

Essay on the Application of Capital to Land

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1815

Essay on the Application of Capital to Land, with Observations shewing the Impolicy of any great restriction of the importation of corn, and that the bounty of 1688 did not lower the price of it.

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The chief object of this essay is the publication of a principle in political economy, which occurred to me some years ago; and which appears to me to solve many difficulties in the science, which I am at a loss otherwise to explain.

On reading lately the reports of the corn committees, I found my opinion respecting the existence of this principle confirmed by many of the witnesses, whose evidence is there detailed. This circumstance and the importance of the principle to a correct understanding of many parts of the corn question, have induced me to hazard this publication before the meeting of parliament, though in a much less perfect shape than I think it would have assumed had I been less limited in point of time. I shall first proceed to prove this principle, and shall then shew some of the consequences which flow from it.

The principle is simply this, that in the progress of the improvement of cultivation the raising of rude produce becomes progressively more expensive, or, in other words, the ratio of the net produce of land to its gross produce is continually diminishing.

By the gross produce I mean, of course, the whole produce without any reference to the expense of production; by the net produce, that which remains of the gross produce after replacing the expense of production.

In the progress of cultivation both the gross produce and the net produce must be constantly increasing; for additional expense or capital would not be laid out on land, unless it would reproduce not only sufficient to replace the capital laid out, but also some increase or profit on that capital, which increase or profit is the net produce. but the proposition is, that every additional quantity of capital laid out produces a less proportionate return, and consequently, the larger the capital expended, the less the ratio of the profit to that capital. Thus suppose any quantity of land such that 100 l. capital laid out on it would reproduce 120 l. that is 20 per cent profit, I say that a double capital, viz. 200 l. would not produce 240 l. or 20 per cent profit, but probably 230 l. or some less sum than 240 l. The amount of the profit would no doubt be increased, but the ratio of it to the capital would be diminished.

It is a fact acknowledged by all writers on political economy, that in the progress of improvement of any country, the productive powers of labour in agriculture improve less rapidly than the productive powers of labour in manufactures; or rather to express the same proposition more accurately, the productive powers of labour in raising rude produce improve less rapidly than the effective powers of labour in manufacturing it. This

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phenomenon has hitherto been accounted for solely by the impossibility of carrying the subdivision of labour, and the consequent introduction of machinery, so far in agriculture as in manufactures. "The nature of agriculture," says the author of the Wealth of Nations, "does not admit of so many subdivisions of labour, nor of so complete a separation of one business from another, as manufactures. It is impossible to separate so entirely the business of the grazier from that of the corn farmer, as the trade of the carpenter is commonly separated from that of the smith. The spinner is almost always a distinct person from the weaver; but the ploughman, the harrower, the sower of the seed, and the reaper of the corn, are often the same. The occasions for those different sorts of labour returning with the different seasons of the year, it is impossible that one many should be constantly employed in any one of them. This impossibility of making so complete and entire a separation of all the different branches of labour employed in agriculture, is perhaps the reason why the improvement of the productive powers of labour in this art, does not always keep pace with their improvement in manufactures. The most opulent nations, indeed, generally excel all their neighbours in agriculture as well as manufactures; but they are commonly more distinguished by their superiority in the latter than in the former. Their lands are in general better cultivated, and having more labour and expense bestowed upon them, produce more in proportion to the extent and natural fertility of the ground. But this superiority of produce is seldom much more than in proportion to the superiority of labour and expense. In agriculture, the labour of the rich country is not always much more productive than that of the poor, at least, it is never so much more productive as it commonly is in manufactures. The corn of the rich country, therefore, will not always, in the same degree of goodness, come cheaper to market than that of the poor. The corn of Poland, in the same degree of goodness, is as cheap as that of France, notwithstanding the superior opulence and improvement of the latter country. The corn of France is, in the corn provinces, fully as good, and in most years nearly about the same price with the corn of England: though, in opulence and improvement, France is perhaps inferior to England. The corn lands of England, however, are better cultivated than those of France, and the corn lands of France are said to be much better cultivated than those of Poland. But though the poor country, notwithstanding the inferiority of its cultivation, can, in some measure, rival the rich in the cheapness and goodness of its corn, it can pretend to no such competition in its manufactures; at least, if those manufactures suit the soil, climate, and situation of the rich country."(1*)

The impossibility here stated of increasing so much in agriculture as in manufactures by the division of labour, and by machinery, the quantity of work done by any given number of hands, would indisputably account for a retardation of the improvement of the former when compared with the latter. But this, it is necessary to observe, would account for a comparative retardation only; for the effects of the subdivision of labour and the application of machinery are considerable even in agriculture; and would greatly improve the productive powers of labour in that art as well as in manufactures, were it not for another principle, which has escaped the attention of Dr Smith, and which has a positive operation in checking the improvement of those powers in agriculture; which principle may, according to the degree in which it acts, either merely retard, or altogether

stop, such improvement; or even render the powers of labour actually less productive as cultivation advances.

Dr Smith's principle is, that the quantity of work which can be done by the same number of hands, increases in the progress of improvement comparatively less rapidly in agriculture than in manufactures. The additional principle to which I allude is, that each equal additional quantity of work bestowed on agriculture, yields an actually diminished return,^(2*) and of course if each additional quantity of work yields an actually diminished return, the whole of the work bestowed on agriculture in the progress of improvement, yields an actually diminished proportionate return. Whereas it is obvious that an equal quantity of work will always fabricate the same quantity of manufactures.

Lay aside for a moment the consideration of the subdivision of labour and machinery, and suppose that each workman independently could do as much work as each in association. In such a state of things, such manufactures as were made would be constantly in the progress of improvement, made with equal labour, and the increase of their quantity (supposing the price of rude produce to be given), would be exactly proportioned to the labour bestowed in fabricating them. A million of men would make neither more nor less in proportion to their number than one. but would this be the case in agriculture? Consider the case of a new colony; the first occupiers have their choice of the land, and of course cultivate the richest spots in the country: the next comers must take the second in quality, which will return less to their labour, and so each successive additional set of cultivators must necessarily produce less than their predecessors.

Again, look to the history of agriculture, from its first rude beginning, immediately after the pastoral state when almost the whole of the produce was still spontaneous, to the state of perfection at which it has arrived in this country, in which the mode of culture has approximated to gardening.

