at the close of 1874. The wages of “puddlers,” iron workers and colliers (two tons of coal go to the making of one ton of iron) followed these variations, rising in February 1873 from fifty to sixty percent above what they were in July 1871, and falling in December 1874, colliers’ wages from twenty-five to thirty percent puddlers’ and iron workers’ twenty-seven and a half percent below what they were in February, 1873. The disastrous effect of such fluctuations upon the manufacturers in America was aggravated by the system of *ad valorem* duties in vogue at their beginning. [See preceding Chapter] Thus iron at 57s. 6d., with 30 percent duty added, would come to \$16.65 in American coin, while at 145s., at the same duty, it would be \$47.12. Of the difference, \$6.57 was due to the *ad valorem* tariff. Producers exposed to so variable a scale of competing prices cannot maintain, and, knowing that they cannot maintain, will not begin a manufacture unless they can obtain inordinate profits during the intermittent periods of high prices and apparent prosperity—prosperity to them necessarily temporary and evanescent, for high prices check consumption. A decrease in the consumption means a general slackening on industry, for iron is the essential vehicle of force in every species of production, from the fishhook and the plowshare, the awl and the hammer, to the most cumbrous and elaborate machinery. To secure an abundant, cheap and regular supply of iron is therefore a most vital condition of every nation’s well-being and well-doing. That system tends most to promote this object which presents most impediment to spasmodic oscillations in value and eliminates as far as possible from nominal profits the cost of insurance against risks, whether naturally incident to domestic production, or artificially interposed by foreign competition.

The Zollverein, which has always been protective in the earlier years of its operations charged cotton goods without any respect to quality or value \$32.20 upon every hundred pounds weight imported. The effect was that *course* shirting paid about ninety percent upon its invoice price; *superior* shirting paid only thirty-two and a half percent, and fine printed cotton eight and three quarters percent. The Zollverein took care of its infant manufacturers by the heavy duties, and avoided taxing those descriptions of goods which its laborers were not yet able to produce. On the same principle it charges all kinds of cutlery at a uniform rate by the pound, letting in razors, penknives and such fine wares at a nominal rate and giving the main force of protection upon hatchets, axes and a variety of hardware, which the Germans, under sufficient defense against England were able to make for themselves. As the Germans advanced in skill from one stage to another, the specific rates of each successive stage became sufficiently protective, and equivalent *ad valorem* rate advancing as they attained superiority and cheapness in price compared with the foreign articles, which, without protection, would have crushed German enterprise in the bud.

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CHAPTER XII

EXCHANGE—ITS NECESSARY CONDITIONS—ASSOCIATION OF PRODUCERS—
ABSENCE OF DIRECT COMMUNICATINS—PRACTICAL ILLUSTRATIONS—
WHO CREATE THE MARKETS—INCREASE OF LABOR AND LABORERS—
EFFECT OF EMMIGRATION IN AMERICA—FALLACIES OF NARROW ECONOMISTS

To effect an exchange requires two products, two producers, and that the latter should be brought into association. What is really exchanged is a service given on the one side against a service given on the other. The one party may render a service by his present labor; as, when the blacksmith fastens a shoe upon the horse of the traveler, who stops at his door for the purpose, the other may render the service by past labor, embodied in a material form; as if, in the case supposed, the traveler were a pedlar, and should pay for his horse-shoeing with a tin pan. That which enters into the estimation of value on both sides is the service received—the amount of labor avoided by each in availing himself of labor of the other. It is only for the sake of simplifying the discussion by dropping the human agents from consideration, that we speak of exchange as being the barter of commodities. The tin pan represents portions of the labor of various individuals: that of the miner, of the artisan who made the miner's tools, of the sailors and wagoners who transported the tin from the mines to the shop where it was made up into utensils, as well as that of the tinsmith, were all essential to its manufacture. Indeed, if we endeavor to trace the constituents of its value to their elements, we shall find that minute fragments of the labor of a host of men, of different generations, extending over long tracts of space and time, have contributed to the production of any article we may select. Each possessor of it, in the various stages of its formation, has obtained it by remunerating the labor of all his predecessors. Its ultimate labor-cost is the summation of an infinite series of fractions, decreasing as we recede into the past, as it is of another infinite series, each term of which will dwindle through a protracted future. The labor of a man who makes a hammer today, may be regarded as entering into every stroke of that hammer for all coming time; and the value of the hammer will thus be diffused among all the articles it shall aid to construct, and be mingled with values derived directly and indirectly from the labor of thousands. A vast multitude will share in the service which the hammer-maker is rendering today, who are as unregarded by him as he will be unknown to them. He looks to have his service paid once for all, by an equivalent service, or what he esteems such, received from the individual with whom he exchanged the hammer for something else. If he could construct that something else for himself with as little privation and trouble as the hammer cost him, there would be no motive for parting with it; certainly none for making hammers with the express view of parting with them. So, on the other hand, no person wanting a hammer would make something else

for the purpose of getting it, if he could as easily make the hammer by his own direct exertions. Each exchange implies a double profit—an advantage on both sides; and that advantage consists in the time and labor which each saves, and which can be devoted to further production, in consequence of his confining himself to that kind of industry in which he possesses special skill and efficiency. Value, it is true, is a matter of estimation, and it is this which controls in Exchange. Each party may suppose himself to have received a greater value than he has parted with; but, whether true or not, this cannot affect the interests of the community of which both are members. The general stock of commodities in the society is no larger the moment after the exchange than the moment before; and no general advantage can be derived from exchange unless it occasions an increase of material production.

We have said that exchange requires the association of producers. The truth of this is sufficiently obvious in the case where personal services are bartered—as in the most intimate form of association, the family, or in the natural good offices of neighborhood, as when farmers assist each other in getting in their harvests. There are a great many forms of cooperation, in which the persons who associate are brought face to face, and the advantage is palpable; because they are able to accomplish works by their united exertions in a very brief period, which are plainly impossible to a single individual, unaided by machinery, in any length of time. In the exchange of services embodied in material products, there is ordinarily very much to obscure our perception of the fact. The actual producers are seldom brought into personal communication, and the products which they exchange are rarely compared directly with each other. A prosperous farmer from an agricultural region north of Tokio brings a quantity of vegetables and fruit to the market of the capital, sells it there, and the money he receives purchases several articles of luxury and necessity; among them, a piece of silk made in Kyoto, a jar of tea grown in Uji, and a set of tools made from Tajima iron which was wrought by the aid of Takashima coal. The production of his vegetables and fruits was a necessary condition of the sale of the silk, tea and iron tools; and that of silk, tea, and tools, of the sale of the vegetables and fruits. The production of the one depended upon the production of the other, since none of them produced for the immediate use of those whose labor brought them to the market. If the vegetables and fruit, in point of fact, never reach the miners, tea-growers, or silk and iron manufacturers for whose labor they are exchanged, they nevertheless replace other commodities which have been transferred to them; and until they do replace them, the tea, silk and tools remain clogs and incumbrances in the market, obstacles to the further production of the raw material of which they are made, and to the employment of labor in working them up into fabrics, like those which have yet to wait for the purchaser with his vegetables and fruit.

The point of essential importance is that those who furnish a market for commodities, and thereby occasion their production, are not the persons who transport the commodities from place to place, and traffic in them, but the persons who finally employ them for the satisfaction of their own wants, and who produce other commodities or service to offer in exchange. It is labor which creates the demand for labor; but labor employed in production, not labor employed in effecting exchanges. The latter only adds *value* to products, without increasing their quantity.

