

II.—*The Effect of War on Prices.* By John E. Cairnes. A.M.

[Read January 10th, 1856.]

AMONGST the various economical and commercial questions to which the prosecution of the present war has drawn the attention of this society, there is one of considerable importance, which no attempt has yet been made to elucidate. I allude to the effect which a state of war in general, and in particular of the present Russian war, is calculated to produce on the prices of commodities. It appears to me that this is a subject on which much misapprehension is prevalent, even in quarters where one would naturally look for more accurate notions—misapprehension which, if acted upon, cannot fail to lead to much pecuniary loss to individuals, and to much commercial derangement amongst the public; and which, at all events, tends to confuse our notions, and to perpetuate errors on some of the most important problems of political economy.

It is scarcely necessary to say that the common opinion upon this question—an opinion, too, that is shared by some economists of eminence—is that a state of war necessarily tends to produce a general rise in the prices of commodities. The expression “war-prices” shows what is the popular notion: the doctrine which this expression implies has been supported by some grave and plausible arguments; and it cannot be denied that it is at the present moment countenanced by some very obvious and striking facts. It will, therefore, not be out of place if I invite the attention of the society for a short space to some of the economic principles which affect this question.

And here it is desirable that we should separate in the outset two distinct portions of the general question, which are often confounded; one of which relates to the effect of war upon the general aggregate of prices; while the other considers the disturbance which war is calculated to produce upon the prices of particular commodities specially affected. The consideration of the latter part of the subject I shall reserve for a subsequent portion of my paper; it will be desirable first to dispose of the more general doctrine.

I have said that it is the popular notion that a state of war has a necessary tendency to produce a rise in the prices of commodities, and perhaps I should add to this, of those commodities especially which form articles of prime necessity and enter into general consumption. The most common argument by which this proposition is ordinarily maintained is of this nature. It is said that the increased sums applied by Government to the support of our armies and navies in time of war lead to an increased circulation of money amongst the classes who compose the army and navy; the effect of which is an increased demand for articles of general consumption on the part of these classes, and consequently, it is said, a rise in the price of such commodities. It is argued, further, that the increased necessity for various kinds of manufactured articles required for the equipment of our forces causes increased activity amongst the producers of all such articles; that the extension which is thus given to manufacturing industry induces an increased demand for labourers for the

production of the articles required, and, by consequence, an increased demand for all the articles consumed by labourers, which consumption, it is urged, must further act upon prices; and, in this way, the argument is pursued throughout all its ramifications. I should not have thought of bringing forward an argument of this kind for refutation, the fallacy of which lies on the surface, and which has so often been refuted before, but that I have frequently seen it of late re-produced in the public prints, and, where not formally stated, at least silently implied. It is, therefore, proper to observe that there is but one possible hypothesis upon which this argument can proceed—the assumption, namely, that in the alternative of peace, those funds, the operation of which upon prices is the foundation of the reasoning, would not have been spent at all; in which case those who use this argument are bound to show where that reserve of wealth is in the country, which, lying idle and in-operative in peace, can only be called into activity by a state of hostilities. It is surely exceedingly plain that, whether raised by taxes or by Government loan, the funds, appropriated and spent by Government, would have been quite as effectually spent, had they been left with their original possessors. An increased expenditure on the part of the Government, therefore, necessarily involves a diminished expenditure to precisely the same extent on the part of the public: the *aggregate* demand for commodities consequently remains as before; and, by consequence, also the *aggregate of prices*, so far forth, at least, as they depend upon demand.

There is, however, another argument of a more ingenious and subtle character by which the same conclusion is sought to be maintained, with this difference, that the principle is held to operate only to the extent to which the funds for the prosecution of the war are obtained by Government loan. The original propounder of the theory which I am about to notice was, I believe, Dr. Chalmers, and lest I should not represent him fairly, I shall give the doctrine in his own words:—

“The sum borrowed by Government,” says Dr. Chalmers,* is withdrawn from commerce and manufactures, and must, to the extent of its power in producing commodities and bringing them to market, lessen the supply of those commodities. The prices of those commodities rise in consequence, and to such a degree, too, that the sum will be replaced. * * * * “Should Government borrow £20,000,000 for the exigencies of the current year, there are in that year £20,000,000 less of commodities brought to the general market than there would otherwise have been. But there is nothing in this transaction between Government and so many of the capitalists of the nation that can effect either the power or the inclination of buyers to purchase. There is as effective a demand as before, but a diminished supply: the same expenditure on the part of the customers; but, on the whole, £20,000,000 worth less of enjoyment in return for it. Had Government, instead of borrowing, raised the £20,000,000 by additional taxes, the community, no doubt, would have had £20,000,000 less to spend; but they would not have had

* Political Economy, v. 2, p. 72. Ed: 1852.

the high prices to encounter which are consequent on these abstractions of capital produced by Government loans." Pursuing this line of reasoning, Dr. Chalmers ultimately lands in the conclusion, "that the national debt *has all been virtually paid once, and yet remains to be paid again*:—paid, in the first instance, as it was contracted, by the high prices consequent on a deficient capital; and to be paid, in the second instance, to the actual creditors, either by a liquidation of the principal, or by a perpetual interest."

