Chapter 12: The theory of the powers of production and the theory of values

Adam Smith's celebrated work is entitled, 'The Nature and Causes of the Wealth of Nations'. The founder of the prevailing economical school has therein indicated the double point of view from which the economy of nations, like that of private separate individuals, should be regarded.

The causes of wealth are something totally different from wealth itself. A person may possess wealth, i.e., exchangeable value; if, however, he does not possess the power of producing objects of more value than he consumes, he become poorer. A person may be poor; if he, however, possesses the power of producing a larger amount of valuable articles than he consumes, he becomes rich.

The power of producing wealth is therefore infinitely more important than wealth itself; it insures not only the possession and the increase of what has been gained, but also the replacement of what has been lost. This is still more the case with entire nations (who cannot live out of mere rentals) than with private individuals. Germany has been devastated in every century by pestilence, by famine, or by civil or foreign wars; she has, nevertheless, always retained a great portion of her powers of production, and has thus quickly reattained some degree of prosperity; while rich and mighty despot- and priest-ridden Spain, notwithstanding her comparative enjoyment of internal peace, has sunk deeper into poverty and misery. The same sun still shines on the Spaniards, they still possess the same area of territory, their mines are still as rich, they are still the same people as before the discovery of America, and before the introduction of the Inquisition; but that nation has gradually lost her powers of production, and has therefore become poor and miserable. The War of Independence of the United States of America cost that nation hundreds of millions, but her powers of production were immeasurably strengthened by gaining independence and it was for this reason that in the course of a few years after the peace she obtained immeasurably greater riches than she had ever possessed before. If we compare the state of France in the year 1809 with that of the year 1839, what a difference in favour of the latter! Nevertheless, France has in the interim lost her sovereignty over a large portion of the European continent; she has suffered two devastating invasions, and had to pay millions of money in war contributions and indemnities.

It was impossible that so clear an intellect as Adam Smith possessed could altogether ignore the difference between wealth and its causes and the overwhelming influence of these causes on the condition of nations. In the introduction to his work, he says in clear words in effect: 'Labour forms the fund from which every nation derives its wealth, and the increase of wealth depends first on the productive power of labour; namely on the degree of skill, dexterity, and judgment.
with which the labour of the nation is generally applied, and secondly on the proportion between the number of those employed productively and the number of those who are not so employed. From this we see how clearly Smith in general perceived that the condition of nations is principally dependent on the sum of their productive powers.

It does not, however, appear to be the plan of nature that complete sciences should spring already perfected from the brain of individual thinkers. It is evident that Smith was too exclusively possessed by the cosmopolitan idea of the physiocrats, ‘universal freedom of trade’, and by his own great discovery, the division of labour, to follow up the idea of the importance to a nation of its power of production. However much science may be indebted to him in respect of the remaining parts of his work, the idea ‘division of labour’ seemed to him his most brilliant thought. It was calculated to secure for his book a name and for himself posthumous fame.

He had too much worldly wisdom not to perceive that whoever wishes to sell a precious jewel does not bring the treasure to market most profitably by burying it in a sack of wheat, however useful the grains of wheat may be, but better by exposing it at the forefront. He had too much experience not to know that a débutant (and he was this as regards political economy at the time of the publication of his work) who in the first act creates a terre à terre is easily excused if in the following ones he only occasionally raises himself above mediocrity; he had every motive for making the introduction to his book, the doctrine of division of labour. Smith has not been mistaken in his calculations; his first chapter has made the fortune of his book, and founded his authority as an economist.

However, we on our part believe ourselves able to prove that just this zeal to put the important discovery ‘division of labour’ in an advantageous light, has hindered Adam Smith from following up the idea ‘productive power’ (which has been expressed by him in the introduction, and also frequently afterwards, although merely incidentally) and from exhibiting his doctrines in a much more perfect form. By the great value which he attached to his idea ‘division of labour’ he has evidently been misled into representing labour itself as the ‘fundi’ of all the wealth of nations, although he himself clearly perceives and also states that the productiveness of labour principally depends on the degree of skill and judgment with which the labour is performed. We ask, can it be deemed scientific reasoning if we assign as the cause of a phenomenon that which in itself is the result of a number of deeper lying causes? It cannot be doubted that all wealth is obtained by means of mental and bodily exertions (labour), but yet from that circumstance no reason is indicated from which useful conclusions be drawn; for history teaches that whole nations have, in spite of the exertions and of the thrift of their citizens, fallen into poverty and misery. Whoever desires to know and investigate how one nation from a state of poverty and barbarism has attained to one of wealth and prosperity, and how another has fallen from a condition of wealth and well-being into one of poverty and misery, has always, after receiving the information that labour is the cause of wealth and idleness the cause of poverty (a remark which King Solomon made long before Adam Smith), to put the further question, what are the causes of labour, and what are the causes of idleness?