In the pastoral state, the only labour of the tribe is that of tending their cattle and driving them to fresh pastures from those which they have exhausted; the flocks multiply without trouble, and are maintained by the spontaneous produce of the soil. As population advances it is necessary to have recourse to agriculture; in this state somewhat more labour is necessary to support even the same number of mouths; but yet it is at first small if compared with the quantity of produce; the cultivators till successively the richest spots, which yield profuse returns to the slight cultivation which is bestowed upon them; and the cattle which share with man the labours of the field, wander over immense tracts, fed as in the pastoral state, by the spontaneous productions of nature. As each cultivator is driven into a narrower compass by the pressure of population, he is obliged to till soils which are comparatively ungrateful and exhausted: the cattle are fed on artificial grasses; and expensive manures are brought from a distance to enable the land to yield successive crops, instead of being left, when exhausted, as in the earlier stages of improvement, to renovate itself. This mode of proof, however, to render it complete, would require more space than the limits of this essay would allow, and a greater accumulation of facts than I can at present collect. I shall therefore attempt a briefer demonstration of the principle.

The additional work bestowed upon land must be expended either in bringing fresh land into cultivation, or in cultivating more highly that already in tillage. In every country the gradations between the richest land and the poorest, must be

innumerable. The richest land, or that most conveniently situated for a market, or, in a word, that which, on account of its situation and quality combined, produces the largest return to the expense bestowed on it, will of course be cultivated first,^(3*) and when in the progress of improvement new land is brought into cultivation, recourse is necessarily had to poor land, or to that at least which is second in quality to what is already cultivated. It is clear that the additional work bestowed in this case will bring a less return than the work bestowed before. And the very fact that in the progress of society new land is brought into cultivation proves that additional work cannot be bestowed with the same advantage as before on the old land. For 100 acres of the rich land will, of course, yield a larger return to the work of 10 men, than 100 acres of inferior land will do, and if this same rich land would continue to yield the same proportionate return to the work of 20 and 30 and 100 as it did to that of 10 labourers, the inferior land would never be cultivated at all. That this diminution of the return of the soil to the additional expense bestowed on it takes place gradually, may also be proved by the same reasoning.

The gradations of the quality of the soil must be infinite. Suppose any country to contain one million acres of land, which return 20 per cent net profit to a certain capital, say ten million bestowed on it; another million acres which returns but 19 per cent, or suppose a farm containing 10 acres, which return 20 per cent net profit to 100 l. bestowed on it, 10 acres which return 19 per cent to the same capital, and so on, as in the following table.

Acres	Capital	Net Profit
10	100	20
10	100	19
10	100	18
10	100	17, etc.

The 10 acres returning 20 per cent would be first cultivated, and we have proved that the same 10 acres would not return 20 per cent on each successive 100 l. bestowed on it; for if it did, as I have shown, no part of the other land would ever be cultivated. But should the additional capital bestowed on the first 10 acres produce less than 19 per cent the capital would not be bestowed on the first 10 acres but on the second 10 acres. Or, in short, generally, if the best land already in cultivation would not return so much to the additional capital as to the capital already bestowed on it, by any great difference, such additional capital would not be expended on the best land, but on that next in quality to the best, and which, from the infinite number of gradations of the quality of the soil, must be removed at the least possible distance from the best.

It appears, therefore, that in the progress of improvement an equal quantity of work extracts from the soil a gradually diminishing return; and that, therefore, the whole quantity of work bestowed on land in the progress of improvement, extracts from the soil a gradually diminishing proportionate return. But the quantity of work which can be done by a given number of hands is increased in the progress of improvement, by means of the subdivision of labour and machinery even in agriculture. Such increase then of the quantity of work which can be performed by the same number of hands in agriculture, may either more than compensate, or just compensate, or fall short of compensating the diminution of the return of the same quantity of work. In the first of which cases labour in agriculture would become

absolutely more productive; in the second would remain always equally productive; in the last would become absolutely less productive. Thus say in any given stage of improvement ten hands will perform the same quantity of work as twenty would have performed at any given anterior period. Now if this same quantity of work will extract from the soil in the later period more than half what it would have extracted in the earlier, the same number of hands will produce more in the latter than in the former period; and labour in agriculture will, of course, have become absolutely more productive: if the same quantity of work will extract just half in the latter period of what it did in the former, labour will be equally productive; if less than half it will have become absolutely less productive. Now that neither of the two first suppositions can be the fact will be clear from a moment's consideration. If either of them were the fact, as we know that labour becomes actually more productive in manufactures, the wealth and stock of the community in the progress of improvement and population would go on, not only increasing, but increasing in a rapidly accelerated ratio. The reproduction of the country would not only each year be larger in amount than in the preceding year, but the ratio of that reproduction to the capital would not only each year be greater. Population would double with more ease in such a country in twenty-five years than it does in America in the same period; and an acre of land would, in a subsequent stage of improvement, more easily maintain a thousand, or any number of labourers, however great, than it could one in a former stage.

But let us, notwithstanding, suppose that the first of these three hypotheses were the fact, namely, that labour in agriculture becomes in the progress of improvement absolutely more productive; and let us consider more minutely what would be the immediate consequence of such a state of things, and as labour in manufactures we have already seen, becomes in the progress of improvement more productive, let us suppose the effective powers of labour in all employments, both in raising rude produce and in manufacturing it to be doubled. It is obvious that the profits of stock would, in this case, be doubled; even allowing the wages of labour to be doubled at the same time; for by the productive powers of labour being doubled the net produce would be doubled as well as the gross produce. There would be just twice as much of every article both of rude produce and manufactures as before. and, though no article would exchange for more of any other than before, yet, as every person in the community would have twice as much of the particular article in which he might deal, his command over every article would be doubled. If there were only the same quantity of money in the country as before, things would fall to half their money price, and neither the money profits of stock nor the money wages of labour would at first be increased, but by the favourable exchange, which such increased cheapness of commodities would produce, bullion would be imported till there were money enough to circulate the increased quantity of articles, and the wages of labour, and profits of stock, would then be increased in their money value as well as their real value.

But next let us suppose a case in which the powers of labour remain equally productive in agriculture, having become doubly effective in manufactures. Every article of manufactures is now reduced one-half in price compared with rude produce, but bears the same ratio towards all the rest of manufactures as before, and consequently exchanges for neither more nor less of such manufactures than before. But every manufacturing capitalist

having doubled the production of the particular article in which he deals, has double the command over all manufactures, and the same command over rude produce that he had before. His real profit is therefore increased. The agriculturist has also double the command of all manufactures that he had before, and the same command of rude produce. The real profits therefore of all capital are increased, and this would be followed as before by an increase in the money profits.

