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JAL OF POLITICAL ECONOMY.



MANUAL  
OF  
POLITICAL ECONOMY

BY

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The end I hope to attain, I may briefly state to be this. I think that all who take an interest in political and social questions, must desire to possess some knowledge of Political Economy. Mr Mill's treatise is so complete and so exhaustive, that many are afraid to encounter the labour and thought which are requisite to master it; perhaps, therefore, these may be induced to read an easier and much shorter work. I so well remember the great advantage which I derived from reading Mr Mill's book, that I would not publish my own work if I thought that it would withdraw students from the perusal of a more complete treatise. I am, however, convinced that those who become acquainted with the first principles of Political Economy, will be so much struck with the attractiveness and importance of the science, that they will not relinquish its study.

I have not attempted to discuss all the principles of Political Economy in full detail; but I believe no important branch of the subject has been omitted; and I therefore think that the principles which are explained in the present work will enable the reader to obtain a tolerably complete view of the whole science. In order to show how intimately Political Economy is connected with the practical questions of life, I have devoted a separate chapter to some subjects of great present interest; such, for instance, as Cooperative Societies—Strikes and Trades' Unions—and The Effects of the Recent Gold Discoveries. For the convenience of the ordinary reader, and especially for those who may use the book to prepare themselves for examinations, I have prefixed a very detailed summary of Contents, which may be regarded as an analysis of the work.

I cannot conclude these prefatory remarks without acknowledging the kind assistance which I have derived from those who have verified my statistical facts; but I have especially to thank my friend, Mr Leslie Stephen, Fellow of Trinity Hall. He has given me many most important suggestions, and has carefully revised the work, the accurate and complete knowledge which he possesses of the science makes his revision peculiarly valuable.

The labour of writing these pages would have been much greater, if I had not been fortunate enough to have a most patient and excellent amanuensis in the youth who is to me so faithful an attendant.

TRINITY HALL, CAMBRIDGE,  
Feb. 1863.

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mercantile system prevailed estimated by the amount of money brought into the country—Hence exports were encouraged by bounties and various restraints were imposed upon imports—A system of protection was the natural development of the mercantile system—If two countries produce commodities at a different relative cost, foreign trade becomes profitable to them both—Hence, it is possible that foreign trade may be profitable to two countries, although all the commodities exchanged might be produced cheaper in one country than in the other—The bargain of international trade is adjusted by equalising the supply of a commodity to the demand for it—The profit arising from foreign commerce is shared between two trading countries in the inverse ratio of the demand which each has for the commodities imported from the other—If England exports iron to France, and imports wheat, and if the cost of producing iron is cheapened in England, but not in France, the terms of the international trade must be again adjusted, so as to equalise the demand to the supply—It is quite possible, under the circumstances just supposed, that the cost to France of the iron she imports may be reduced by an amount exceeding the diminution in the cost of producing this iron in England—The gain which results from international trade is distributed amongst the consumers of the commodities imported, and cannot be appropriated, either by the producers of exported commodities, or by the merchants who carry on foreign trade—Foreign trade will generally cause the price of a commodity which is exported to rise in the home market—The home producers of a commodity may temporarily suffer loss, if the price of a commodity is reduced in consequence of foreign importations—But inequalities in the rate of profit in any industry will always be ultimately removed by the competition of capital—The rent of land may be permanently reduced, if agricultural produce is cheapened by foreign importations—Foreign trade affects the price, both of the imported and exported commodity—The equation of international trade, therefore, requires a very complicated process of adjustment, since the price both of the imported and exported commodity must be such as to equalise the supply to the demand for these commodities in both the trading countries—Foreign commerce raises the price of the commodities exported, and reduces the price of those imported—It may appear that if the commodities exported are necessities the labourers may be injured by the rise in their price, but they are more than compensated by an increase in their money wages, because foreign commerce economises labour and capital, and therefore enables higher wages to be paid without encroaching upon profits—A consideration of the arguments in favour of protection which are current in the United States and in Australia—The fallacy explained of what is called ‘reciprocity in free trade’—Commercial treaties involve a certain departure from the principles of free trade—The cost of exporting and importing commodities may be borne in different ratios in two different countries—The greatest portion of this cost of carriage would be borne by the country whose demand is least diminished by the commodity being increased in price, in consequence of the cost of carriage—If it is assumed that there is perfect free trade between the two countries, then there cannot be a greater difference in the price of any commodity in the two countries than is equivalent to the cost of carriage—The principles investigated in this chapter are equally true when a great number of commodities are interchanged, and when foreign commerce is not restricted to two countries—When it is said that, in order to satisfy

the equation of international trade, the commodities which a country imports must be equivalent in value to those which she exports, it is assumed that a country has no other payments to make to other countries except for goods imported, and no other payments to receive except for goods exported—If a country is a debtor of other countries, then her exports will exceed in value her imports by an amount equivalent to this indebtedness—If a country is a creditor of other countries, then her imports will exceed in value her exports by an amount equivalent to the net indebtedness of other countries to her—These principles explain why the exports of India always greatly exceed her imports, and why, on the other hand, the imports of England greatly exceed her exports ..... PAGES 374—404

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from England to France, English merchants will have a greater demand for bills drawn upon France, than French merchants for bills drawn upon England—Bills drawn upon France will consequently be at a premium—When this is the case, the exchange is said to be against England, and in favour of France—A country has consequently to export specie when the exchange is against her—Hence the expressions 'favourable' and 'unfavourable' exchange are remnants of the mercantile system—If the exchange is against a country, its money will be depreciated in value, when compared with the money of a country which has a favourable exchange—When a scarcity of gold is anticipated, bills may rise to a greater premium or fall to a greater discount than is represented by the cost of carriage—As an example, bills drawn on France rose 10 per cent. when it was known that Napoleon had landed from Elba—If an unfavourable exchange always required specie to be actually exported, the premium upon bills would always closely approximate to the cost of transmitting specie—There are, however, constant fluctuations in the premium upon bills, because an unfavourable exchange may be rapidly succeeded by a favourable exchange—An unfavourable exchange cannot be of long continuance, because it exerts a tendency to diminish the imports, and to increase exports—An export of the precious metals, as ordinary commodities of commerce, does not necessarily denote an unfavourable exchange.

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## BOOK IV.

### TAXATION.

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married, and the other not—With the view of obtaining equality of taxation, it would be useless to attempt to tax people in proportion to the protection which they derive from Government—The first principle of taxation is enunciated by Adam Smith in very ambiguous language; he affirms that when there is equality of taxation, people are taxed in proportion to their ability to pay—Equality of taxation will not be secured, if it is attempted to apply this principle to one special tax—Equality of taxation is best secured by a rough process of compensation—A consideration of the policy of reducing national debts, either by devotion of the surplus and the immediate cancelling of debt, or by the creation of terminable annuities..... PAGES 513—522

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