It would be more correct to describe the limbs of men (the head, hands, and feet) as the causes of wealth (we should thus at least approach far nearer to the truth), and the question then presents itself, what is it that induces these heads, arms, and hands to produce, and calls into activity these exertions? What else can it be than the spirit which animates the individuals, the social order which renders their energy fruitful, and the powers of nature which they are in a position to make use of? The more a man perceives that he must provide for the future, the more his intelligence and feelings incite him to secure the future of his nearest connections, and to promote their well-being; the more he has been from his youth accustomed to forethought and activity, the more his nobler feelings have been developed, and body and mind cultivated, the finer examples that he has witnessed from his youth, the more opportunities he has had for utilizing his mental and bodily powers for the improvement of his condition, also the less he has been restrained in his legitimate activity, the more successful his past endeavours have been, and the more their fruits have been secured to him, the more he has been able to obtain public recognition and esteem by orderly conduct and activity, and the less his mind suffers from prejudices, superstition, false notions, and ignorance, so much the more will he exert his mind and limbs for the object of production, so much the more will he be able to accomplish, and so much the better will he make use of the fruits of his labour. However, most depends in all these respects on the conditions of the society in which the individual has been brought up, and turns upon this, whether science and arts flourish, and public institutions and laws tend to promote religious character, morality and intelligence, security for person and for property, freedom and justice; whether in the nation all the factors of material prosperity, agriculture, manufactures, and trade, have been equally and harmoniously cultivated; whether the power of the nation
is strong enough to secure to its individual citizens progress in wealth and education from generation to generation, and to enable them not merely to utilise the national powers of their own country to their fullest extent, but also, by foreign trade and the possession of colonies, to render the natural powers of foreign countries serviceable to their own.

Adam Smith has on the whole recognized the nature of these powers so little, that he does not even assign a productive character to the mental labors of those who maintain laws and order, and cultivate and promote instruction, religion, science, and art. His investigations are limited to that human activity which creates material values. With regard to this, he certainly recognizes that its productivity depends on the 'skill and judgment' with which it is exercised; but in his investigations as to the causes of this skill and judgment, he does not go farther than the division of labor, and that he illustrates solely by exchange, augmentation of material capital, and extension of markets. His doctrine at once sinks deeper and deeper into materialism, particularism, and individualism. If he had followed up the idea 'productive power', without allowing his mind to be dominated by the idea of 'value', 'exchangeable value', he would have been led to perceive that an independent theory of the 'productive power' must be considered by the side of a 'theory of values' in order to explain the economical phenomena. But he thus fell into the mistake of explaining mental forces from material circumstances and conditions, and thereby laid the foundation for all the absurdities and contradictions from which his school (as we propose to prove) suffers up to the present day, and to which alone it must be attributed that the doctrines of political economy are those which are the least accessible to the most intelligent minds. That Smith's school teaches nothing else than the theory of values, is not only seen from the fact that it bases its doctrine everywhere on the conception of 'value of exchange', but also from the definition which it gives of its doctrine. It is (says J.B. Say) that science which teaches how riches, or exchangeable values, are produced, distributed, and consumed. This is undoubtedly not the science which teaches how the productive powers are awakened and developed, and how they become repressed and destroyed. M'Culloch calls it explicitly 'the science of values', and recent English writers 'the science of exchange'.

Examples from private economy will best illustrate the difference between the theory of productive powers and the theory of values.

Let us suppose the case of two fathers of families, both being landed proprietors, each of whom saves yearly 1,000 thalers and has five sons. The one puts out his savings at interest, and keeps his sons at common hard work, while the other employs his savings in educating two of his sons as skillful and intelligent landowners, and in enabling the other three to learn a trade after their respective tastes; the former acts according to the theory of values, the latter according to the theory of productive powers. The first at his death may prove much richer than the second in mere exchangeable value, but it is quite otherwise as respects productive powers. The estate of the latter is divided into two parts, and every part will by the aid of improved management yield as much total produce as the whole did before; while the remaining three sons have by their talents obtained abundant means of maintenance. The landed property of the former will be divided into five parts, and every part will be worked in as bad a manner as the whole was heretofore. In the latter family a mass of different mental forces and talents is awakened and cultivated, which will increase from generation to generation, every succeeding generation possessing more power of obtaining material wealth than the preceding one; while in the former family stupidity and poverty must increase with the diminution of the shares in the landed property. So the slaveholder increases by slave-breeding the sum of his values of exchange, but he ruins the productive forces of future generations. All expenditure in the instruction of youth, the promotion of justice, defence of nations, etc., is a consumption of present values for the behoof of the productive powers. The greatest portion of the consumption of a nation is used for the education of the future generation, for promotion and nourishment of the future national productive powers.