The same reasoning would apply of course to the above cases, if the effective powers of labour were increased in any less degree than I have supposed, though the increase of profit would not of course be so great. The difference would be merely in degree, not in principle. It follows therefore that if the powers of labour in agriculture were either to advance or remain stationary, the profits of stock must constantly rise in the progress of improvement.

But suppose thirdly, that the productive powers of labour decrease in agriculture, whilst they increase in manufactures; and say the habits and wants of the society and the powers of labour are such, that half of the capital of the country is employed in agriculture and half in manufactures.

And first suppose that whilst the powers of labour double in manufactures, those powers become less productive by half in agriculture: -- the manufacturing capitalist would now have double the command that he had before over manufactures; but only half the command that he had before over rude produce: and therefore on the whole he would have no additional command over the aggregate of commodities, and his profit would remain the same as before. The same would be the case also with the agriculturist. If this supposition then were the fact, the profits of stock would always continue the same in the progress of improvement.

And without tracing the same process again, it is evident that if the decrease of the powers of labour in agriculture should be greater than the increase of those powers in manufactures, the profits of stock must diminish. But to consider the case of a diminution of the powers of labour in agriculture, accompanying an increase of those powers in manufactures in a different light: -- Suppose that the habits and wants of the people of any country are such in any given state of the productive powers of labour, that half their capital is employed in agriculture and half in manufactures. Suppose then that in the progress of improvement the capital in manufactures becomes more productive, the capital in agriculture less so. If the capital which can now be spared from manufactures on account of the increase of the effective powers in them, will raise as much rude produce as to compensate for the diminution of the productive powers in agriculture, the profits of the stock of the society will remain the same as before. But if the spare manufacturing capital will not compensate the defective powers of production in agriculture, the profits of the stock of society must diminish. But which of these conclusions is really the fact? Do the profits of stock increase, remain stationary, or decrease in the progress of improvement?

It is an acknowledged fact that the profits of stock are always lower in a rich than in a poor country; and that they gradually fall as a nation becomes more wealthy. This is evidenced as well by our own history as by that of every other country, in which the state and progress of commercial capital have been observed -- (See *Wealth of Nations*, Book I. c. 9) It follows therefore that labour cannot be always equally productive

in agriculture in the progress of improvement; and a fortiori, that they must become gradually less productive in the progress of improvement. And not only less productive, but so much less productive that the continual increase of the effective powers of labour in manufactures does not compensate for their continued diminution in agriculture. For if it were not so, the profits of stock would, as I have just proved, become continually higher in the progress of improvement. In the above argument I have supposed the wages of labour to vary with the productive powers of that labour; that is, that the more labour produces the better it will be paid. That this is nearly the case, I shall prove presently; but it will be sufficient for the present to shew that it is impossible wholly to account for the progressive diminution of the profits of stock by any increase of the wages of labour. And for this purpose I shall briefly recapitulate the above argument. It is a known fact, as I have stated, that the profits of stock diminish in the progress of wealth and improvement, but the profits of stock are the net reproduction of stock, which can be diminished in two ways only, namely, either by a diminution of the powers of production, or by an increase of the expense of maintaining those powers, that is, by an increase of the real wages of labour. That the real wages of labour cannot increase so as to account for this diminution of the net reproduction, is clear from this, that if it were so, the real wages of labour would be constantly and greatly increasing in the progress of wealth and improvement; and population would consequently increase more and more rapidly in the progress of improvement, the contrary of which we know to be the fact.

As therefore the diminution of the net reproduction is not wholly, at least, caused by the increasing wages of labour, that is, the expense of maintaining the productive powers; it must be caused partly, at least by a diminution of those powers. But the productive powers in manufactures, as has been shewn, are constantly increasing, and the diminution of the net reproduction or the profits of stock must therefore necessarily be caused by a diminution of the productive powers in agriculture. But though it appears to me to be self-evident that the profits of stock or the net reproduction of stock cannot be diminished by any other means than the two I have mentioned, namely, an increased expense of maintaining the productive powers, and a diminution of those powers, yet it may be right to notice that Dr Smith has attributed the fact of the gradual diminution of the profits of stock to a very different cause.

"The increase", says Dr Smith, "of stock which raises wages tends to lower profit. When the stocks of many rich merchants are turned into the same trade, their mutual competition naturally tends to lower its profit, and when there is a like increase of stock in all the different trades carried on in the same society, the same competition must produce the same effect in them all." Book I, c. viii, p. 133.

Smith therefore attributes this decline in the rate of profit to increased competition. But the slightest consideration will detect the fallacy of this opinion. If the capital employed in one branch of trade alone be increased, doubtless the increased competition of the dealers in that branch will lower the price of their articles, and consequently the profits of those dealers. But why is the price lowered except because that article is now more abundant than others, and could not be sold without such diminution of price. But if the capital in all the different branches of trade, and consequently the quantity of all the articles of those respective trades be increased in the same

degree, the same ratio between each and all the rest remains, and each article must sell for the same real prices as it fetched before. If the competition be increased in any one article, it for the same reason is increased in all; and as it exists in the same degree in each, it cannot alter the real price of any one. It is only the relative alteration of the demand and supply which can increase the price, and here there is no such alteration.

The money price of all articles would no doubt be diminished, and therefore the money profits of stock; but this would not lower the real price of those articles, nor the real profits; even the money price would soon be raised to a level with the real price, by a favourable balance of trade and the consequent introduction of bullion. Still, however, it may be said as before, that such competition may lower the profits by an increased demand for workmen, and a consequent rise of wages.

We return then to the old question, whether the diminution of the profits of stock in the progress of improvement can be caused by the increased of the wages of labour. Now, 1st, If such were the fact, how comes it that both the wages of labour and profits of stock are high at the same moment in America. The wages of labour being higher in America than in this country, if the rise of the wages of labour were the only reason of the diminution of the profits of stock, the profits of stock in America should be lower than they are here. But we know that they are much higher.

To enter a little more particularly into the subject of the wages of labour, they, like the price of every thing else, must depend on the supply and demand. The supply of course depends on the amount of the population; the demand depends, as Dr Smith states, on the amount of the stock of the country.(4*) If then the stock increase faster than the population, the demand increases faster than the supply, and wages must rise; if the stock and population increase equally, wages will remain stationary; and if population increase more rapidly than the stock, wages must fall.