Mr. J.S. Mill shows “of what supreme importance to the productiveness of the labor of producers, is the existence of other producers within reach, employed in a

different kind of industry.” He justly observes that, “the power of exchanging the products of one kind of labor for those of another, is a condition, but for which there would almost always be a smaller quantity of labor altogether. When a new market is opened for any product of industry, and a greater quantity of the article is consequently produced, the increased production is not always obtained at the expense of some other product; *it is often a new creation, the result of labor which would otherwise have remained, or of assistance rendered to labor by improvements, or by modes of co-operation to which recourse would not have been had, if an inducement had not been offered for raising a larger produce.*”

The author of this quotation is of opinion that there is no inconsistency between the facts therein stated, and the doctrine that a market for commodities does not constitute employment for labor. In the case where the labor of agriculturists is stimulated to increased vigor and efficiency, by the settlement of a body of mechanics in their vicinity, he remarks, that the labor of the agriculturists was already provided with employment, and that they are not indebted to the new comers for being able to maintain themselves. Is the distinction then between employment for labor and employment for laborers? It is admitted that an additional amount of labor may be called into exercise, with a corresponding increase of remuneration, but not an additional number of laborers employed. To show how unsubstantial is this distinction, we have only to imagine the case of continued arrivals of consumers. There is certainly a supposable limit to the capacity of the existing number of agriculturists to supply the demand, and, when that is exhausted, the demand for labor still continuing becomes a demand for laborers. Hundreds of thousands of emigrants from Europe land in America every year. Suppose that they are all non-producers of food, and that the arrivals for ten years only create such a demand for provisions as may be satisfied by increased exertion on the part of our farmers, without any accession to the number of the latter. Can the stream of emigration continue for ever, without creating a demand for more agricultural laborers? Can the annual influx be trebled, as it easily might be, without *soon* occasioning such a demand? If this question must be answered in the negative, it is apparent that the distinction between a demand for labor and one for laborers is baseless in principle. It could only have suggested itself to those who are conversant with the phenomena of a nearly stationary population, which is nevertheless regarded as in excess, or in constant danger of becoming excessive, in comparison with capital.

Mr. Say maintains to the broadest extent the doctrine that demand depends upon production. “It is production,” he holds, “which opens a demand for products.” “A product is no sooner created, than it, from that instant, affords a market for other products, to the full extent of its own value.” “It is because the production of some commodities has declined that other commodities are superabundant.” From the important truth contained in these propositions, he deduces the conclusion, “that in every community, the more numerous are the producers, and the more various the productions, the more prompt, numerous, and extensive are the vents for those productions; and by a natural consequence, the more profitable are they to the producers; for price rises with the demand. But this advantage is to be derived from real production alone, and not from a forced circulation of products: for a value once created is not augmented in its passage from one hand to another.”

Mr. M’Culloch, who refers with approval to the chapter of Mr. Say from which

the preceding extracts are taken, remarks that the principles from which the conclusions of the latter are drawn, were stated as early as 1725, in a tract of Dean Tucker's, entitled *Queries on the late Naturalization Bill*, which has now become rare. We copy one of those queries from Mr. M'Culloch's question; and in the same typography which he employed, not only because it is well worthy of the most striking notation, but as an evidence that the supposed distinction between the demand for labor and for the products of labor, was not recognized either by its original author, or him who has rescued it from the obscurity of a forgotten pamphlet: "WHETHER IT IS NOT AN INFALLIBLE MAXIM, THAT ONE MAN'S LABOR CREATES EMPLOYMENT FOR ANOTHER?"

NOTES ON POLITICAL ECONOMY

DESIGNED CHIEFLY FOR JAPANESE READERS

CHAPTER XIII

EXCHANGE CONTINUED—CONCERT OF PRODUCERS—DIVISION OF LABOR AND
INCREASE OF PRODUCTION—PRACTICAL ILLUSTRATIONS—PRIVATE
AND PUBLIC GAINS—DOMESTIC AND FOREIGN COMPARED—
ADVANTAGES OF THE FORMER

Producers must be brought into some degree of proximity with each other before they can effect the barter of their labor, either in the form of personal services or of products, by their own direct negotiation. It requires the association of producers in still greater numbers, before it can become the business of a distinct class, to arrange and conduct the exchanges of commodities which they do not themselves produce. The want of concentration in space, between producers, is plainly an obstacle to traffic, whatever agencies may be employed to effect it. Something more than physical association, however, is requisite to establish the regular practice of barter. No man could withdraw himself from the labors which provide food, without a confident assurance that others had taken upon themselves the work of providing food and clothing for him, upon well-understood conditions. It is therefore, by a real, though unexpressed concert, in the language of Mr. Wakefield, "that the body who raise more food than they want, can exchange with the body who raise more clothes than they want; and if the two bodies were separated, either by distance or disinclination—unless the two bodies should virtually form themselves into one, for the common object of raising enough food and clothing for the whole—they could not divide into two distinct parts, the whole operation of producing a sufficient quantity of food and clothes."

The following are some of the reasons why the division of labor occasions an increase of productive power.

1. The increased knowledge which men obtain of the properties of matter, and the natural laws which are turned to account in their respective employments. In other words, the intellectual education of producers. The division of employments is carried to less extent in the ordinary operations of agriculture than in the mechanic arts; but they are doubtless susceptible of being allotted to different classes of persons, in a much larger degree than is yet practiced. This, first of the arts, however, may furnish us with an illustration of the principle under consideration. The cultivation of the grains, roots, and fruits, requires a familiarity with a large round of chemical laws, affecting soils and manures; of mechanical laws, relating to the structure and use of buildings, tools, and the motive powers; with much else that may well employ a long period of training. The breeding of animals demands a knowledge of physiological laws, of a quite different character. Mr. Bakewell, by studying those laws, and the special qualities of the various breeds of sheep, attained such skill as to be able to produce an animal which should

combine almost any desirable properties, which are not absolutely incompatible, and effected very great improvements in the flocks of Great Britain, by adopting such modes of crossing, feeding, etc., as are best adapted to secure size and fat, where these are the qualities desired—weight and fineness of fleece, where these are wanted. Other individuals have devoted themselves in the same way to perfecting the breed of cows and other animals. It is quite clear that they could not have acquired such knowledge and skill in the art of cattle-breeding, if they had attempted to include in the list of their accomplishments, the same preeminent knowledge and skill in regard to the cultivation of the various grains, of flax and cotton, of grasses, and apples. Life is short, Art is long.

The mechanic arts afford examples of a still more striking diversity in the materials upon which they are employed, and the knowledge requisite for their prosecution. The workers in metals, and the dyer, for instance, avail themselves in their respective trades of properties of matter and laws of combination, which have scarce anything in common. The application of new discoveries in chemistry to the arts, is constantly requiring a greater amount of special knowledge, for the purpose of conducting their operations with economy; and the progress of knowledge necessarily tends to confine those who would be adepts, to the study of fewer departments.

