

POLITICAL ECONOMY,

BY

J. R. M'CULLOCH.

INTEREST AND VALUE OF MONEY,

BY

JOHN LOCKE.

PRINCIPLES OF POLITICAL ECONOMY

WITH SKETCH OF
THE RISE AND PROGRESS OF THE SCIENCE

By J. R. M'CULLOCH

ESSAY ON INTEREST AND VALUE OF MONEY

By JOHN LOCKE



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THOUGH the Article on POLITICAL ECONOMY in the *Supplement to the Encyclopædia Britannica* forms the ground-work of the present publication, it is, in most respects, an entirely New Work. The limits within which it was necessary to compress the article in the *Supplement*, obliged me to omit several interesting and important subjects, which I have here treated at considerable length : and I have endeavoured to avail myself of the aids derived from subsequent reflection, and the suggestions and criticisms of others, to improve those parts of the work that are not completely new, and to render the whole more worthy of the science, and of the public attention.

J. R. M'C,

EDINBURGH,
November, 1825.

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PRINCIPLES OF POLITICAL ECONOMY.

PART I.—RISE AND PROGRESS OF THE SCIENCE.

Definition of the Science—Its Importance—Causes of its being neglected in Greece and Rome, and in the Middle Ages—Evidence on which its Conclusions are founded—Rise of the Science in Modern Europe—Mercantile System—System of M. Quesnay and the French Economists—Publication of the ‘Wealth of Nations’—Distinction between Politics and Statistics and Political Economy.

POLITICAL Economy* *is the science of the laws which regulate the production, distribution, and consumption of those articles or products which have exchangeable value, and are either necessary, useful, or agreeable to man.*

When it is said that an article or product is possessed of *exchangeable value*, it is meant that one or more individuals are disposed to give a certain quantity of labour, or a certain quantity of some other article or product, obtainable only by means of labour, in exchange for it.

The power or capacity which particular articles or products have of satisfying the various wants and desires of which man is susceptible, constitutes their *utility*, and renders them objects of demand.

An article may be possessed of the highest degree of utility, or of power to minister to our wants and enjoyments, and may be universally made use of, without possessing exchangeable value. This is an attribute or quality of those articles only which it requires some portion of voluntary human labour to produce, procure, or preserve. Without possessing utility of some species or other, no article can ever become an object of demand; but how necessary soever any particular article may be to our comfort, or even existence, still, if it be a spontaneous production of nature—if it exists independently of human agency—and if every individual can command indefinite quantities of it without any

* *Economy*, from οἶκος, a house, or family, and νόμος, a law—the government of a family. Hence Political Economy may be said to be to the State what domestic economy is to a single family.

voluntary exertion or labour of any sort, it is destitute of value, and can afford no basis for the reasonings of the economist. A commodity or a product is not valuable because it is useful ; but it is valuable because it can only be procured by the intervention of labour. It cannot justly be said, that the food with which we appease the cravings of hunger, or the clothes by which we defend ourselves from the inclemency of the weather, are more useful than atmospheric air ; and yet they are possessed of that exchangeable value of which it is totally destitute. The reason is, that food and clothes are not, like air, gratuitous products : they cannot be had at all times, and in any quantity, without exertion ; on the contrary, labour is always required for their production, or appropriation, or both ; and as no one will voluntarily sacrifice the fruits of his industry, without receiving an equivalent in return, they are truly said to possess exchangeable value.

The economist does not investigate the laws which determine the production and distribution of such articles as exist, and may be obtained in unlimited quantities, independently of all voluntary human agency. The results of the industry of man form the only objects with which he is conversant. Political Economy might, indeed, be defined to be the *science of values* ; for, nothing which is not possessed of exchangeable value, or which will not be received as an equivalent for something else which it has taken some labour to produce or obtain, can ever properly be brought within the scope of its inquiries.