The Christian religion, monogamy, abolition of slavery and of vassalage, hereditability of the throne, invention of printing, of the press, of the postal system, of money, weights and measures, of the calendar, of watches, of police, the introduction of the principle of freehold property, of means of transport, are rich sources of productive power. To be convinced of this, we need only compare the condition of the European states with that of the Asiatic ones. In order duly to estimate the influence which liberty of thought and conscience has on the productive forces of nations, we need only read the history of England and then that of Spain. The publicity of the administration of justice, trial by jury, parliamentary legislation, public control of State administration, self-administration of the commonalities and municipalities, liberty of the press, liberty of association for useful purposes, impart to the citizens of constitutional states, as also to their public functionaries, a degree of energy and power which can hardly be produced by other means. We can scarcely conceive of any law or any public legal decision which would
not exercise a greater or smaller influence on the increase or decrease of the productive power of the nation.  

If we consider merely bodily labour as the cause of wealth, how can we then explain why modern nations are incomparably richer, more populous, more powerful, and prosperous than the nations of ancient times? The ancient nations employed (in proportion to the whole population) infinitely more hands, the work was much harder, each individual possessed much more land, and yet the masses were much worse fed and clothed than is the case in modern nations. In order to explain these phenomena, we must refer to the progress which has been made in the course of the last thousand years in sciences and arts, domestic and public regulations, cultivation of the mind and capabilities of production. The present state of the nations is the result of the accumulation of all discoveries, inventions, improvements, perfections, and exertions of all generations which have lived before us; they form the mental capital of the present human race, and every separate nation is productive only in the proportion in which it has known how to appropriate these attainments of former generations and to increase them by its own acquirements, in which the natural capabilities of its territory, its extent and geographical position, its population and political power, have been able to develop as completely and symmetrically as possible all sources of wealth within its boundaries, and to extend its moral, intellectual, commercial, and political influence over less advanced nations and especially over the affairs of the world.

The popular school of economists would have us believe that politics and political power cannot be taken into consideration in political economy. So far as it makes only values and exchange the subjects of its investigation, this may be correct; we can define the ideas of value and capital, profit, wages, and rent; we can resolve them into their elements, and speculate on what may influence their rising or falling, etc., without thereby taking into account the political circumstances of the nation. Clearly, however, these matters appertain as much to private economy as to the economy of whole nations. We have merely to consider the history of Venice, of the Hanseatic League, of Portugal, Holland, and England, in order to perceive what reciprocal influence material wealth and political power exercise on each other.

The school also always falls into the strangest inconsistencies whenever this reciprocal influence forces itself on their consideration. Let us here only call to mind the remarkable dictum of Adam Smith on the English Navigation Laws.

The popular school, inasmuch as it does not duly consider the nature of the powers of production, and does not take into account the condition of nations in their aggregate, disregards especially the importance of developing in an equal ratio agriculture, manufactures and commerce, political power and internal wealth, and disregards especially the value of a manufacturing power belonging specially to the nation and fully developed in all its branches. It commits the error of placing manufacturing power in the same category with agricultural power, and of speaking of labour, natural power, capital, etc., in general terms without considering the differences which exist between them. It does not perceive that between a State devoted merely to agriculture and a State possessing both agriculture and manufactures, a much greater difference exists than between a pastoral State and an agricultural one. In a condition of merely agricultural industry, caprice and slavery, superstition and ignorance, want of means of culture, of trade, and of transport, poverty and political weakness exist. In the merely agricultural State only the least portion of the mental and bodily powers existing in the nation is awakened and developed, and only the least part of the powers and resources placed by nature at its disposal can be made use of, while little or no capital can be accumulated.

Let us compare Poland with England: both nations at one time were in the same stage of culture, and now what a difference. Manufactories and manufactures are the mothers and children of municipal liberty, of intelligence, of the arts and sciences, of internal and external commerce, of navigation and improvements in transport, of civilization and political power. They are the chief means of liberating agriculture from its chains, and of elevating it to a commercial character and to a degree of art and science, by which the rents, farming, profits, and wages are increased, and greater value is given to landed property. The popular school has attributed this civilizing power to foreign trade but in that it has confounded the mere exchanger with the originator. Foreign manufactures furnish the goods for the foreign trade, which the latter conveys to us, and which occasion consumption of products and raw materials which we give in exchange for the goods in lieu of money payments.