This doctrine, which had begun to grow somewhat obsolete, has been lately re-produced by Professor Rickards of Oxford, who, in his late interesting publication on "The Financial Policy of the War," quotes the argument and adopts it, with some slight qualifications indeed, but such as in no way affect the principle involved. Mr. Rickards concludes his remarks upon the point by stating his opinion that "the general enhancement of the prices of commodities of which we are now sensible arises, no doubt, to some extent, from the commercial causes pointed out in the passage just cited."

Notwithstanding, however, the elaborate character of the argument itself, and the weight of authority by which it is supported, I must venture to question its soundness. The reasoning appears to me to rest upon a double fallacy; it assumes, in the first place, that an abstraction of £20,000,000 from the productive capital of the country by Government loan would involve a proportionate diminution in the quantity of commodities produced; and, in the next, that this abstraction would *not* involve any diminution in the purchasing power of the community at large. Both these assumptions appear to me to be without foundation.

With regard to the first it is to be observed, that capital employed in the production of commodities* can only be employed in one of two ways, either in the purchase of the raw material of manufactures, or in paying the wages of productive labourers. If it can be shown that the capital abstracted by means of government loan is taken *exclusively* from the funds applied to the purchase of raw material, then it may be admitted that the quantity of manufactures fabricated from such raw material will be proportionally diminished, and that, consequently, the consumers of such manufactures will lose in the price what they gain in the escape from taxation which the loan system provides. This, however, will but little help Dr. Chalmers' conclusion; since the diminished funds, applied to the purchase of raw material, imply a corresponding fall in the price of such raw material, and thus the *general* advance of prices for which Dr. Chalmers contends as the necessary result of the loan system must on this supposition be given up. It is evident, however, that but a very small portion of the capital abstracted by government loan would come from that portion of the general wealth which is applied to the purchase of raw material. The rise in the price of the manufactured article, which the hypothesis implies, and the increased profit which would be the consequence, would attract

* This, of course, has reference only to the *floating* capital of the nation; that portion of the general capital which is *fixed* in buildings and machinery is obviously not available for governmental purposes.

capital from other departments of business not similarly affected, till the inequality was corrected. Without pretending, however, to trace the whole effects of the operation, it is evident that the pressure would ultimately fall in its chief extent on that portion of the floating capital of the nation which constitutes the wages-fund. And this, indeed, seems to be Dr. Chalmers' opinion; but on this hypothesis equally, it may be shown that his conclusions are untenable.

The assumption on which his argument proceeds is that each abstraction of capital effected by state-loan necessitates a corresponding diminution in the quantity of commodities produced. Now (on the supposition that the funds in question come from the general wages-fund of the country) it is to be remarked that commodities are not produced by the capital constituting this fund, but by the labourers who consume it: consequently the abstraction of capital which the argument supposes cannot be allowed to have any effect in diminishing the production of commodities, unless it can be shown to lessen the number or impair the efficiency of the labourers who produce them.

That the effect of war is to lessen the *number* of the labourers employed in producing commodities is true; since the army and navy can only be recruited by draughts upon the labouring population; but this is equally the case whether the expenditure of the war is supported by loan or taxation; and, consequently, so far as *this* point goes, the distinction on which the argument is based falls to the ground. And with regard to the *efficiency* of the labourers, the effect which an abstraction of capital would produce in this respect would depend upon the existing standard of wages in the country, compared with the extent to which the proposed operation would be calculated to depress it. Granting, what the argument of Dr. Chalmers and Mr. Rickards assumes, that the whole fund drawn off by Government loan would come directly from the active capital of the country, and would be felt in a reduction of wages (and I believe, as a general proposition, this portion of the assumption is perfectly well-founded); still, unless it can be shown that the standard of wages in the country is at present at, or so near its minimum, that the slightest reduction of wages would at once show itself in the enfeebled frame and failing energies of the workman — I say, unless this can be shown to be the necessary result of the operation, the assertion that the quantity of commodities produced would be diminished to the whole extent of the abstraction of wealth which is supposed to take place cannot be maintained. Now no one will pretend that the rate of wages which at present prevails in the country is near this minimum. When we look to the large sums which are spent by the labouring population in articles which are certainly not indispensable to the maintenance of their physical energies; when, further, we bear in mind the large amount which is expended, especially by the artisan population, in the consumption of articles which are actually deleterious, we shall hardly be of opinion (even supposing the abstraction from the wages-fund to be considerable) that the physical ability of the labourer need be impaired at all, and certainly not to the extent of this abstraction. It

appears, therefore, from these considerations that a draught upon the capital of the country by Government loan does not necessarily involve any diminution in the number of productive labourers, beyond what the same expenditure supported in any other form would produce; nor does it necessarily imply any deterioration of the productive ability of the workman: it follows, therefore, that either on this supposition is there any ground for the assumption that an abstraction of £20,000,000, by Government loan necessitates a corresponding reduction in the quantity of commodities produced in the country.