The word *value* has been very frequently employed to express, not only the exchangeable worth of a commodity, or its capacity of exchanging for other commodities, but also its *utility*, or capacity of satisfying our wants, and of contributing to our comforts and enjoyments. But it is obvious, that the utility of commodities—that the capacity of bread, for example, to appease hunger, or of water to quench thirst—is a totally different and distinct quality from their capacity of exchanging for other commodities. Dr. Smith perceived this difference, and showed the importance of carefully distinguishing between the utility, or, as he expressed it, the ‘*value in use*,’ of commodities, and their value in exchange. But he did not always keep this distinction in view, and it has been very often lost sight of by subsequent writers. There can be no doubt, indeed, that the confounding together of these opposite qualities has been one of the principal causes of the confusion and obscurity in which many branches of the science, not in themselves difficult, are still involved. When, for instance, we say that water is highly valuable, we unquestionably attach a very different meaning to the phrase from what we attach to it when we say that gold is valuable. Water is indispensable to existence, and has, therefore, a high degree of utility, or of ‘*value in use* ;’ but as it can generally be obtained in large quantities, without much labour or exertion, it has, in most places, but a very low value in exchange. Gold,

on the other hand, is of comparatively little utility ; but, from its existing only in limited quantities, and from a great deal of labour being necessary to procure a small supply of it, it has a comparatively high exchangeable value, and may be exchanged or bartered for a proportionally large quantity of most other commodities. To confound these different sorts of value would evidently lead to the most erroneous conclusions. And hence, to avoid all chance of error from mistaking the sense of so important a word as *value*, I shall never use it except to signify exchangeable worth, or value in exchange ; and shall always use the word *utility* to express the power or capacity of an article to satisfy our wants, or gratify our desires.

Political Economy has been frequently defined to be ‘the science which treats of the production, distribution, and consumption of *wealth*,’ and if by wealth be meant those articles or products which possess exchangeable value, and are either necessary, useful, or agreeable, the definition is quite unexceptionable. But if we understand the term wealth in a more enlarged or contracted sense, it will be faulty. Mr. Malthus, for example, has supposed wealth to be identical with ‘those *material* objects which are necessary, useful, and agreeable to man.’ And though we should waive any objections which may, perhaps, be justly taken to the introduction of the qualifying phrase *material* objects, still it is evident that the definition is essentially defective. In proof of this, it is sufficient to mention, that atmospheric air, and the heat of the sun, are both material, necessary, useful, and agreeable products ; though their independent existence, and their incapacity of special appropriation, by depriving them of exchangeable value, excludes them, as we have already shown, from the investigations of the science of political economy.

Dr. Smith has not explicitly stated what was the precise meaning attached by him to the term wealth ; but he most commonly describes it to be ‘the annual produce of land and labour.’ Mr. Malthus, however, has justly objected to this definition, that it refers to the sources of wealth, before we know what wealth is, and that it includes all the useless products of the earth, as well as those which are appropriated and enjoyed by man.

The definition now given does not seem liable to any of these objections. By confining the science to a discussion of the laws regulating the production, distribution, and consumption of articles or products possessing exchangeable value, we give it a distinct and definite object. When thus properly restricted, the researches of the economist occupy a field which is exclusively his own. He runs no risk of wasting his time in inquiries which belong to other sciences, or in unprofitable investigations respecting the production and consumption of articles which cannot be appropriated, and which exist independently of human industry.

Capacity of appropriation is indispensably necessary to constitute an article wealthy. And I shall invariably employ this term to distinguish those products only which are obtained by the intervention of human labour, and which, consequently, can be appropriated by one individual, and consumed exclusively by him. A man is not said to be wealthy, because he has an indefinite command over atmospheric air, for this is a privilege which he enjoys in common with every other man, and which can form no ground of distinction; but he is said to be wealthy, according to the degree in which he can afford to command those necessities, conveniences, and luxuries, which are not the gifts of nature, but the products of human industry.

The object of Political Economy is to point out the means by which the industry of man may be rendered most productive of those necessities, comforts, and enjoyments, which constitute *wealth*; to ascertain the proportions in which this wealth is divided among the different classes of the community; and the mode in which it may be most advantageously consumed. The intimate connection of such a science, with all the best interests of society, is abundantly obvious. There is no other, indeed, which comes so directly home to the everyday occupations and business of mankind. The consumption of wealth is indispensable to existence; but the eternal law of Providence has decreed, that wealth can only be procured by industry,—that man must earn his bread in the sweat of his brow. This twofold necessity renders the production of wealth a constant and principal object of the exertions of the vast majority of the human race; has subdued the natural aversion of man from labour; given activity to indolence; and armed the patient hand of industry with zeal to undertake, and patience to overcome, the most irksome and disagreeable tasks.