2. The increase of dexterity—the education of the muscles of producers—is a universal and highly efficient cause of increased production. It is a well known physical truth, that the exercise of a muscle increases its volume and strength. An operation which was difficult at first, becomes easy by its frequent repetition—that which at the beginning could only be done slowly, comes by dint of practice to be done with rapidity—that which it required close mental attention to do with accuracy, is done at length without any conscious watchfulness, and with a precision that rivals the action of machinery. It is said that there are boot-closers so skilful that they can begin to close a boot with a thread a yard long in each hand, throw out each arm once to the extent of the thread without making a second pull; and, at each successive pull, contract the swing of their arms, so as to allow for the diminished length of the thread each time that it passes through the leather. Delicacy of touch, as well as rapidity of movement, are susceptible of indefinite cultivation. In some manufacturing operations, children repeat a hundred times in a minute, and for hours in succession, motions involving the action of several muscles. As an instance of the economy obtained by training the muscles, it is stated that “a sort of twist or gimp,” made in England, “which cost three schillings for making when first introduced, is now manufactured for a penny; and this solely through the increased dexterity of the workmen, without the intervention of any new machine.”⁸

It is plainly impossible for a person to acquire the same dexterity in a great number of distinct processes that he could in a single one; and, if it were practicable, the time spent in learning them must be withdrawn from productive labor. It is sometimes mentioned under this head, as an advantage, that from the increased simplicity of operations, children can be put to them at an earlier period of life. This, however, is of very questionable utility. The years of childhood are with profit to the community devoted to their *general* education: the fireside, the school, and the playground, are the places where immature bodies and minds can earn most for the commonwealth, by accumulating power instead of expending it.

3. The division of labor makes it possible so to distribute different processes, as

⁸ *Edinburgh Review*

that each shall be assigned to the persons whose capacity is adequate to their performance, and best fitted for it. Great bodily strength is necessary for some kinds of industry; very little suffices for others, in which rapidity of movement and delicacy of touch are the chief recommendations. So of skill. Anybody can, in a very few days, learn to feed the fires of a steam-engine, while the qualifications of an engineer require an education of months and years. It would be a great waste of power for the latter to make the fires. Economy in productive force is secured, when some employment is found for every person, whatever may be his peculiarities of physical constitution of education. A blind man can turn a grindstone; a lame one can throw a shuttle; one who is dumb can set type. Different parts of a series of operations necessary to a common purpose, may be performed with equal success by individuals, in whose faculties, original and acquired, there is as great a difference as in those of the dumb, the blind, and the cripple. If there are four operations, in but one of which the possession of the five senses and sound legs is necessary, three persons laboring under the above-mentioned infirmities, and one who is free from them, can do the same work as four of the latter description could do; whereas, but for such a distribution, the productive power of the three of them would be lost to society, while their substance would remain a charge upon its energies. The same truth holds with regard to minor differences of capacity, though the gain may be less in degree.

4. Economy of tools. Different operations being facilitated by tools and machinery of like diversity, the man who should undertake to perform a variety of operations, would need a stock of tools of corresponding magnitude. Three individuals, each of whom should attempt to be carpenter, blacksmith, and weaver, by turns, must have three times the quantity of tools that would suffice, if each confined himself to a single trade. Three times as much labor would be expended in the accumulation of aids to production, and abstracted from production itself.

Mr. Senior has remarked another advantage arising from the circumstance "that the same exertions which are necessary to produce a single given result, are often sufficient to produce many hundred or many thousand similar results." He instances the Post-office establishment as furnishing a familiar illustration. It is as easy to carry fifty letters from Tokio to Nagasaki as a single one, and nearly as easy to carry a thousand. If each individual attempt to transmit his own correspondence, every man of any considerable business would have a large number of messengers constantly on foot. All the inhabitants of Japan, acting independently, would be unable to effect, what, by their association and concert in making the carrying and distribution of the mails the work of a particular class, is accomplished by the labor of a few individuals. There are other functions performed by governments and their agents, which would afford examples of the same character. Its provisions for the public defense, for the detection and punishment of crime, and for the administration of private justice, have been instanced by Mr. Senior. The same principle is a main source of the economy resulting from conducting industrious operations of any kind upon a large scale, and is doubtless capable of indefinite extension.

Exchange and the division of labor are, as we have seen, coextensive and mutually dependent. The former owes all its capacity to benefit the individual, and the community of which he is a member, to the increase of production resulting from the latter. A. and B. are two individuals living, we will suppose for the moment, in the same

town. Each of them needs a piece of woolen cloth for warm garments, and a piece of silk, for his own or his family's adornment. We will assume that it requires the same amount of labor to make the one that it does to make the other. We may assume, too, for the sake of illustration, that by reason of his devoting himself exclusively to the manufacturing of woolen cloth, A. attains the power of producing a piece by the labor of one week; while B., who confines his efforts to the production of silk, can produce a piece by working the same time. If, on the contrary, each of them had attempted to combine both trades, and half a dozen others, in his own person, he would have been occupied, we may safely say, two weeks or more in the manufacture of the silk, and as many more in that of the cloth. One week's labor of the two, when they cooperate in production by diversifying their industry, accomplishes the same result that would have demanded two or more under the opposite system. The silk-maker provides the article which he needs in a week; and by providing the article to his neighbor needs in another week he gets the woolen cloth which he requires. The wool-maker does the same. In two weeks each has his silk and his cloth; whereas, but for the division of labor and exchange, one would have been without silk and the other without woolen. Thus far the benefit may seem to be confined to these two persons; but let them continue working two weeks longer, and the community is the richer by two pieces of cloth and two of silk, for the use of other persons who without this association of producers must have gone unsupplied with these articles. The combined gain of the individuals who produce and exchange, is the gain of the community to which they belong. What the wool-maker has gained is the time saved to him—the week which he did not expend in half-making a piece of silk, and which enabled him to contribute an extra piece of wool to the general stock. What the silk-maker gained is the additional piece of silk he obtained the power of making, by being relieved from wasting his productive force. The community in which both reside gains a piece of silk and a piece of wool, which it otherwise would have lost.

Suppose that, instead of being members of the same community, the silk-maker lives in Japan and the woolen cloth-maker in England, and suppose that an exchange of their respective fabrics is effected, without any cost for transportation and the services of merchants in managing the barter. What then? The Japanese silk-maker undoubtedly gains the equivalent of a piece of silk as before, and his country also gains it, but does not gain the extra piece of cloth which the British manufacturer is enabled to make. This is lost to Japan and becomes a gain to England. There is an advantage, undoubtedly, to both communities (the expense of transportation, etc., being left out of the calculation), but it is only half as great as the advantage to either would have been, if both parties to the exchange and both profits had belonged to itself.

If the English wool-maker can be induced to emigrate, and to pursue his craft in Japan, exchanging with the silk-maker as before, it is manifest that a double benefit accrues to the latter nation. The community is enriched by what enriches him. The enhanced productiveness of his labor, which results from his having the capacity to exchange it with that of the native citizen, inures to the advantage of the State, in the tangible form of an increased supply of woolen goods.

No possible estimate of value in the commodities exchanged, no variation of price between wool in Bradford and silk in Kyoto, can in the least degree affect this grand fact; though a reasoning based upon values and prices may obscure the perception of it. Value and price may, indeed, in connection with other circumstances, furnish indications in

respect to the limit of cost at which the advantage of the domestic exchange may be purchased, with profit to a community; but this does not impair the conclusion that internal exchange, other things being equal, and looking only at the essential foundation of all exchange, is more advantageous than foreign trade.