It is not the amount then of the stock of a country which causes high wages;(5*) for if the stock of a country be stationary, whatever be its amount, population will soon increase up to the most scanty subsistence which such stock can afford. Other circumstances beside the amount of stock may, no doubt, influence the wages of labour; but I am not considering merely what effect the quantity of stock may have on the wages of labour; and other circumstances must of course be excluded from consideration, or taken in mathematical language to be given.

Nor is it the greatness of the increase alone of stock which causes high wages, but it is the greatness of the ratio of the increase.

Thus suppose a country with 100 millions increasing its stock annually to the amount of a million, the increase would be as 1 to 100; and the increase of the wages of labour would be but $1/100$.

But suppose a country with stock amounting to 10 millions, and an annual increase of half a million, though the actual increase in the wages of labour would be a half-tenth or one-twentieth. But it must be observed, that supposing a country to be always equally parsimonious, it is upon the rate of profit that the rate of the increase of its stock depends; for the profits of stock, and the greater therefore the profits of stock, if the country be equally parsimonious, the greater the rate of the increase of stock.

And it follows that in such a country the greater the profits of stock, the higher will be the wages of labour, and vice versa.

That the demand for labour would be greatest when most could be made of it, that is, when the profits of stock were high, and least when those profits were low, appears too plain to have required proving, and I should not have dwelt on this subject of wages had not Dr Smith, in spite of his clear statement of the subject of wages in the 8th chapter, seemed to maintain an opposite opinion. "The rise and fall in the profits of stock," says Dr Smith "depend on the same causes with the rise and fall in the wages of labour, the increasing or declining state of the wealth of the society, but those causes effect the one and the other very differently. The increase of stock which raises wages tends to lower profits." -- book I, c. 9, p. 133. Dr Smith seems therefore, here to think that the profits of stock and wages of labour vary inversely as each other, the contrary of which I think I have proved to be the fact.

I will now recapitulate shortly the whole of the above arguments.

The division of labour and application of machinery render labour more and more productive in manufactures, in the progress of improvement; the same causes tend also to make labour more and more productive in agriculture in the progress of improvement. But another cause, namely, the necessity of having recourse to land inferior to that already in tillage, or of cultivating the same land more expensively, tends to make labour in agriculture less productive in the progress of improvement. And the latter cause more than counteracts the effects of machinery and the division of labour in agriculture; because, otherwise agricultural labour would either become more productive, or remain equally productive, in the progress of improvement.

In either of which cases, since labour in manufactures becomes more productive, all labour would become more productive, and the profits of stock, which are the net reproduction, would, of course, rise in the progress of improvement. But the profits of stock are known to fall in the progress of improvement, and therefore, neither of the two first suppositions is the fact, and labour in agriculture must, in the progress of improvement, become actually less productive. It is then shewn that this effect cannot be produced by a rise in the real wages of labour.

The powers of labour therefore, in agriculture, becoming less productive, and the diminished expense of maintaining those powers not compensating such decreased productiveness, which appears from the progressive fall of the profits of stock, the whole produce of land, and consequently the net produce, must diminish in proportion to the expense of production; and the ratio of the net produce to the gross must diminish in the progress of improvement.

I have endeavoured, therefore, to prove the principle which it was my object to prove theoretically, and to account for it as I proceeded in the proof. But I need not this reasoning for the purpose of substantiating the fact, that the ratio of the net produce to the gross produce of land gradually diminishes in the progress of improvement.

Smith has stated, and certainly correctly, that the natural rent of land is always that part of the net produce of land which remains after payment of the common profits of stock on the tenants's capital. -- Book I, c. 11, p. 223.

If then the ratio of the rent of land to the tenant's capital be gradually diminishing in the progress of improvement, the profits of stock remaining the same, the ratio of the net produce to the capital, and consequently to the gross produce of land, must also be gradually diminishing in the progress of

improvement. A fortiori must this follow, if, as it has been stated, the profits of stock also gradually diminish in the progress of improvement.

Now it is a commonly observed fact, and one which appears in almost every page of the Reports of the corn committees, that the ratio of the rent to the gross produce is much less at the present moment in this country than it was twenty years ago, that where twenty years ago rent was one-third of the gross produce, it is now one-fifth, or between one-fourth and one-fifth. This, it may be said, is attributable to the increased burthens on the land, to the poor rates and taxes. It is certainly possible that this may have had some effect in producing this alteration of ratio between the rent and gross produce. However be this as it may, the witnesses who speak to this fact of the ratio of the rent to the gross produce having declined, attribute it expressly to the more expensive mode of cultivation now adopted in order to increase the produce, and not to the taxes or rates. Thus in p. 41, of the Lords' Report, the witness says, that, "where estates are in a very high cultivation, the share of the gross produce obtained as rent by the landlord is less than where estates are in a very high cultivation, the share of the gross produce obtained as rent by the landlord is less than where estates are more imperfectly cultivated." And this is the language of (6*) all the witnesses before the corn committees; they are unanimous in their opinion that where lands are in a high state of cultivation the rent bears a less ratio to the gross produce than where they are less expensively tilled.

Dr Smith seems in one passage to have been aware of this fact of the diminution of the ratio of rent to the gross produce in the progress of improvement.

"in the present state of Europe," says he, "the share of the landlord seldom exceeds a third, sometimes not a fourth part of the whole produce of the land. The rent of land, however, in all the improved parts of the country has been tripled and quadrupled since these ancient times, and this third or fourth part of the annual produce is, it seems, three or four times greater than the whole had been before. In the progress of improvement, rent, though it increases in proportion to the extent, diminishes in proportion to the produce of the land." (See Smith, vol. ii, p. 8, b. 2, c. 3)

It is singular that after this distinct enunciation of the fact of the diminution of the rent in proportion to the gross produce, that the author of the Wealth of Nations should not only have seen the conclusion to which this leads by a mere arithmetical operation, viz. that of the diminution of the net produce of land to the gross produce, but that in other parts of his work he should even lose sight of this fact of the diminution of the ratio of the rent to the gross produce of the land. "The extension of improvement and cultivation," says Dr Smith in one passage, "tends to raise rent directly. The landlord's share of the produce necessarily increases with the increase of the produce. That rise in the real price of those parts of the rude produce of land, which is first the effect of extended improvement and cultivation, and afterwards the cause of their being still further extended; the rise in the price of cattle, for example, tends too to raise the rent of land directly, and in a still greater proportion. The real value of the landlord's share, his real command of the labour of other people, not only rises with the real value of the produce, but the proportion of his share to the whole produce rises with it." (Smith, vol i, p. 392, b. 1, c. 11)

And in the 11th chapter of the first book abounds with passages in which the fact that the ratio of the rent of land to the gross produce diminishes in the progress of improvement, is overlooked.