If, however, trade in the manufactures of far distant lands exercises admittedly so beneficial an influence on our agricultural industry, how much more beneficial must the influence be of those manufactures which are bound with us locally, commercially, and politically, which not only take from us a small portion, but the largest portion of their requirements of food and of raw materials, which are not made dearer to us by great costs of transport, our trade in which cannot be
interrupted by the chance of foreign manufacturing nations learning to supply their own wants themselves, or by wars and prohibitory import duties?

We now see into what extraordinary mistakes and contradictions the popular school has fallen in making material wealth or value of exchange the sole object of its investigations, and by regarding mere bodily labour as the sole productive power.

The man who breeds pigs is, according to this school, a productive member of the community; but he who educates men is a mere non-productive. The maker of bagpipes or jews-harps for sale is a productive, while the great composers and virtuosos are non-productive simply because that which they play cannot be brought into the market. The physician who saves the lives of his patients does not belong to the productive class, but on the contrary the chemist’s boy does so, although the values of exchange (viz. the pills) which he produces may exist only for a few minutes before they pass into a valueless condition. A Newton, a Watt, or a Kepler is not so productive as a donkey, a horse, or draught-ox (a class of labourers who have been recently introduced by M’Culloch into the series of the productive members of human society).

We must not believe that J.B. Say has remedied this defect in the doctrine of Adam Smith by his notion of ‘immaterial goods’ or products; he has thus merely somewhat varnished over the folly of its results, but not raised it out of its intrinsic absurdity. The mental (immaterial) producers are merely productive, according to his views, because they are remunerated, with values of exchange, and because their attainments have been obtained by sacrificing value of exchange, and not because they produce productive power. They merely seem to him an accumulated capital. M’Culloch goes still further; he says that man is as much a product of labour as the machine which he produces, and it appears to him that in all economical investigations he must be regarded from this point of view. He thinks that Smith comprehended the correctness of this principle, only he did not deduce the correct conclusion from it. Among other things he draws the conclusion that eating and drinking are productive occupations. Thomas Cooper values a clever American lawyer at $3,000 dollars, which is about three times as much as the value of a strong slave.

The errors and contradictions of the prevailing school to which we have drawn attention, can be easily corrected from the standpoint of the theory of the productive powers. Certainly those who fatten pigs or prepare pills are productive, but the instructors of youths and of adults, virtuosos, musicians, physicians, judges, and administrators, are productive in a much higher degree. The former produce values of exchange, and the latter productive powers, some by enabling the future generation to become producers, others by furthering the morality and religious character of the present generation, a third by ennobling and raising the powers of the human mind, a fourth by preserving the productive powers of his patients, a fifth by rendering human rights and justice secure, a sixth by constituting and protecting public security, a seventh by his art and by the enjoyment which it occasions fitting men the better to produce values of exchange. In the doctrine of mere values, these producers of the productive power can of course only be taken into consideration so far as their services are rewarded by values of exchange; and this manner of regarding their services may in some instances have its practical use, as e.g., in the doctrine of public taxes, inasmuch as these have to be satisfied by values of exchange. But whenever our consideration is given to the nation (as a whole and in its international relations) it is utterly insufficient, and leads to a series of narrow-minded and false views.

The prosperity of a nation is not, as Say believes, greater, in the proportion in which it has amassed more wealth (i.e., values of exchange), but in the proportion in which it has more developed its powers of production. Although laws and public institutions do not produce immediate values, they nevertheless produce productive powers, and Say is mistaken if he maintains that nations have been enabled to become wealthy under all forms of government, and that by means of laws no wealth can be created. The foreign trade of a nation must not be estimated in the way in which individual merchants judge it, solely and only according to the theory of values (i.e., by regarding merely the gain at any particular moment of some material advantage); the nation is bound to keep steadily in view all these conditions on which its present and future existence, prosperity, and power depend.