If there be a single individual in Japan who sits idle—able to make woollen cloth, but incapable of any other species of productive industry—it presents a case where the advantage of a system of domestic exchanges which shall secure him the opportunity, is readily appreciable. Idle or busy he must be fed, and in either case his subsistence must be provided from the labor of the other members of society. Suppose that it does require, on the part of this Japanese, twice as much labor to make the piece of cloth as the Englishman in England has to bestow upon it; and that consequently the Japanese must be paid, in order to enable him to procure the subsistence which the public would otherwise be compelled to furnish, twice the amount of money that Englishman in England demands;—what of that? It is evident that the community may as well pay him that price as feed him in idleness and obtain its woollen from England at the half cost. If the man must be fed and the cloth must be had, it matters nothing, as a question of outlay whether the larger sum is given to the Japanese citizen for his cloth, out of which he feeds himself, or two smaller sums are given, one to the Japanese for his food and one to the English manufacturer for his cloth. The total expenditure and total acquisition of the community are the same in one case as in the other. That is taking merely the narrowest view of the transaction. On the broader economic ground the advantage shows in every way on the side of paying the larger amount to the Japanese home producer.

[*The Tokio Times*, Vol III, No. 4, January 26, 1878; pp. 50-52]

NOTES ON POLITICAL ECONOMY

DESIGNED CHIEFLY FOR JAPANESE READERS

CHAPTER XIV

EXCHANGE CONTINUED—ADAM SMITH AND J. B. SAY ON THE ADVANTAGES OF
DOMESTIC TRADE—THEIR THEORIES ELUCIDATED—MR. RICARDO'S
OBJECTIONS CONSIDERED—PRACTICAL ILLUSTRATIONS—
MR. M'CULLOCH AND HIS DOUBTS.

We are now prepared to appreciate the justice with which Adam Smith insisted upon the superior advantage of internal over foreign trade. The following extract exhibits his views:—

The same capital will, in any country, put in motion a greater or smaller quantity of productive labor and add a greater or smaller value to the annual produce of its land and labor, according to the different proportions in which it is employed in agriculture, manufactures, and wholesale trade. The difference, too, is very great, according to the different sorts of wholesale trade in which any part of it is employed. . . . The capital which is employed in purchasing in one part of the country in order to sell in another, the produce of the industry of that country, generally replaces by every such operation two distinct capitals, that had both been employed in the agriculture or manufactures of that country, and thereby enables them to continue that employment. When it sends out from the residence of the merchant a certain value of commodities, it generally brings back in return at least an equal value of other commodities. When both are produce of domestic industry, it necessarily replaces by every such operation two distinct capitals, which had both been employed in supporting productive labor, and thereby enables them to continue that support. The capital which sends Scotch manufactures to London, and brings back English corn and manufactures, necessarily replaces by every such operation two British capitals, which had both been employed in the agriculture or manufactures of Great Britain. The capital employed in purchasing foreign goods for home consumption, when this purchase is made with the produce of domestic industry, replaces, too, by every such operation two distinct capitals; but one of them only is employed in supporting domestic industry. The capital which sends British goods to Portugal, and brings back Portuguese goods to Great Britain, replaces by every such operation only one British capital. The other is a Portuguese one. Though the returns, therefore, of the foreign trade of consumption should be as quick as those of the home trade, it will give but one-half of the encouragement of the industry or productive labor of the country. — *Wealth of Nations, Book II., Chap. 5.*

Say concurs with Smith, holding the following language:—

The internal commerce of a country, though from its minute ramification it is less obvious and striking, besides being the most considerable is likewise the most advantageous. For both the remittance and returns of this commerce are necessarily home products. It sets in motion a double production; and the profits of it are not participated with foreigners. – *Say's Political Economy, Book I., Chap 5.*

In a subsequent chapter, commenting with disapprobation upon the policy which induced the British government, in its anxiety to enlarge the foreign vent for its manufactures, to grant bounties upon exportations, the same author observes:

The British government seems not to have perceived that the most profitable sales to a nation, are those made by one individual to another within the nation; for these latter imply a national production of two values—the value sold, and that given in exchange. – *Say's Political Economy, Book I., Chap. 17.*

The language employed by Dr. Smith in the preceding extract, does not appear very well calculated to convey the true grounds upon which its doctrine rest. The idea of an intermediate capital, employed in replacing two other capitals, introduces a needless complexity, inasmuch as the whole question turns upon the advantage of an exchange of a product, or quantity of products, or a given amount of capital, if that term is preferred, for another capital, like it in the circumstance of being the result of domestic industry, or unlike it, as being the result of the industry of strangers. It is one of these which replaces the other. The capital employed in effecting the exchange, may, if the products are in adjacent warehouses, consist only of money in coin. If the distance between them is two or three miles, it will consist in part of wagons and horses. If they are separated by a distance of a hundred miles, it may include also a railway, with its engines and cars; or a canal, with its boats and the animals who tow them. The capital which is the instrument of exchange has no influence upon the result, except that it requires pay for the services it has rendered, and thus abstracts some share of the products from those whose toil brought them into the sphere of exchange. It is difficult to see in what sense it can be said to replace anything, since, while it adds to value—that which measures the difficulty of obtaining a commodity—it adds nothing directly to the quantity of commodities, but trenches upon the quantity that would otherwise be share by the producers. It does not follow that such services are unprofitable to a community. A certain amount of them is absolutely indispensable; and a class of men devoting themselves to the business of effecting exchanges, can do so with a saving to the community, resulting from the general principle by which the division of labor secures economy of labor. It is obvious, nevertheless, that the smaller the amount of capital and of labor required for the purpose of conducting the traffic of a community, the greater will be the amount left free for the work of production.

We shall have occasion to refer to other passages of the “Wealth of Nations,” from which the grounds of the proposition under discussion may be referred more clearly and satisfactorily. That which has been cited above, was selected for the purpose of presenting, in connection with it, the contradiction which it has met from Mr. Ricardo and his followers. It is a place where the paths divide—and they lead to irreconcilable differences. Mr. Ricardo quotes at full length the proposition of Adam Smith, and

comments as follows:

This argument appears to me to be fallacious; for, though two capitals, one Portuguese and one English, be employed, as Dr. Smith supposes, still a capital will be employed in the foreign trade double of what would be employed in the home trade. Suppose that Scotland employs a capital of £1000 in making linen, which linen she exchanges for the produce of a similar capital, employed in making silks in England: £2000, and a proportionate quantity of labor, will be employed in the countries. Suppose, now, that England discovers that she can import more linen from Germany for the silks that she before exported to Scotland, and that Scotland discovers that she can obtain more silks from France in return for her linen than she before obtained England, will not England and Scotland immediately cease trading with each other? and will not the home trade of consumption be changed for a foreign trade of consumption? But, although two additional capitals will enter into this trade – the capital of Germany and that of France—will not the same amount of Scotch and English capital continue to be employed? and will it not give motion to the same quantity of industry as when it was engaged in the home trade?

– *Principles of Political Economy, Chap. 26.*

These questions may be safely answered in the affirmative, without conceding the fallacy of Dr. Smith's argument. The answer would only admit, that if at the same time that Scotland lost a market in England she found a better in France, and England also found a market in Germany in the place of that she lost in Scotland—that is, were two foreign exchanges substituted for the single domestic exchange—exchanges involving the value of £4000, £2000 supplied by Great Britain, and £1000 each from Germany and France, instead of an exchange at home comprehending values on both sides, amounting to but £2000—then the same quantity of industry would be put in motion as if the silk and linen had been exchanged within the island. The form of the interrogatory admits, by necessary implication, that both the contingencies specified should concur, before the industry of Great Britain can be compensated for the suspension of its internal commerce; and this is admitting that commerce to be equivalent to double the amount of foreign trade, in its contributions to the support of domestic labor. This, however, is the very proposition the fallacy of which was to be shown. We are under no obligation, therefore, to inquire whether the supposed contingencies are likely to occur at the same time. If we were, a mere probability would not suffice. It ought to be shown that the one had a necessary tendency to bring about the other—that the fact that Scotch linen would not pay for English silk, afforded a positive reason why it should be received in payment for French silk—that because English silk was rejected by Scotchmen, *therefore*, Germans would be anxious to obtain it. It is cheapness, unquestionably, that must be supposed to recommend an article to purchasers, other things being equal. Mr. Ricardo's illustration implies, that German linen is found to be cheaper to the English, who pay for it with silk, than the linen of Scotland: why then should the people of France, who also pay in silk, purchase the dear Scotch commodity instead of the cheap German? The supposition involves a state of things which would naturally lead to the destruction of the linen manufacture in Scotland, because of its inability to produce as cheaply as Germany, and of the silk manufacture in England, from inability to compete with France. The entire industry of Great Britain, in both species of manufacture, must either be thrown out of employment, or that disaster averted by means which Mr. Ricardo does not suggest, and

which are inconsistent with the belief that foreign trade is equally advantageous with internal exchange.