I have, therefore, attempted to prove as well theoretically as by the evidence of practical men, that the ratio of the net produce of land to its gross produce diminishes in the progress of improvement. I could adduce a variety of facts in corroboration of my proof had I leisure to go into them. There is one, however, which seems to me so unequivocal a test of my principle, that I shall just mention without entering into the discussion of it. It is the progressive rise of the value of tithes as compared with rent.

I shall now apply this principle to a consideration of the question of the policy of restricting, or totally prohibiting, in the present circumstances of this country, the importation of foreign corn; and shall first briefly sketch some of the consequences of such restriction or total prohibition, and then point out a few of the probable effects of a free importation. One of the consequences of a total prohibition of importation would be that the average price of corn would presently rise to its growing, or natural price, supposing corn to be now below that price, and afterwards the average price would progressively increase, and the nearer any restriction approaches to prohibition, the more nearly will the effect of such restriction resemble that of a total prohibition. Take 90 s the quarter to be the growing price in this country of a crop of wheat sufficient for our present population, if importation were totally prohibited the average price of wheat would presently rise to 90 s the quarter. So if by any system of regulations the importation of foreign wheat were directly or virtually prohibited, till wheat in our own market had reached the price of 80 s the quarter, the average price of wheat would presently rise to 80 s the quarter, the average price of wheat would presently rise to 80 s; and 80 s would be the minimum of price at which wheat could be sold in our market, for any continuance.

The following reasons induce me to think that 90 s the quarter may be about the growing price of a crop of wheat raised at home, sufficient for our present supply. It appears from the documents given in the reports of the corn committees, that in the years 1811 and 1812 our home growth was about adequate to our consumption.

According to Sir H. Parnell's statement, which I have compared with these documents, and believe to be accurate, "the value of corn exported in 1811 from the united kingdom to foreign countries, was 1,379,714 l. -- The value of foreign imported was 1,092,804 l. leaving a balance of exported corn of 286,910 l. In 1812 the value of corn exported from the united kingdom to foreign countries was 1,498,229 l.: the value of foreign corn imported was 1,213,850 l. leaving a balance of exported corn of 284,379 l. In consequence of the fire at the Custom-House the value of corn exported from Great Britain in 1813 to foreign countries cannot be ascertained."(7*) In the years 1811 and 1812, therefore, we grew rather more corn than sufficient for our own supply; but when it is considered that from Ireland alone, grain to the value of 598,325 l. in 1811, and to the value of 662,823 l. in 1812, was exported to Spain and Portugal, a great portion of which was of course for the maintenance of our own troops, who must now be fed at home, it will be fair, perhaps, to consider that in those years we about supported our population.

It appears from the same documents that the actual price of wheat in the year 1811 was 94 s. 6 d. the quarter; in 1812, 125 s. 5 d.(8*)

The actual price is not of course a sure criterion of the growing price, unless it be taken on an average of some length. But considering that the price of wheat in this country was in

1810 106 s 0 d the quarter.

1811 94 s 6 d the quarter.

1812 125 s 5 d the quarter.

1813 120 s 0 d the quarter.

though we make every allowance for the extension of the present improved system of husbandry into Ireland, and those parts of this country into which it has not yet penetrated, it is impossible to take the growing price of a crop of wheat sufficient for our own supply at less than 90 s the quarter, in the present state of the currency. And of course it cannot fall permanently below its growing price, for otherwise it would not remunerate the grower, and the same quantity would not continue to be produced. But to make provision for an increasing population, it will be necessary to increase the produce, and this increased produce will, as I have shown, be raised at a greater proportionate expense; or in other words, the growing price will progressively increase. Such would be the consequence of a total prohibition of importation; and the same reasoning proves that if the importation of foreign wheat were permitted only whilst our own wheat were above for instance 80 s the quarter, the average price of wheat in our markets would never fall below 80 s the quarter. For it is the competition of the foreigner alone which could keep down wheat even to 80 s and when that competition were withdrawn, as it must be as soon as the price fell below 80 s our price would again rise as far as that competition would permit, viz., to 80 s the quarter.

But it has been denied that the price of corn would rise were importation prohibited.

Sir Henry Parnell (in p. 12 of his pamphlet) says, "the effect of the war, but more particularly of the Berlin and Milan Decrees, and of our own Orders in Council, has been to impose such restrictions on the importation of foreign corn during the last five years, as had the direct operation of an act of parliament imposing very high duties on that trade, by giving the British farmer the full benefit of nearly the whole demand of the British market. In the first place a very high price; in the next place a very great increased production of corn; and in the last place a very great fall in the price of it."

And from this he argues (p. 43) "that in the next year, as the farmer will have the full benefit of the whole of the demand for our consumption, he will probably grow as much as he has grown of late years; and, therefore, if the crop is a good one, the price will keep as low as it now is. In the following years, the certainty of a steady market will lead to a superfluous supply, and then the price will still be lower. It will thus become gradually lower and lower until it shall be on a level with the rest of Europe; and that we shall be able to secure permanently a superfluous growth of corn, by being able to export it, and sell it as cheap as foreign corn can be sold in the foreign market."

Now I deny that there has been any fall in the price of corn, as stated by Sir H. Parnell.

In 1808 the average price of wheat was 79 s 0 d per Qr.

1809 the average price of wheat was 95 s 7 d per Qr.
1810 the average price of wheat was 106 s 2 d per Qr.
1811 the average price of wheat was 94 s 6 d per Qr.
1812 the average price of wheat was 125 s 5 d per Qr.
App. No. 1 of Commons 1st Report, p. 28.

In 1813 the average price of wheat was 120 s 0 d per Qr.
Windsor prices, App. of Lords Rep No. 12, p. 327.

How this can be called a fall in price, much less a very great fall, I am at a loss to conceive, even allowing for any possible additional depreciation of our currency.