The nation must sacrifice and give up a measure of material property in order to gain culture, skill, and powers of united production; it must sacrifice some present advantages in order to insure to itself future ones. If, therefore, a manufacturing power developed in all its branches forms a fundamental condition of all higher advances in civilization, material prosperity, and political power in every nation (a fact which, we think, we have proved from history); if it be true (as we believe we can prove) that in the present conditions of the world a new unprotected manufacturing power cannot possibly be raised up under free competition with a power which has long since grown in strength and is protected on its own territory; how can anyone possibly undertake to prove by arguments only based on the mere theory
of values, that a nation ought to buy its goods like individual merchants, at places where they are to be had the cheapest—that we act foolishly if we manufacture anything at all which can be got cheaper from abroad—that we ought to place the industry of the nation at the mercy of the self-interest of individuals—that protective duties constitute monopolies, which are granted to the individual home manufacturers at the expense of the nation? It is true that protective duties at first increase the price of manufactured goods; but it is just as true, and moreover acknowledged by the prevailing economical school, that in the course of time, by the nation being enabled to build up a completely developed manufacturing power of its own, those goods are produced more cheaply at home than the price at which they can be imported from foreign parts. If, therefore, a sacrifice of value is caused by protective duties, it is made good by the gain of a power of production, which not only secures to the nation an infinitely greater amount of material goods, but also industrial independence in case of war. Through industrial independence and the internal prosperity derived from it the nation obtains the means for successfully carrying on foreign trade and for extending its mercantile marine; it increases its civilisation, perfects its institutions internally, and strengthens its external power. A nation capable of developing a manufacturing power, if it makes use of the system of protection, thus acts quite in the same spirit as that landed proprietor did who by the sacrifice of some material wealth allowed some of his children to learn a productive trade.

Into what mistakes the prevailing economics school has fallen by judging conditions according to the mere theory of values which ought properly to be judged according to the theory of powers of production, may be seen very clearly by the judgment which J.B. Say passes upon the bounties which foreign countries sometimes offer in order to facilitate exportation; he maintains that 'these are presents made to our nation'. Now if we suppose that France considers a protective duty of 25 per cent sufficient for her not yet perfectly developed manufactures, while England were to grant a bounty on exportation of 30 per cent, what would be the consequence of the 'present' which in this manner the English would make to the French? The French consumers would obtain for a few years the manufactured articles which they needed much cheaper than hitherto, but the French manufactories would be ruined, and millions of men be reduced to beggary or obliged to emigrate, or to devote themselves to agriculture for employment. Under the most favourable circumstances, the present consumers and customers of the French agriculturists would be converted into competitors with the latter, agricultural production would be increased, and the consumption lowered. The necessary consequence would be diminution in value of the products, decline in the value of property, national poverty and national weakness in France. The English 'present' in mere value would be dearly paid for in loss of power; it would seem like the present which the Sultan is wont to make to his pashas by sending them valuable silken cords.

Since the time when the Trojans were presented by the Greeks with a wooden horse, the acceptance of 'presents' from other nations has become for the nation which receives them a very questionable transaction. The English have given the Continent presents of immense value in the form of subsidies, but the Continental nations have paid for them dearly by the loss of power. These subsidies acted like a bounty on exportation in favour of the English, and were detrimental to the German manufactories. If England bound herself today to supply the Germans gratuitously for years with all they required in manufactured articles we could not recommend them to accept such an offer. If the English are enabled through new inventions to produce linen 40 per cent cheaper than the Germans can by using the old process, and if in the use of their new process they merely obtain a start of a few years over the Germans in such a case, were it not for protective duties, one of the most important and oldest branches of Germany's industry will be ruined. It will be as if a limb of the body of the German nation had been lost. And who would be consoled for the loss of an arm by knowing that he had nevertheless bought his shirts 40 per cent cheaper?

If the English very often find occasion to offer presents to foreign nations, very different are the forms in which this is done; it is not infrequently done against their will, always does it behove foreign nations well to consider whether or not the present should be accepted. Through their position as the manufacturing and commercial monopolists of the world, their manufactories from time to time fall into the state which they call 'glut', and which arises from what they call 'overtrading'. At such periods everybody throws his stock of goods into the steamers. After the lapse of eight days the goods are offered for sale in Hamburg, Berlin, or Frankfort, and after three weeks in New York, at 50 per cent under their real value. The English manufacturers suffer for the moment, but they are saved, and they compensate themselves later on by better prices. The German and American manufacturers receive the blows which were deserved by the English—they are ruined. The English nation merely sees the fire and hears the report of the explosion; the fragments fall down in other countries, and if their inhabitants complain of bloody
heads, the intermediate merchants and dealers say, 'The crisis has done it all!' If we consider how often by such crises the whole manufacturing power, the system of credit, the agriculture, and generally the whole economical system of the nations who are placed in free competition with England, are shaken to their foundations, and that these nations have afterwards notwithstanding richly to recompense the English manufacturers by higher prices, ought we not then to become very skeptical as to the propriety of the commercial conditions of nations being regulated according to the mere theory of values and according to cosmopolitical principles? The prevailing economical school has never deemed it expedient to elucidate the causes and effects of such commercial crises.