But when wealth is thus necessary, when the desire to acquire it is sufficient to induce us to submit to the greatest privations, the science which teaches the means by which its acquisition may be most effectually promoted,—by which we may be enabled to obtain the greatest possible amount of wealth with the least possible difficulty,—must certainly deserve to be carefully studied and meditated. There is no class of persons to whom this knowledge can be considered as either extrinsic or superfluous. There are some, doubtless, to whom it may be of more advantage than to others; but it is of the utmost consequence to all. The prices of all sorts of commodities—the profits of the manufacturer and merchant—the rent of the landlord—the wages of the day-labourer—and the incidence and effect of taxes and regulations, all depend on principles which Political Economy can alone ascertain and elucidate.

Neither is the acquisition of wealth necessary only because it affords the means of subsistence: without it we should never be able to cultivate and improve our higher and nobler faculties. Where wealth has

not been amassed, the mind being constantly occupied in providing for the immediate wants of the body, no time is left for its culture ; and the views, sentiments, and feelings of the people, become alike contracted, selfish, and illiberal. The possession of a decent competence, or the being able to indulge in other pursuits than those which directly tend to satisfy our animal wants and desires, is necessary to soften the selfish passions ; to improve the moral and intellectual character, and to ensure any considerable proficiency in liberal studies and pursuits. And hence, the acquisition of wealth is not desirable merely as the means of procuring immediate and direct gratifications, but as being indispensably necessary to the advancement of society in civilization and refinement. Without the tranquillity and leisure afforded by the possession of accumulated wealth, those speculative and elegant studies which expand and enlarge our views, purify our taste, and lift us higher in the scale of being, can never be successfully prosecuted. It is certain, indeed, that the comparative barbarism and refinement of nations depend more on the comparative amount of their wealth than on any other circumstance. A poor people are never refined, nor a rich people ever barbarous. It is impossible to name a single nation which has made any distinguished figure, either in philosophy or the fine arts, without having been at the same time celebrated for its wealth. The age of Pericles and Phidias was the flourishing age of Grecian, as the age of Petrarch and Raphael was of Italian commerce. The influence of wealth is, in this respect, almost omnipotent. It raised Venice from the bosom of the deep, and made the desert and sandy islands on which she is built, and the unhealthy swamps of Holland, the favoured abodes of literature, of science, and of art. In our own country its effects have been equally striking. The number and eminence of our philosophers, poets, scholars, and artists, have ever increased proportionally to the increase of the public wealth, or to the means of rewarding and honouring their labours.

The possession of wealth being thus indispensable to individual existence and comfort, and to the advancement of nations in civilization, it may justly excite our astonishment, that so few efforts should have been made to investigate its sources ; and that the study of Political Economy is not even yet considered as forming a principal part in a comprehensive system of education. A variety of circumstances might be mentioned, as occasioning the unmerited neglect of this science ; but of these the institution of *domestic slavery* in the ancient world, and the darkness of the period when the plan of education in the universities of modern Europe was first formed, seem to have had the greatest influence.

The citizens of Greece and Rome considered it degrading to engage in those occupations which form the principal business of the inhabitants of modern Europe. Instead of endeavouring to enrich them-