Mr. M'Culloch, in a work on Commerce, quotes the proposition of Adam Smith, and reasons upon it as follows:—

If, when Scotch manufactures are sent to Portugal, the same demand for them continues in England as before they began to go abroad, an additional capital and an additional number of laborers will be required, to furnish supplies for both the English and Portuguese markets.

This requires no comment. He then puts the other case:—

If, at the same time that the Scotch began to export manufactured goods to Portugal, the Londoners also found a foreign market, where they could be supplied at a cheaper rate with the goods they had formerly imported from Scotland, all intercourse between Scotland and London would immediately cease, and the home trade would be changed for a foreign trade. It is obvious, however, that this change would not occasion any embarrassment, and that it would not throw a single individual out of employment.

We pause here to remark, that, as in the illustration of Mr. Ricardo, we have *two* foreign markets, supposed to have been acquired, in the place of one internal exchange suppressed. The quotation continues:

On the contrary, a fresh stimulus would be given to the manufactures both of Scotland and the metropolis, inasmuch as *nothing but their being able to dispose of their produce to greater advantage, could have induced the merchants to change the home for a foreign market.* The fact is, that when a home trade is changed for a foreign trade, an additional capital, belonging to the nation with which it is carried on, enters into it; but there is no diminution whatever either of the capital or industry of the nation which has made the change. So far from this, they are plainly diverted into more productive channels, and are employed with greater advantage.

It will not escape observation, that while the argument in the first two of the above passages is *conditional*, the conclusion drawn from it in the third is absolute. To make them homogeneous, the latter should read—"The fact is, that when a home trade is changed for a DOUBLE foreign trade, an additional capital," etc.

In regard to the passage we have italicized, it may be remarked, that if we grant the sole inducement of the Scotch merchants, in sending their goods to Portugal instead of London, to have been the ability to dispose of them to greater advantage, yet it is by no means clear that a change profitable to these Scotchmen presents any inducement or begets any advantage to the London traders. They have lost the domestic market, which the exchange of their merchandise for that of Scotland furnished,—lost it, not because they saw any advantage in the withdrawal of their Scottish customers, but because of the supposition that the latter could do better elsewhere. It is no longer a matter of choice whether they will sell to Scotland or to France, but a matter of necessity that they sell abroad or make no sale. The question is not one of the greatest profit, but of the least

practicable loss. The goods already produced must be sold; and, as the purchasers no longer come for them, they must go in search of purchasers. If, when the existing stock is exhausted, the trade stops, then the labor which produced it is thrown out of one employment, to which it has been trained, and in which it has acquired knowledge and skill, to take its chance of finding another, and beginning a new apprenticeship to acquire the knowledge and skill necessary for its prosecution. If, on the contrary, the trade continues, and the producers are kept in their former employment, it proves, not that it is as advantageous to them as before the change, but only that it is less unprofitable than to starve in idleness, or to throw away the capital which they have accumulated through their skill, by betaking themselves to employments for which they are skilled.

[*The Tokio Times*, Vol III, No. 6, February 9, 1878; pp. 80-81]

NOTES ON POLITICAL ECONOMY

DESIGNED CHIEFLY FOR JAPANESE READERS

CHAPTER XV

DEFECTS OF MR. M'ULLOCH'S ARGUMENTS—SIR ROBERT PEEL IN DEFENSE OF RICARDO—A SOLEMN FALLACY—BENEFITS OF EXCHANGE BY DIVISION OF LABOR—THE GREAT USEFUL ARTS—AGRICULTURAL INDUSTRY.

The radical error in Mr. M'Culloch's argument is, that the producers, the ultimate and real parties to every exchange, are left out of view, and merchants are substituted for them—a class whose profits depend simply upon the price at which they can vend commodities abroad; while, in respect to its internal exchanges, it is the quantity of commodities that is of consequence to a nation, and their price is immaterial. If price and value always corresponded, then, so far as the interests of the nation in the aggregate are concerned, the less the price of any given quantity of the products of its own labor, the better. It is evidence that those products are attainable with little labor, and that the community has a large stock of conveniences at its command—at its command if its available labor is actually employed, but not otherwise. Price and value correspond in respect to the aggregate interest, only when the actual labor of the community is equal to its potential labor, when the entire productive ability of the community is exerted, under the most advantageous extension of the division of labor; for the associated people is burdened with the support of all its constituents, whether productive or unproductive. The private trader has no such burden; if he increase its amount by throwing an individual out of employment and rendering him a pauper, to subserve an immediate personal interest, he derives all the profit, while, of the accompanying loss, but an infinitesimal portion falls upon himself, and the rest is levied upon the guiltless. A profit in dollars and cents, on the day-book, is the consummation and end of a transaction with him, though a debit to a hundred times its amount in the ledger of a public poor-house may be its consequence. The moment we begin to talk of merchants, or to permit their notation of profit to mix itself up with our tacit transitions of thought, these vital considerations fade from our view, unless a strenuous effort is made to retain them. An author writing deliberately in his study, may avoid any absurdity from this cause sufficiently flagrant to be startling, while it escapes a practiced debater, who is delivering the same ideas with less cautious premeditations, and who only exposes by pardonable inadvertence, what lurked undetected in the reasoning of the teacher. Thus, Sir Robert Peel, in a speech in Parliament in defense of the repeal of the Corn Laws, on the 6th July, 1849, endeavored to support the doctrine of Ricardo and the modern British economists, by the following illustration:

Let us suppose the case of two artisans or dealers, resident in the same town—a shoemaker and a tailor. The one wants clothes, the other shoes: they

think it right to encourage the domestic industry of their own town—to deal with each other and not with strangers. The shoemaker gives ten shillings to the tailor for a certain quantity of clothes, which he could get for seven shillings if he bought them in a neighboring town. But, by way compensation, the tailor gives him his custom, and pays ten shillings for shoes, which he could buy from a distant shoemaker for seven. Is there not a loss of six shillings to the town in which they live, as the result of this dealing between these tradesmen?

It is very remarkable, that an intelligent man could bring himself to suppose that this question could be answered otherwise than in the negative. The transaction is a barter of shoes for clothes, and nothing more. How can it possibly affect the interest of the town whether one price or another is put upon them, the same being put upon both? To take an extreme case, let us suppose that the clothes are exhibited in the tailor's window, with a ticket marked £1000 upon them, and the shoemaker is obligated to borrow the money from a banker in order to purchase them. The next day, the tailor seeing a pair of shoes, also ticketed £1000, purchases them with identical money he had received of the shoemaker, and the latter takes the money back to the banker in payment of his debt. The town was possessed of shoes, clothes, and £1000 in coin, before the exchange: it is possessed of the same afterwards. What is true of a town is true of a larger territory. To those who are exchanging labor, the prices affixed to its products are immaterial, so that the price bears the same proportion to labor in one case as in the other.