It is true that Sir H. Parnell states, "that the price of wheat (p. 42) for the average of the twelve maritime districts of England and Wales the week ending the 21st of May, 1814, was 67 s 11 d. If this price is in any degree a price that has been regulated by the importation of foreign wheat, to that degree the bill for restraining importation would advance it. But this price is a price settled by the quantity of our own wheat in the market, and on hand in the country; and therefore, the bill cannot advance it. The fact is, the abundance of our own corn alone has brought down the price to its present level; and this is so great, that there is every reason to suppose that it will fall still lower, even if the bill shall become a law."

Now how can it possibly be proved or known for a fact, that the abundance of our corn alone has brought down the price to the level mentioned by Sir H. Parnell?

On the contrary is it not notorious that the expectations of importation, if not actual importation, had at that time considerably reduced the price of wheat?

The witness in p. 26 of the last Commons Rep. thus answers questions put to him.

Question. -- "Do you not conceive that the present low price of grain is wholly occasioned by the abundant crop of last harvest, and not in consequence of any expectation of foreign import? -- "Certainly not; it is the alarm of the importation from abroad."

"Are you aware of any large importation of foreign corn?" -- "There was an expectation of it."

"Are you aware whether any foreign corn has been imported?" -- "No; I do not allude to any particular quantity lately imported; but the farmers are very much alarmed, and of course bring every bushel to market."

With respect to Sir H. Parnell's opinion that corn will become lower and lower, it is good for nothing, unless he can show that the expenses of cultivation will fall, as of course the actual price cannot permanently fall unless the growing or natural price fall.

That rude produce does rise in price in the progress of improvement, experience as well as theory demonstrates. That this rise in the price of rude produce is followed by a rise in the wages of labour, and communicates itself, more or less to all manufactures, chiefly of course to those in which rude produce predominates most, and in a less degree to those manufactures of a finer kind in which rude produce bears but a small proportion to the skill of the artist, is also evident. 1st, Looking to our own country, corn has been constantly rising in price since the middle of the last century. This phenomenon of the rise in the price of corn has been constantly observed in all improving countries. 2dly, England in an early stage of improvement exported corn in exchange for manufactures, as Poland and America

do at the present moment. Our wealth and population increased, and as far as the circumstances of Europe and our own laws permitted, we imported corn in exchange for our manufactures; so did Holland and Genoa in the time of their wealth. Such is the course in which improving nations seem destined to move. They begin by exporting rude produce for manufactures; as they grow more wealthy they export less corn, and fabricate more manufactures at home; in a further stage they export manufactures only, and receive rude produce in return from nations less advanced than themselves, and these manufactures gradually change in kind, containing less and less of the rude material, and more and more of manufacturing skill. The price of every thing increases rapidly, and the profits of stock fall so low, as I have shown they must do, from the enhanced price of rude produce, that at last even the capital of the merchant, and next of the manufacturer, seeks a more grateful soil.

It is not a little singular that this rise of the real price of corn in the progress of improvement has escaped the attention of the author of the Wealth of Nations, though he expressly states, "that all other sorts of rude produce, except corn and such other vegetables as are raised altogether by human industry, naturally grow dearer as the society advances in wealth and improvement" B. 1, c. 11, p. 339. In another passage he says, "In every state of society, in every stage of improvement, corn is the production of human industry. But the average product of every sort of industry is always suited more or less exactly to the average consumption: the average supply to the average demand. In every different stage of improvement, besides, the raising of equal quantities of corn in the same soil and climate, will, at an average, require nearly equal quantities of labour; or, what comes to the same thing, the price of nearly equal quantities; the continual increase of the productive powers of labour in an improved state of cultivation, being more or less counterbalanced by the continual increasing price of cattle, the principal instruments of agriculture. Upon all these accounts, therefore, we may rest assured, that equal quantities of corn will, in every state of society, in every stage of improvement, more nearly represent, or be equivalent to, equal quantities of labour, than equal quantities of any other part of the rude produce of land." B. 1, c. 11, p. 292, and see B. 1, c. 11, p. 382.

Dr Smith takes notice of what he seems to think a vulgar error, that the price of corn is always lower in a poor country than in a rich.

"There seems to be a happy concurrence of causes in human affairs, which check the growth of trade and riches, and hinder them from being confined intirely to one people, as might naturally at first be dreaded from the advantages of an established commerce. -- Where one nation has got the start of another in trade, 'tis very difficult for the latter to regain the ground it has lost, because of the superior industry and skill of the former, and the greater stocks of which its merchants are possessed, and which enable them to trade for so much smaller profits. But these advantages are compensated, in some measure, by the low price of labour in every nation which has not an extensive commerce, and does not very much abound in gold and silver. Manufactures, therefore, gradually shift their places, leaving those countries and provinces which they have already enriched, and flying to others, whither they are allured by the cheapness of provisions and labour, till they have enriched these also; and are again banished by the same causes.

And, in general, we may observe, that the dearness of every thing, from plenty of money, is a disadvantage which attends an established commerce, and sets bounds to it in every country, by enabling the poorer states to undersell the richer in all foreign markets." (Hume, vol. 1, Part 2, Essay 3, pp. 312 and 313)

The only means of retarding this necessary progress of things is by importing rude produce from countries where we can buy it cheaper than we can grow it at home.

By such means we might, to a very great degree, unite the advantages of a fresh country, and of one highly improved. By these means we might purchase our rude produce cheap, and manufacture it cheap; but if we refuse to import our rude produce, we must daily approximate to that state which Hume has so strongly described. Great question has been made of the truth of the fact, which is noticed by Dr Smith, that any rise in the price of corn communicates itself to every other commodity. It is immaterial here to enter into the question whether Dr Smith meant real or nominal price. The rise in the real price of any thing which immediately and fully communicates itself to every other article seems, indeed, a contradiction in terms; because the real price of any article is its value in exchange for every other: but if the rise in price of any one be immediately and fully communicated to every other, the rise is merely nominal, as that article can now purchase no more of any other article than before. It is sufficient for my present purpose, if it be true, that by any increase of expense in obtaining rude produce the whole wealth and comfort of the community is diminished, the command of each individual over all the necessaries and luxuries, both domestic and foreign, lessened.^(9*) That such must be the consequence of the increasing expense of raising rude produce is obvious to the slightest consideration. The larger the capital required to raise the rude produce of a country, the less in proportion can, of course, be spared for its manufactures.