The great statesmen of all modern nations, almost without exception, have comprehended the great influence of manufactures and manufactories on the wealth, civilization, and power of nations, and the necessity of protecting them. Edward III comprehended this like Elizabeth; Frederick the Great like Joseph II; Washington like Napoleon. Without entering into the depths of the theory, their foreseeing minds comprehended the nature of industry in its entirety; and appreciated it correctly. It was reserved for the school of physiocrats to regard this nature from another point of view in consequence of a sophistical line of reasoning. Their castle in the air has disappeared; the more modern economical school itself has destroyed it; but even the latter has also not disentangled itself from the original errors, but has merely advanced somewhat farther from them. Since it did not recognize the difference between productive power and mere values of exchange, and did not investigate the former independently of the latter, but subordinated it to the theory of values of exchange, it was impossible for that school to arrive at the perception how greatly the nature of the agricultural productive power differs from the nature of the manufacturing productive power. It does not discern that through the development of a manufacturing industry in an agricultural nation a mass of mental and bodily powers, of natural powers and natural resources, and of instrumental powers too (which latter the prevailing school terms 'capital'), is brought to bear, and brought into use, which had not previously been active, and would never have come into activity but for the formation and development of an internal manufacturing power; it imagines that by the establishment of manufacturing industry these forces must be taken away from agriculture, and transferred to manufacture, whereas the latter to a great extent is a perfectly new and additional power, which, very far indeed from increasing at the expense of the agricultural interest, is often the means of helping that interest to attain a higher degree of prosperity and development.

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Chapter 26: Customs Duties as a Chief Means of Establishing and Protecting the Internal Manufacturing Power

It is not part of our plan to treat of those means of promoting internal industry whose efficacy and applicability are nowhere called in question. To these belong, e.g., educational establishments (especially technical schools), industrial exhibitions, offers of prizes, transport improvements, patent laws, etc.; in short, all those laws and institutions by means of which industry is furthered, and internal and external commerce facilitated and regulated. We have here merely to speak of the institution of customs duties as a means for the development of industry.

According to our system, prohibitions of, or duties on, exports can only be thought of as exceptional things; the imports of natural products must everywhere be subject to revenue duties only, and never to duties intended to protect native agricultural production. In manufacturing states, articles of luxury from warm climates are chiefly subject to duties for revenue, but not the common necessities of life, as e.g., corn or fat cattle; but the countries of warmer climate or countries of smaller population or limited territory, or countries not yet sufficiently populous, or such as are still far behind in civilization and in their social and political institutions, are those which should only impose mere revenue duties on manufactured goods.

Revenue duties of every kind, however, should everywhere be so moderate as not essentially to restrict importation and consumption; because, otherwise, not only would the internal productive power be weakened, but the object of raising revenue be defeated.

Measures of protection are justifiable only for the purpose of furthering and protecting the internal manufacturing power, and only in the case of nations which through an extensive and compact territory, large population, possession of natural resources, far advanced agriculture, a high degree of civilization and political development, are qualified to maintain an equal rank with the principal agricultural manufacturing commercial nations, with the greatest naval and military powers.
Protection can be afforded, either by the prohibition of certain manufactured articles, or by rates of duty which amount wholly, or at least partly, to prohibition, or by moderate import duties. None of these kinds of protection are invariably beneficial or invariably objectionable; and it depends on the special circumstances of the nation and on the condition of its industry which of these is the right one to be applied to it.

War exercises a great influence on the selection of the precise system of protection, inasmuch as it affects a compulsory prohibitory system. In time of war, exchange between the belligerent parties ceases, and every nation must endeavour, without regard to its economical conditions, to be sufficient to itself. Hence, on the one hand, in the less advanced manufacturing nations commercial industry; on the other hand, in the most advanced manufacturing nation agricultural production, becomes stimulated in an extraordinary manner, indeed to such a degree that it appears advisable to the less advanced manufacturing nation (especially if war has continued for several years) to allow the exclusion which war has occasioned of those manufactured articles in which it cannot yet freely compete with the most advanced manufacturing nation, to continue for some time during peace.