Sir Robert Peel explains the application of this passage, by treating the shillings as representing each an hour's labor; and the exchange between the shoemaker and tailor, as the giving of ten hour's labor by each for that which might have been procured in seven. "Could not each party," he asks, "have procured that for which he gave the labor of ten hours by the labor of seven, and thus have had three hours at his disposal?" That evidently depends upon the question, whether he could obtain employment or not. Each has condemned the other to idleness, and each has, unhappily, ten hours at his disposal, with no customer for them. The problem is, how is a man to obtain seven shillings by ten hours of idleness? Doubtless, it is easier to obtain seven shillings than ten, by working at the same rate of wages, but when wages cease they are equally unattainable.

While the illustration presented by Peel serves to show that reasoning, based upon the relations of price, really determines nothing in regard to the aggregate interest of a community, it nevertheless suggests a question which has something substantial in it. We may assume it to be satisfactorily proved, that domestic exchange, other things being equal, maintains twice the amount of productive industry that a foreign trade to the same extent would support. Two laborers, however, whose toil only suffices to procure their own subsistence, add no more to the capital of the nation than does one. Whether one of them or two are merely provided with food, the surplus stock of the community is stationary. If they should cease to exist, the nation would be no poorer than before, except in a military point of view. If, however, they produce a surplus, however small beyond their own wages, the national wealth is increased, and the loss of one of them would be a positive injury. We must inquire, therefore, whether domestic exchange has any advantage over foreign trade, in rendering a given amount of labor more productive, as well as in supporting a greater quantity of labor.

It has been shown that the advantage of exchange, foreign or domestic, arises from its increasing production, by causing the division of labor. All the instances

employed for the purpose of illustration, have been those of labor devoted to adapting materials for the use consumers. The hatter, the shoemaker, the tailor, take cloth made of wool, flax, or cotton, and the skins and furs of animals, and change their form, converting them from the shape in which they came from the hands of the original producer, into manufactured fabrics, ready for wear. If the result of either system of exchange is to render their labor more efficient, it must be either by the saving of materials, that is, by producing the same quantity and quality of fabrics from less material—or by enabling them to work up a greater amount of material by the same quantity of labor. The latter is obviously of no benefit, unless a greater quantity of material is produced. Unless more wool, flax, and cotton are raised, the skill which converts them into clothing by a smaller expenditure of toil would be fruitless, but for the fact that the labor which is saved from the work of conversion can be applied to that of producing materials. In the other case, where the advantage obtained is that of saving a waste of material, we find the same ultimate profit. Under all circumstances, the benefit exhibits itself in a given utility produced, with a surplus of materials, which are the basis of a further utility. The question, then, is reduced to this: Which system is most favorable to the production of primary materials; that under which the materials are wrought into the shape adapted for final consumption in the immediate vicinity of the producers, and there exchanged for the labor of those who are engaged in changing the shape of materials, and getting them in the hands of the persons to whose wants they are ultimately to minister, or the system which sends them abroad, for the use of other commodities?

The grand divisions of the arts are those of Production, Conversion, and Exchange, Agriculture, Manufactures, and Commerce. The first includes Mining, and every mode of industry by which the elemental wealth, contained in the bosom of the earth, is brought to the surface and severed from the place of its formation, to be transported and modified for human use. The second comprehends all the arts which effect mechanical or chemical alterations in the form and composition of materials, whether carried on in extensive establishments, and with vast and complicated machinery, or by the solitary workman, with the simplest tools. The third includes all those employments, the object of which is to change the location and ownership of products, by transportation, or simple purchase and sale. Agriculture is the first in order and importance; the others are only subsidiary to it—their advantages being summed up in the fact, that they enable communities to devote a larger share of their energies to the first pursuit of man, and being measured by the proportion in which they secure the power to do so.

We are brought to consider the influence the vicinity or remoteness of manufacturing consumers exerts upon the productiveness of agriculture industry; that vicinity or remoteness depending, as is sufficiently apparent, upon the degree in which the system of domestic exchange prevails or is superseded by foreign trade. This will involve a discussion of the obstacles to exchange, which are obviously the constituents of its cost, and limit the value which the operations incidental to barter can communicate to the articles in which it takes place. The great obstacle to association in distance in space between the producer and consumer; the great charge upon both is the cost of transportation. This subject cannot be better introduced than by the following quotation from the “Wealth of Nations;” which will serve also to show the accordancy between the principles which have been here maintained and those of the author of that great work:

The great commerce of every civilized society, is that which is carried on between the inhabitants of the town and those of the country. It consists in the exchange of rude for manufactured produce, either immediately or by the intervention of money, or of some sort of paper which represents money. The country supplies the town with the means of subsistence and the materials of manufacture. The town repays this supply by sending back a part of the manufactured produce to the inhabitants of the country. The town, in which there neither is nor can be any reproduction of substances, may very properly be said to gain its whole wealth and subsistence from the country. We must not, however, upon this account imagine that the gain of the town is the loss of the country. The gains of both are mutual and reciprocal; and the division of labor is, in this as in all other cases, advantageous to all the different persons employed in the various occupations into which it is subdivided. The inhabitants of the country purchase from the inhabitants of the town a greater quantity of manufactured goods, with the produce of a much smaller quantity of labor than they must have employed had they attempted to prepare them themselves. The town affords a market for the surplus produce of the country, or what is over and above the maintenance of the cultivators; and it is there that the inhabitants of the country exchange it for something else which is in demand among them. The greater the number and revenue of the inhabitants of the town, the more extensive is the market which it affords to those of the country; and the more extensive that market, it is always the more advantageous to a greater number. The corn which grows within a mile of the town, sells there for the same price with that which comes from twenty miles distance. But the price of the latter must generally not only pay the expense of raising it and bringing it to market, but also afford the ordinary profits of agriculture to the farmer. The proprietors and cultivators of the country, therefore, which lies in the neighborhood of the town, gain in the price of what they sell, over and above the ordinary profits of agriculture, the whole value of the carriage of the like produce that is brought from more distant parts; and they save, besides, the whole value of this carriage in the price of what they buy.

NOTES ON POLITICAL ECONOMY

DESIGNED CHIEFLY FOR JAPANESE READERS

CHAPTER XVI

NEAR AND DISTANT CONTRASTED—CARRIAGE OF GRAIN, VEGETABLES, FRUIT,
ETC.—THE CATTLE TRADE AND ITS NEW DEVELOPMENTS—SUBDIVISION AND
SPECULATION OF LABOR—INTRODUCTION OF NEW INDUSTRIES.