"Throughout the whole world the number of manufactures, of proprietors, and of persons engaged in the various civil and military professions must be exactly proportioned to the surplus or net produce of the earth, and cannot in the nature of things increase beyond it. If the earth had been so niggardly of her produce as to oblige all her inhabitants to labour for it, no manufacturers or idle persons could ever have existed." Malthus, b. 3, c. 8, p. 309. Suppose a country insulated from all others and containing one million inhabitants, the soil of which is such that half the number are sufficient to raise food for the whole; and suppose the other half to be employed in fabricating manufactures for themselves and for the agricultural labourers. Suppose now that this million of inhabitants increases to two million; if from the increased difficulty of raising food for the two million inhabitants it becomes necessary to employ two-thirds of them in providing subsistence for the whole, there is now but one-third of the whole left to administer to the other wants of the society, and if the effective powers of labour in manufactures be not increased, and that in a degree sufficient to compensate for the greater proportion of the labour of the whole community which is now required for agriculture, the revenue and comforts of the whole community must be diminished. But suppose now this country to open a communication with a neighbouring country which had not carried its skill in manufactures so far, but grew its corn much cheaper, so that the former, by turning a part of her hands from agriculture to manufactures, could make as many manufactures as would purchase twice as much corn from the new country as those hands had before raised. The consequence

would, of course be, that the former country could draw another portion of her hands from agriculture to manufacture for herself, and the real wealth of the whole community would be increased.

I come now to the consideration of some of the consequences of a free importation of foreign corn; and, first I shall consider its effects upon our own agriculture; and I will assume that the growing price of foreign wheat is such that it can be imported into this country and sold in our markets at a price as low even as 45 s. the quarter, it would appear to be impossible for our farmers to bear this unequal competition.

It would appear to cursory observation that the whole of our agriculture would, in time, be superseded. And such would inevitably be the case if our expenses of cultivation should not diminish as our growth diminished, nor the expenses of foreign growth increase as their produce increased. The constant difference of 45 s the quarter would necessarily induce the foreigner to increase his growth, and compel the home grower to diminish his, till the former had completely expelled the latter from the market.

But there are limits to this dependance of any country on foreigners for an article of the first necessity; and these limits are to be found in the principle which I have stated. That principle will shew that in such case, as the growth of the foreigner increased the proportionate expense of his growth would increase, (10*) and as the home growth was diminished, the proportionate expense of the home growth would also be diminished, since a larger growth is raised in any given country, at a larger proportionate expense than a smaller growth. Say that the first year of importation we import half a million quarters; the next year the foreign grower, in order to meet the increased demand for foreign corn, will increase his growth, say half a million quarters, and the foreign growing price will rise, say from 45 to 50 s the quarter. The home grower will diminish his growth half a million quarters, and the home growing price will fall, say from 90 to 80 s the quarter. The actual price of both in the market must meet and be at some point between 50 and 80 s. say at 65 s. This price is still such as to induce the foreigner to increase his cultivation, and the home grower to diminish his. In consequence the foreigner's growing price will be still further increased, and the home grower's still more diminished, say to 60 s the quarter, and say that the actual price in our market falls to 60 s. Both the home grower and the foreigner are now just paid the natural price of their produce, and there is no longer any motive to the one to increase his cultivation, nor to the other to diminish his. I have not pretended here to approximate to the degrees in which the prices would rise and fall, nor to the point at which the growing prices of home wheat and foreign wheat would meet. The process would be slower, and therefore less violent than I have supposed. All I mean to assert is, that the growing price of the former would fall, and the growing price of the latter rise, till they met at some point between the original prices of each. This point would, of course, be much nearer the present growing price of the foreign divided among many foreign markets would be less to each than the effect of the importation operating on our single market. It is remarkable how differently the circumstance of a similar disparity of price would affect manufactures. Suppose the foreigner could manufacture broad cloth and sell it in our market at half the price at which we could afford to sell it; the home manufacturer, as in agriculture, would immediately diminish his manufacture, the foreigner would increase his; but the more the

home manufacturer diminished his manufacture, the greater would be the proportionate expense or natural price of it; the more the foreigner increased his, the less would be the natural price of his manufacture, upon the principle that the larger the concern in any manufacture the further can the subdivision of labour and application of machinery be carried. -- See W. of N., B. 1, ch. 3.

Next I shall consider the effects of a free importation of corn upon rents. Supposing the proportionate expenses of raising rude produce to remain the same, whatever were the amount of that produce; there would be ground indeed for the alarm of landlords. For it would appear, as has been frequently stated, that in such case the farmer could not afford to pay any rent at all. Thus suppose 100 acres of land tilled for wheat let at a calculation of the price of wheat at 90 s the quarter; and suppose the capital laid out on such land to amount to 1000 l., take the rent at 300 l. a year, the profits of the capital must be 10 per cent, i.e. 100 l a year. The whole produce of this land must therefore be 1400 l. Suppose now wheat to fall, as it has fallen, one-third, i.e. to 60 s the quarter. The produce of the land would now be only two thirds of 1400 l that is about 932 l. and it is obvious that the farmer, so far from being able to pay any rent, would not even reproduce his capital laid out, and no diminution of his capital would give him any profit, but would merely diminish his loss.

But our principle will shew that by a diminution of the capital laid out by the farmer, he will be enabled both to reproduce his capital with the common profits of stock on that capital, and also a rent not very much, perhaps, below that which he paid before.

It is diminishing rate of return upon additional portions of capital bestowed upon land that regulates, and almost solely causes, rent.

If capital might be expended indefinitely with the same advantage upon land, the produce would, of course, be unlimited; and this would have the same effect upon rent as an unlimited quantity of land convenient for cultivation. In either case the rent would be very small. But it is the necessity of having recourse to inferior land, and of bestowing capital with diminished advantage on land already in tillage which increases rent. Thus, if in case of any increased demand for corn, capital could be laid out to the same advantage as before, the growing price of the increased quantity would be the same as before, and competition would, of course, soon reduce the actual price to the growing price, and there could be no increase of rent. But on any increased demand for corn, the capital I have shewn which is laid out to meet this increased demand is laid out to less advantage. The growing price, therefore, of the additional quantity wanted is increased, and the actual price of that quantity must also be increased. But the corn that is raised at the least expense will, of course, sell for the same price as that raised at the greatest, and consequently the price of all corn is raised by the increased demand. But the farmer gets only the common profits of stock on his growth, which is afforded even on that corn which is raised at the greatest expense; all the additional profit, therefore, on that part of the produce which is raised at a less expense, goes to the landlord in the shape of rent.