France and Germany were in this condition after the general peace. If in 1815 France had allowed English competition, as Germany, Russia, and North America did, she would also have experienced the same fate; the greatest part of her manufactories which had sprung up during the war would have come to grief; the progress which has since been made in all branches of manufacture, in improving the internal means of transport, in foreign commerce, in steam river and sea navigation, in the increase in the value of land (which, by the way, has doubled in value during this time in France), in the augmentation of population and of the State’s revenues, could not have been hoped for. The manufactories of France at that time were still in their childhood; the country possessed but few canals; the mines had been but little worked; political convulsions and wars had not yet permitted considerable capital to accumulate, sufficient technical cultivation to exist, a sufficient number of really qualified workmen or an industrial and enterprising spirit to have been called into existence; the mind of the nation was still turned more towards war than towards the arts of peace; the small capital which a state of war permitted to accumulate, still flowed principally into agriculture, which had declined very much indeed. Then, for the first time, could France perceive what progress England had made during the war; then, for the first time, was it possible for France to import from England machinery, artificers, workmen, capital, and the spirit of enterprise; then, to secure the home market exclusively for the benefit of home industry, demanded the exertion of her best powers, and the utilisation of all her natural resources. The effects of this protective policy are very evident; nothing but blind cosmopolitanism can ignore them, or maintain that France would have, under a policy of free competition with other nations, made greater progress. Does not the experience of Germany, the United States of America, and Russia, conclusively prove the contrary?

If we maintain that the prohibitive system has been useful to France since 1815, we do not by that contention wish to defend either her mistakes or her excess of protection, nor the utility or necessity of her continued maintenance of that excessive protective policy. It was an error for France to restrict the importation of raw materials and agricultural products (pig-iron, coal, wool, corn, cattle) by import duties; it would be a further error if France, after her manufacturing power has become sufficiently strong and established, were not willing to revert gradually to a moderate system of protection, and by permitting a limited amount of competition incite her manufacturers to emulation.

In regard to protective duties it is especially important to discriminate between the case of a nation which contemplates passing from a policy of free competition to one of protection, and that of a nation which proposes to exchange a policy of prohibition for one of moderate protection; in the former case the duties imposed at first must be low, and be gradually increased, in the latter they must be high at first and be gradually diminished.

A nation which has been formerly insufficiently protected by customs duties, but which feels itself called upon to make greater progress in manufactures, must first of all endeavour to develop those manufactures which produce articles of general consumption. In the first place the total value of such industrial products is incomparably greater than the total value of the much more expensive fabrics of luxury. The former class of manufactures, therefore, brings into motion large masses of natural, mental, and personal productive powers, and gives—by the fact that it requires large capital—inducements for considerable saving of capital, and for bringing over to its aid foreign capital, and powers of all kinds. The development of these branches of manufacture thus tends powerfully to promote the increase of population, the prosperity of home agriculture, and also especially the increase of the trade with foreign countries, inasmuch as less cultivated countries chiefly require manufactured goods of common use, and the countries of temperate climates are
principally enabled by the production of these articles to carry on direct interchange with the countries of tropical climates. A country, e.g., which has to import cotton yarns and cotton goods cannot carry on direct trade with Egypt, Louisiana, or Brazil, because it cannot supply those countries with the cotton goods which they require, and cannot take from their raw cotton. Furthermore, these articles, on account of the magnitude of their total value, serve especially to equalize the exports of the nation tolerably well with its imports, and always to retain in the nation the amount of circulating medium which it requires, or to provide it with the same. Thus it is by the prosperity and preservation of these important branches of industry that the industrial independence of the nation is gained and maintained, for the disturbance of trade resulting from wars is of little importance if it merely hinders the purchase of expensive articles of luxury, but on the other hand, it always occasions great calamities if it is attended by scarcity and rise in price of common manufactured goods, and by the interruption of a previously considerable sale of agricultural products. Finally, the evasion of customs duties by smuggling and false declarations of value is much less to be feared in the case of these articles, and can be much more easily prevented than in the case of costly fabrics of luxury.

Manufactures and manufactories are always plants of slow growth, and every protective duty which suddenly breaks off formerly existing commercial connections must be detrimental to the nation for whose benefit it is professionally introduced. Such duties ought only to be increased in the ratio in which capital, technical abilities, and the spirit of enterprise are increasing in the nation or are being attracted to it from abroad, in the ratio in which the nation is in a condition to utilise for itself its surplus of raw materials and natural products which it had previously exported. It is, however, of special importance that the scale by which the import duties are increased should be determined beforehand, so that an assured remuneration can be offered to the capitalists, artificers, and workmen, who are found in the nation or who can be attracted to it from abroad. It is indispensable to maintain these scales of duty inviolably, and not to diminish them before the appointed time, because the very fear of any such breach of promise would already destroy for the most part the effect of that assurance of remuneration.