It is plain that the utmost which can be obtained for a given quantity of grain, is the labor which its nutritive powers will sustain, or the product of that labor; and it is equally plain, that no increase of nutritive power is gained by a change of location. A bushel of wheat will repair the same amount of muscular waste, and can be transmuted by vital chemistry into the same quantity of mechanical force, in a Japanese province as in an English workshop. Supposing it to be exported from Japan to England, the artisan who eats it at the latter place cannot, by possibility, execute any more work in consequence, than if he fed upon it close by the soil where it grew, and, therefore, can give no more work in exchange. So long as it will leave any surplus, after paying the services of those who carry it, it is doubtless better that it should be transported, than that it should be suffered to rot on the ground; but when the comparison is made between an exchange at or near the place of production and one at a distance point, it is clear that the entire cost of transportation is wasted, and at the expense of the producer. The same reasoning applies to materials as to food. Cotton will make no more cloth in Manchester than in a Japanese factory. All that can be obtained in return for a bale of it, is the cloth into which it is made, *minus* what must be retained as a compensation for the labor expended in spinning and weaving. This might be had if the cotton-mill were by the side of the cotton-field. If, however, the former be ten thousand miles distant, in Manchester, the cotton-grower must suffer a further deduction for the cost of carrying the cotton to the mill, and bringing the cloth back again. It is worth noting, because it is easy to remember, that the cost of transporting cotton from Japan to Manchester, and that of converting it into cloth, would be as nearly as possible equal. It would be absolutely cheaper to make the cloth, to carry it to England and bring it back again, than to carry the cotton and bring back the cloth, as the latter occupies less bulk.

At any given price for agricultural produce, there is obviously a certain distance from market, at which its whole value will be exhausted in the cost of reaching it. It varies, of course, with the bulk and weight of the commodity, and with the mode of transportation. Without absolute certainty as to figures, for the sake of argument we may take fifteen cents a ton as about the average cost of carriage upon the ordinary earth roads of this country. Thirty-three bushels of wheat or corn may be taken as the equivalent of a ton. If we estimate wheat at the price of one dollar, and corn at fifty cents a bushel, the value of the former will disappear, or become equal to zero, at two hundred and twenty miles and the latter at one hundred and ten miles from market, if they must be drawn on

the common highways. Beyond those distances they will respectively become worthless for the purpose of sale, and the producer can have no pecuniary inducement to raise any larger quantity than suffices for his own consumption. The bulkier products of course become valueless at a smaller distance. At twenty-five cents a bushel, potatoes would cease to afford any remuneration to the grower fifty miles from market, even if land were gratuitous, and the labor devoted to their cultivation could be procured for nothing. Other products, like delicate fruits, do not admit of carriage for any considerable distance, in consequence of their character, or the necessity of their being eaten in a fresh condition. Considerations of this nature obviously make the kind of cultivation to which land can be profitably applied, dependent upon its proximity to or remoteness from the persons by whom its products are to be ultimately consumed. When the distance is attained at which the value of corn is absorbed in the expenses of reaching the consumer, the difficulty may be overcome by converting it into pork. Five pounds of grain, it is said, are sufficient under a judicious system of feeding, to make one pound of meat. There is no reason why it should require any less quantity in the vicinity of the market; nor is there any difference in the comparative nutritive power of meat and grain at the two points. Their actual relative value in maintaining the ability to labor in the human frame—the quantity of heat and of muscular and nervous energy they can respectively supply—must be the same at one place as at another. The pork, however, into one pound of which the value of five pounds of grain has been compressed, can be transported at one-fifth the cost, and, therefore, leave something to remunerate the grower. Vegetables, generally, will bear less carriage than grain, and lose all value in their original shape at a much shorter distance from market: but they may be converted into mutton and beef. At a certain distance the value of meat disappears.

We cannot, however, yet estimate how far this distance may be prolonged. Cattle are now driven, on the hoof, from New Mexico and Texas into Kansas, where they rest, graze for a season and accumulate flesh and fat enough to endure a journey by railway, but still on the hoof, two thousand miles to New York. Then they are slaughtered, and afterward carried in refrigerators by steamers three thousand miles to Liverpool, where they become the “roast beef of old England.” Which are the poorer,—the Texan grazers who cannot find a market for their beef at home, or the artisans of England who cannot find domestic beef to satisfy their hunger—we leave the intelligent reader to judge. Both are to be pitied—not to speak of the poor beasts who cannot save themselves from this toilsome and wasteful journey which the human beings concerned in the traffic, by rising a little above the intellectual level of oxen, might render wholly needless.

In Brazil immense numbers of cattle are slaughtered merely for their hides, their flesh being abandoned to the carrion birds. The same practice prevailed in California before the American conquest. The agriculturist is everywhere subjected to the necessity of adapting his modes of tillage and grazing, not simply to the capacity of the soil which he cultivates, but to its distance from the abodes of the men who are to eat, and wear, and fabricate its products. He is controlled in regard to the kinds of crops and stock that he shall raise, not by the quantity it is in his power to obtain in return for a given amount of labor, but by the quantity that he must sacrifice in conveying them to his customers. He can consult his inclination and judgment, and exert his powers productively—his trade, the great trade of civilized man, is free—in inverse proportion to the space he is compelled to traverse in effecting his exchanges.

It needs, we think, no farther demonstration that foreign trade, by abstracting labor from production to expend it in fetching and carrying products, necessarily involves a positive waste of power, as compared with domestic exchange. The nearer the parties to barter are to each other, the greater, other things being equal, will be the amount of products they can bring to the market, which each proffers to the other, and greater, therefore, the amount of products they can bring to the market, which each proffers to the other, and the greater, therefore, the amount and value of the exchanges which will be effected between them. It is plain, that in proportion to the number of inhabitants in any given district or country, will be their proximity to each other. When the population of the State of New York, now over 3,000,000, shall have become 6,000,000, the intervals which now separate New Yorkers will be reduced one-half in their dimensions. No greater amount of transportation will be necessary to accomplish the aggregate traffic of the 6,000,000 than is now required for that of 3,000,000. Their products, however, in the natural course of things, will have more than doubled, as well because a less proportion of labor will be withdrawn from production, as because the greater proportionate quantity of labor which will be employed in production, will be made more effective by an increased degree of subdivision and specialization. In regard to the consideration last mentioned, we shall content ourselves for the present with a citation from Mr. Mill, which contains the evidence of its own truth, as well as testimony to the general concurrence of economical writers:—

The division of labor, as all writers on the subject have remarked, is limited by the extent of the market. If, by the separation of pin-making into ten district employments, 48,000 pins can be made in a day, this separation will only be advisable, if the number of accessible consumers is such as to require every day something like 48,000 pins. If there is only a demand for 24,000, the division of labor can only be advantageously carried to the extent that will every day produce that smaller number. This, therefore, is a further mode in which an accession of demand for a commodity tends to increase the efficiency of the labor employed in its production. The extent of the market may be limited by several causes: too small a population; the population too scattered and distant to be easily accessible; deficiency of roads and water-carriage; or, finally, the population too poor—that is, their collective labor too little effective, to admit of their being large consumers. Indolence, want of skill, and want of combination of labor among those who would otherwise be buyers of a commodity, limit, therefore, the practicable amount of labor among its producers.