Thus suppose 10 acres of land which will return 20 per cent on a given capital, say 100 l.; 10 acres which will return 19 per cent and so on, as in the following table.

Acres	Capital	Net Produce
10	100	20
10	100	19
10	100	18, etc.
10	100	11
10	100	10

Supposing the profits of stock to be 10 per cent the last ten acres could not be taken at any rent for the purpose of cultivation, but might be cultivated by the owner of the land, or might afford a rent if left as pasture. The 10 acres which afford 11 per cent would, after paying the profits on the tenant's capital, pay one per cent as rent, and as the corn which was raised on the 10 best acres would sell for the same price as that raised on the 10 worst, such land would pay to the landlord 10 l. as rent, the next 10 acres 9 l., and so on. Suppose now the price of corn to rise, and the profit on the last 10 acres to be increased in consequence from 10 l to 11 l it is evident that the ten acres which before could, in cultivation, just pay the profits of stock, would now afford a rent, and might be brought into cultivation, and that the rent would be raised on all land. For the same reason, if the price of corn were to fall so as to reduce the profit on the last 10 acres one per cent some land would be withdrawn from cultivation, and the rent of the land which remained in cultivation would be lowered. But we know that a rise in the price of corn has the effect not only of drawing fresh land into cultivation, but also of turning fresh capital on land before in cultivation; and that a permanent fall in the price would have the effect, not only of withdrawing land from tillage, but also the effect of withdrawing part of the capital from land which might be still kept in tillage and cultivated in a less expensive manner. But if you take the 10 acres of land l before mentioned, which return at the given price 20 per cent, it would seem impossible for an diminution of price under a diminution of one half to draw capital from such land; for if the price of corn were to fall so low as even to reduce the profit to 11 per cent, still it might be worth while to lay out the same capital in any other employment, which one per cent would be the rent.

This difficulty is explicable on our principle alone. The truth is, that any land which returns 20 per cent on 100 l, must, as I have shewn, return more on the first portion of 100 l laid out on it than on the latter portion of it, and would consequently produce the return somewhat in this way, the first 10 l might reproduce 40 per cent net produce; the second 10 l 30 per cent, and so on, and the last layer of capital would not produce more than 10 per cent, as the farmer would, of course, lay on as much capital as would reproduce him the common profits of stock, which are supposed to be 10 per cent.

The rent of the landlord would then still, as before, be all that was made on the whole capital above what the last or least profitable portion of that capital produced; and in the same manner as before, if the price of corn increased so as to make that portion of capital which before produced 10 per cent now produce 11 per cent another portion of capital would be laid on. And in the same manner, if the price of corn were to fall so as to reduce the profits on the last portion of capital from 10 to 9 per cent that portion would be withdrawn. In case, then, of any fall in the price of corn, that portion of the capital which before afforded the smallest profit will be withdrawn, and that only will be left which continues to yield an adequate return,

and the effect of such reduction of price on rent will be nearly as follows:

Suppose again the case of land let on the calculation of the price of wheat at 90 s the quarter, the rent 300 l a year, the tenant's capital amounting to 1000 l and his profit on that capital to be 100 l a year, the produce is, as before, 1400 l. Now, after the reduction of wheat to 60 s, if the tenant retained the same capital on the land, he would not, as I shewed, reproduce even his capital, much less be able to pay any rent.

But suppose now on the fall of price he diminishes his capital to 800 l.

Since he made on his whole capital of 1000 l before the reduction of price 400 l, i.e. 40 per cent, he must have made more than 40 per cent upon the first 800 l, and even after the reduction of price, he may make 40 per cent on 800 l, that is, 320 l of which his own share, as profit, will be 80 l, leaving to the landlord 240 l as rent.

Thus upon this supposition, a fall in the price of corn of $\frac{1}{3}$, would reduce rents but $\frac{1}{5}$. The reader will perceive that there are many considerations, such as taxes, poor rates, and the distress of individuals, arising from a rapid shifting of capital from one employment to another, which I have not taken into the account in this essay, and therefore I have not pretended to strike the balance of the arguments for against some restriction of importation; it appears to me, however, that the principle which it has been my object to explain will shew it to be highly impolitic to fix the price below which importation is to be checked at a high point. Those other considerations would demand a much longer inquiry; upon the whole, I am inclined to think, that it would be reasonable to grant to the agriculturist, for the present, such protection as would keep up the price of corn to 70 s, or at most 75 s the quarter.

NOTES:

1. Smith's Wealth of Nations, vol. I, B. 1, c. 1, p. 10, 11.

2. It will be observed that in this reasoning I measure the productive powers of labour by the effects produced, and not by the quantity of work done. Thus a good workman will do more work than a less skilful one; but if the work of the latter be bestowed on a grateful soil, it may produce a greater effect than the work of the former bestowed on an inferior soil.

3. Many various circumstances, arising chiefly from the artificial regulations of society, will doubtless interfere to disturb this natural progress of things; but though they may disturb the operation of the principle, a very little consideration will show that they cannot completely counteract it; and that even these disturbances very often compensate each other.

4. The demand of those who live by wages necessarily increases with the increase of the revenue and stock of every country, and cannot possibly increase without it. The increase of revenue and stock is the increase of national wealth. The demand for those who live by wages therefore naturally increases with the increase of national wealth, and cannot possibly increase without it. B. 1, c. 8.

5. W. of Nations, B. 1, c. 8.

6. See p. 41, 57, 63, 103, 130 of the Lords' Reports. -- In p. 44, 79, 92, 99, 111, 121, 133, 154, 203 of the Commons' Reports, A.D. 1814.

7. P. 12 of Sir H. Parnell's pamphlet.

8. See 1st Commons Reports, App. No. 1, p. 28. The Windsor prices of the four first years are higher than those above stated.

9. If all the commodities in a society, except money, were diminished in equal proportion, the real price, i.e., their value in exchange for each other would remain the same. If the money were diminished in the same proportion, their nominal price would also remain the same, yet in each case it is obvious that a large portion of wealth would be lost to the society.

10. It is indifferent for the present purpose whether this increase of the price of the foreign supply would proceed, as it partly would, from an increased expense of growth, or as it would also partly from the necessity of drawing it from more distant regions.

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