selves by their own exertions, they trusted to the reluctant labour of slaves, and to subsidies extorted from conquered countries. In some of the Grecian States, the citizens were prohibited from engaging in any species of manufacturing and commercial industry; and in Athens and Rome, where this prohibition did not exist, these employments were universally regarded as unworthy of freemen, and were, in consequence, exclusively carried on either by slaves or by the very dregs of the people. Even Cicero, who had mastered all the philosophy of the ancient world, and raised himself above many of the prejudices of his age and country, does not scruple to affirm, that there can be nothing ingenuous in a workshop; that commerce when conducted on a small scale, is mean and despicable; and when most extended, barely tolerable—*Non admodum vituperanda!** Agriculture, indeed, was treated with more respect. Some of the most distinguished characters in the earlier ages of Roman history had been actively engaged in rural affairs; but, notwithstanding their example, the cultivation of the soil, in the flourishing period of the Republic, and under the Emperors, was almost entirely carried on by slaves, belonging to the landlord, and employed on his account. The mass of Roman citizens were either engaged in the military service,† or derived a precarious and dependant subsistence from the supplies of corn furnished by the conquered provinces. In such a state of society the relations subsisting in modern Europe between landlords and tenants, and masters and servants, were unknown; and the ancients were, in consequence, entire strangers to all those interesting and important questions arising out of the rise and fall of rents and wages, which form so important a branch of economical science. The spirit of philosophy in the ancient world was also extremely unfavourable to the cultivation of Political Economy. The luxurious or more refined mode of living, of the rich, was regarded by the ancient moralists as an evil of the first magnitude. They considered it as subversive of those warlike virtues, which were the principal objects of their admiration; and they, therefore, denounced the passion for accumulating wealth as fraught with the most injurious and destructive consequences. It was impossible that Political Economy could become an object of attention to minds imbued with such prejudices; or that it could be studied by those who contemned the objects about which it is conversant, and vilified the labour by which wealth is produced.

At the establishment of our universities, the clergy were almost the

* *‘ Illiberales autem et sordidi questus mercenariorum, omniumque quorum operæ, non quorum artes emuntur. Est enim illis ipsa merces auctoramentum servitutis. Sordidi etiam putandi, qui mercantur a mercatoribus quod statim vendant, nihil enim proficiunt, nisi admodum mentiantur! Opificesque omnes in sordida arte versantur, nec enim quidquam ingenuum potest habere officina’* * * Mercatura autem, si tenuis est, sordida putanda est; sin autem magna et copiosa, multa undique apportans, multisque sine vanitate impertiens, non est admodum vituperanda.” (*De Officiis*, Lib. I. sect. 42.)

† *‘ Rei militaris virtus præstat cæteris omnibus; hæc populo Romano, hæc huic urbi æternam gloriam peperit. — (Cicero pro Murena.)*

exclusive possessors of the little knowledge then in existence. It was natural, therefore, that their peculiar feelings and pursuits should have a marked influence on the plans of education they were employed to frame. Grammar, rhetoric, logic, school divinity, and civil law, comprised the whole course of study. To have appointed professors to explain the principles of commerce, and the means by which labour might be rendered most effective, would have been considered as equally superfluous and degrading to the dignity of science. The ancient prejudices against commerce, manufactures, and luxury, retained a powerful influence in the middle ages. None were then possessed of any clear ideas concerning the true sources of national wealth, happiness, and prosperity. The intercourse among states was extremely limited, and was maintained rather by marauding incursions, and piratical expeditions in search of plunder, than by a commerce founded on the gratification of real and reciprocal wants.

These circumstances sufficiently account for the late rise of this science, and the little attention paid to it up to a very recent period. And since it has become an object of more general attention and inquiry, the differences which have subsisted among the most eminent of its professors, have proved exceedingly unfavourable to its progress, and have generated a disposition to distrust the best established conclusions of the science.

It is clear, however, that those who distrust the conclusions of Political Economy, because of the variety of systems that have been advanced to explain the phenomena about which it is conversant, might on the same ground distrust the conclusions of almost every other science. The discrepancy between the various systems that have successively been sanctioned by the ablest physicians, chemists, natural philosophers, and moralists, is quite as great as the discrepancy between those advanced by the ablest political economists. But who would therefore conclude, that medicine, chemistry, natural philosophy, and morals, rest on no solid foundation, or that they are incapable of presenting us with a system of well-established and consentaneous truths? We do not refuse our assent to the demonstrations of Newton and Laplace, because they are subversive of the hypotheses of Ptolemy, Tycho Brahe, and Descartes; and why should we refuse our assent to the demonstrations of Smith and Ricardo, because they have subverted the false theories that were previously advanced respecting the sources and the distribution of wealth? Political Economy has not been exempted from the common fate of the other sciences. None of them has been instantaneously carried to perfection; more or less of error has always insinuated itself into the speculations of their earliest cultivators. But the errors with which Political Economy was formerly infected have now nearly disappeared; and a very few observations will suffice to show, that it really admits of as much certainty in its