We have treated the question of the comparative advantage of domestic and foreign exchange, as if the former could be substituted for the latter, only by inviting the foreign producer to emigrate, and take his place by the side of the domestic producer, with whom he formerly exchanged labor across the boundary of their respective countries, and the intervening tracts of land and sea by which their countries may be separated. The reason for instituting the comparison under this restriction is that the economists who maintain that both modes of exchange are equally advantageous, argue that it can never be profitable to naturalize a new species of industry, if it requires any domestic producer to change his employment. That he is employed in making fans, for instance, in Japan, which he exchanges for woollen goods made in England, is, they conceive, evidence that his labor is more effective in fan-making than in manufacturing

wool, and that the change must consequently be to a less productive, in the place of a more productive industry. Among other objections to the force of such reasoning, it has been mentioned that it obviously involves the supposition that there is nobody idle, though willing to work, in the country to which it may be proposed to transfer the new industry—and, moreover, ignores the fact that people are being born every day, and every day arriving at an age fit for labor, whose employment, in any imaginable mode, abstracts no person from any other department. We avoid, however, all controversy upon these points, and all risk of error from a possible mistake in regard to them, by stating the question as if the naturalization of a new industry necessarily involved the naturalization of the men who labor in it. Let the case be treated as if it were like that of the introduction of the woollen manufacture into England, in its early history, by the emigration of the weavers from Flanders; or that of the silk and other manufactures, at a later period, by the settlement of the Huguenot refugees, who fled from France upon the revocation of the Edict of Nantz. If the reader will refer to the language of Mr. Mill, last quoted, he will see that such an accession of artisans tends to obviate or to diminish *all* the impediments which are enumerated as preventing the division of labor in the *existing* employments, by limiting the extent of the market. Is the population too small? Every emigrant makes it larger. Is it too scattered and distant to be easily accessible? The addition of a body of recruits renders it more dense. Is the difficulty in a deficiency of roads and water-carriage? The necessity of transportation diminishes with the density of population. Men who are a mile apart must have a mile of road. Bring them within half a mile of each other, and there are two men to make and keep up that half mile of road, where there was but one before; and each of them has more leisure to devote to keeping the highway in order, because he has but half as much traveling to do as formerly. The ability to defray the cost of transportation in a given district, increases as the square of the number of inhabitants. Where there is one inhabitant to the square mile, he toils over the hill-tops on a mule-track, with an insignificant load, and at enormous expense: where there are a hundred, they dart through the valleys on a railroad. Is the population too poor to admit of their large consumers? The saving in the cost of exchanging their products, and the increased effectiveness of their labor, by reason of its greater division, consequent upon extending their market through the increase of customers in the newcomers, make them all richer.

NOTES ON POLITICAL ECONOMY

DESIGNED CHIEFLY FOR JAPANESE READERS

CHAPTER XVII

FOREIGN AND DOMESTIC EXCHANGES FURTHER CONSIDERED—EARLY
TREATMENT OF AMERICA BY ENGLAND—ADAM SMITH'S INDIGNANT PROTEST—
THE NATION OF SHOPKEEPERS AND THE SHOPKEEPER SYSTEM—COOPERATION
OF ADAM SMITH AND NAPOLEAN BONAPARTE—UNIVERSAL BRITISH POLICY—
THE LESSON OF AMERICA—CONQUEST BY ARTS AND BY ARMS—
THE BENEFITS OF INDEPENDENCE

It has now, we hope, been sufficiently shown that—and why—inland or domestic trade maintains at least double the number of producers that could be sustained within a country by the opposite system, and that it necessarily tends to increase the efficiency of all those laborers, while foreign commerce tends to rob the earth of the aliment by which alone its fertility can be maintained. The proposition is especially true of that kind of commerce which the teaching of the modern English economist and the steady policy of the British government have sought to impose upon the nations—a commerce to consist in the production, by all the countries that can be coaxed or coerced into the arrangement, of raw materials for food and clothing, to be transported to the workshops of the islanders, for conversion, and carried in the shape of the finished wares back to the producers for consumption. Against the enactments by which that government deprived the colonies, while yet in subjection to her rule, of freedom of trade and of freedom of production, the indispensable basis of trade, Adam Smith remonstrated with indignant energy. Among the regulations which he denounces, the following are enumerated:—

While Great Britain encourages in America the manufacture of pig and bar iron, by exempting them from duties to which the like commodities are subject when imported from any other country, she imposes an absolute prohibition upon the erection of steel furnaces and slit-mills in any of her American plantations. She will not suffer her colonies to work in those more refined manufactures, even for their own consumption; but insists upon their purchasing of her merchants and manufacturers, all goods of this kind which they have occasion for. She prohibits the exportation from one province to another by water, and even the carriage by land upon horseback, or in a cart, of hats, of wools and woolen goods, of the produce of America; a regulation which effectively prevents the establishment of any manufacture of such commodities for distant sale, and confines the industry of her colonies in this way to such coarse and household manufactures as a private family makes for its own use, or for that of some of its neighbors in the same province.

The Centennial anniversary of the publication of the work from which these

words are taken was celebrated early last year by gentlemen who call themselves free traders, in England and in the United States—the intervening century not having so completely emancipated the former colonies from their dependence upon England as to render the American protectionists very enthusiastic. In the same chapter, introducing his comments upon the probable results of the fruitless war then being waged for subjugation of the States, Dr. Smith coined the epithet which seemed harmless enough in his mouth but which became so stinging when it was adopted by the great Napoleon.

“To found a great empire for the sole purpose of raising up a people of customers may at first sight appear a project fit only for a nation of shopkeepers. It is, however, a project altogether unfit for a nation of shopkeepers, but extremely fit for a nation whose government is influenced by shopkeepers.”⁹

It is in humble deference to Adam Smith and the great Napoleon, of whom the first sketched with pen and ink and the second propagated with blood and iron the genuine gospel of free trade, that we are scrupulously careful to designate heresy as the “shopkeeper system” and its false prophets as the “shopkeeper-school.” It is no malignity of our private invention, as less instructed Japanese readers might be led to suppose.

The same course as that pursued in regard to the American States, has characterized British policy in the treatment of her colonies the world over; the uniform object to compel them to export their exchanges at her mill, and forges, and shops, instead of effecting them at home, by means of the construction of the requisite machinery of conversion. It required a seven years’ war for us to obtain the freedom of trade, so far as it depends upon freedom from direct legislative prohibition. When it was accomplished, the new States were sorely deficient in industrial education, which England had prohibited them from acquiring, and which she still exercised the power of impeding them in acquiring, by prohibiting the emigration of artisans and the exportation of machinery. With the advantages she possessed and maintained, by the monopoly of machinery and of the workmen skilled in its construction and use, her manufacturers were able to undersell and ruin the adventurous artisans, who in other countries made the attempt to imitate her machinery, and educate themselves in the modes of employing it.

It is obvious that a monopoly of the trade of conversion, has the same effect upon nations who submit to it, whether maintained by superiority in art, or by superiority in arms. In either case, it compels them to make their exchanges in a manner that wastes and exhausts the sources of production, and robs labor of its legitimate reward. They have to determine the question whether they will permit themselves to be forced into a course of operations, contrary to the order of nature and to the natural inclinations of man, or will vindicate their freedom to conform to that order and to pursue those inclinations. The question is to be resolved by a comparison of advantages and disadvantages. The disadvantages of acquiescence which we have enumerated are permanent in their nature. The advantages of internal production and domestic exchange are likewise permanent, and, what is more, increasing. Increased diversification of employment, and the consequent skill—increased capital, from increased productiveness in the earth and diminished waste in transportation, necessarily facilitate still further increase in skill, and in capital for the future. The people that once begins the

⁹ To this day it is next to impossible to persuade the average British merchant that this significant phrase originated with the great English master of Political Economy. They persist, in the face of a hundred citations, in attributing it to the malevolence of hostile critics.

improvement of its productive power, finds every step in its progress more easy than the last; while every moment that it permits itself to be driven on the downward path, diminishes its ability to make a stand or retrace the way. On the other hand, there is an immediate and palpable disadvantage in resistance. It involves an apparent sacrifice, that of paying a larger *price*, counted in coin, for domestic wares, than that at which they are offered by the foreign nation. Such, at least, is the temporary effect. If it be made to appear that this effect is to be permanent, and that the money-price is a true indication of the cost in labor at which the foreign wares can be procured, the property of substituting domestic production from abroad, must be justified by other than mere economical considerations.