To what extent import duties should be increased in the case of a change from free competition to the protective system, and how much they ought to be diminished in the case of a change from a system of prohibition to a moderate system of protection, cannot be determined theoretically; that depends on the special conditions as well as on the relative conditions in which the less advanced nation is placed in relation to the more advanced ones. The United States of North America, e.g., have to take into special consideration their exports of raw cotton to England, and of agricultural and maritime products to the English colonies, also the high rate of wages existing in the United States; whereby they again profit by the fact that they can depend more than any other nation on attracting to themselves English capital, artificers, men of enterprise, and workmen.

It may in general be assumed that where any technical industry cannot be established by means of an original protection of 40 to 60 per cent and cannot continue to maintain itself under a continued protection of 20 to 30 per cent the fundamental conditions of manufacturing power are lacking.

The causes of such incapacity can be removed more or less readily: to the class more readily removable belong want of internal means of transport, want of technical knowledge, of experienced workmen, and of the spirit of industrial enterprise; to the class which it is more difficult to remove belong the lack of industrious disposition, civilization, education, morality, and love of justice on the part of the people; want of a sound and vigorous system of agriculture, and hence of material capital; but especially defective political institutions, and want of civil liberty and of security of justice; and finally want of compactness of territory, whereby it is rendered impossible to put down contraband trade.

Those industries which merely produce expensive articles of luxury require the least consideration and the least amount of protection; firstly, because their production requires and assumes the existence of a high degree of technical attainment and skill; secondly, because their total value is inconsiderable in proportion to that of the whole national production, and the imports of them can be readily paid for by means of agricultural products and raw materials, or with manufactured products of common use; further, because the interruption of their importation occasions no important inconvenience in time of war; lastly, because high protective duties on these articles can be most readily evaded by smuggling.

Nations which have not yet made considerable advances in technical art and in the manufacture of machinery should allow all complicated machinery to be imported free of duty, or at least only levy a small duty upon them, until they themselves are in a position to produce them as readily as the most advanced nation. Machine manufactories are in a certain sense the manufacturers of manufactories, and every tax on the importation of foreign machinery is a restriction on the internal manufacturing power. Since it is, however,
of the greatest importance, because of its great influence on the whole manufacturing power, that the nation should not be dependent on the chances and changes of war in respect of its machinery, this particular branch of manufacture has very special claims for the direct support of the State in case it should not be able under moderate import duties to meet competition. The State should at least encourage and directly support its home manufactories of machinery, so far as their maintenance and development may be necessary to provide at the commencement of a time of war the most necessary requirements, and under a longer interruption by war to serve as patterns for the erection of new machine factories.

Drawbacks can according to our system only be entertained in cases where half-manufactured goods which are still imported from abroad, as for instance cotton yarn, must be subjected to a considerable protective duty in order to enable the country gradually to produce them itself.

Bounties are objectionable as permanent measures to render the exports and the competition of the native manufactories possible with the manufactories of further advanced nations in neutral markets; but they are still more objectionable as the means of getting possession of the inland markets for manufactured goods of nations which have themselves already made progress in manufactures. Yet there are cases where they are to be justified as temporary means of encouragement, namely where the slumbering spirit of enterprise of a nation merely requires stimulus and assistance in the first period of its revival, in order to evoke in it a powerful and lasting production and an export trade to countries which themselves do not possess flourishing manufactories. But even in these cases it ought to be considered whether the State would not do better by making advances free of interest and granting special privileges to individual men of enterprise, or whether it would not be still more to the purpose to promote the formation of companies to carry into effect such primary experimental adventures, to advance to such companies a portion of their requisite share capital out of the State treasury, and to allow to the private person staking shares in them a preferential interest on their invested capital. As instances of the cases referred to, we may mention experimental undertakings in trade and navigation to distant countries, to which the commerce of private persons has not yet been extended; the establishment of lines of steamers to distant countries; the founding of new colonies, etc.

Notes

1. This is true respecting Spain up to the period of her invasion by Napoleon, but not subsequently. Our author's conclusions are, however, scarcely invalidated by that exception.—TR.

2. Say states in his *Économie Politique Pratique*, vol. iii., p. 242, 'Les lois ne peuvent pas créer des richesses.' Certainly they cannot do this, but they create productive power, which is more important than riches, i.e., than possession of values of exchange.


4. From the great number of passages wherein J.B. Say explains this view, we merely quote the newest—from the sixth volume of *Économie Politique Pratique*, p. 307: 'Le talent d'un avocat, d'un médecin, qui a été acquis au prix de quelque sacrifice et qui produit un revenu, est une valeur capitale, non transmissible à la vérité, mais qui est à n'aimer dans un corps visible, celui de la personne qui le possède.'

5. See Appendix A.