The second assumption made by Dr. Chalmers in the argument under consideration is that while a given sum, say £20,000,000, raised by taxation involves a corresponding diminution in the purchasing power of the community, the same sum raised by Government loan necessitates no such diminution. "There is nothing," he says, "in this transaction between government and so many of the capitalists of the nation that can effect either the power or the inclination of buyers to purchase. There is as effective a demand as before, but a diminished supply, &c." It is evident from the scope of the argument that by the word "buyers," Dr. Chalmers intends to express the public at large as distinguished from the Government: the assertion, therefore, amounts to saying that a deduction of £20,000,000 from the capital of the country does not affect the purchasing power of the public. Now capitalists are certainly a portion of the public; and, according to Dr. Chalmers' own principle, the capital thus drawn off would, had it been left to its normal functions, have been employed in the production of commodities. In what manner, then, I would ask, *can* capital be used in the production of commodities otherwise than by being applied either in the purchase of raw material, or in the support of labourers, who expend it in the purchase of such articles as they require? The purchasing power, therefore, of capitalists, or of the labourers whom their capital supports, must, to the extent of the abstraction, be diminished.

It thus appears that the two fundamental assumptions involved in this argument are wholly unfounded. The diminution in the supply of commodities which Dr. Chalmers takes for granted I have shown to be no necessary consequence from the facts; and the supposition of an unimpaired purchasing power on the part of the community under an abstraction of £20,000,000 of capital I have shown to be directly contrary to facts, as well as inconsistent with Dr. Chalmers' own principles. The conclusion, therefore, which he supported on this basis, that it was the tendency of a war expenditure defrayed by Government loan to produce a high range of general prices, must fall to the ground.

Had this question as to the effect of war on prices been considered more with reference to the general laws affecting prices, the extent to which they are controlled by the quantity of the precious metals employed in the commerce of the world, and the influence which prices exercise upon the movements of the precious metals from country to country, such misconceptions as I have just been considering could hardly have taken place. In speaking of prices here, I, of course, confine my observations to those countries only

where the currency in which they are measured is either gold or silver, or paper convertible into gold or silver. Where the quantity of currency in circulation has no other limit than the will of the sovereign power of the state, the same also must be the sole limit to prices. But, with regard to those countries where one or both of the precious metals are recognized as the standard of value, it is evident that the *quantity* of these in general circulation must set the limit to the general standard of prices throughout such countries. So long as the quantity of gold employed in commerce remains the same, the only possible means by which a general rise in prices could take place, would be by a proportional reduction in the number of transactions for the performance of which the use of gold as a medium is required. Now, there is nothing in a state of war to lessen the number of such transactions; on the contrary, it is rather the tendency of war to require gold for the performance of engagements which before were transacted through other means. A vast portion, for example, of the expenditure of our armies now in the East is carried on by gold, which in time of peace was transacted by the ordinary paper currencies of the countries where the different portions of our army happened to be stationed. It is quite impossible, therefore, while the quantity of gold in the world remains as it is, that a state of war could produce any general rise of prices in the markets of the world. And equally certain is it, that it could not produce any general rise of price, of more than a mere momentary character, in the markets of any of the belligerent nations, at least in any of those from which, as in the case of our own, there is free egress for the exportation of gold. When the prices in this country, as compared with other countries with which we have commercial relations, have found their natural level, any sensible elevation beyond that level here, must necessarily operate as a stimulus to the importation of foreign productions into this country, whilst it would at the same time operate as a check to exportation; the effect of which joint action would be to send out gold in payment of the increased imports until prices here were restored to their natural level as compared with the rest of the world. It follows, therefore, that neither in the general market of the world, nor in those of the belligerent nations, so long as free trade in gold is permitted, is it possible, while the quantity of gold employed throughout the world remains the same, that any general rise in the sum total of prices could take place.

Against such views, however, it is usual for those who hold the theories which I have been combating, to refer triumphantly to the high prices which ruled during the great European war at the commencement of the present century, as well as to the high prices for most articles of general consumption which at the present moment prevail. It is proper, therefore, that to this appeal to experience a distinct answer should be given; and that the facts of the case be shown to be at least reconcileable with the principles which have been advanced.

Had those persons who insist upon a necessary connexion between war and high prices, instead of confining their attention to a very superficial glance at the commercial phenomena of the last war,

extended their researches to the history of prices during former periods of hostility, they would have seen reason to suspect the validity of their conclusions. It so happens that, during the five wars, covering altogether forty-six years, which occurred between 1688 and 1792, the price of wheat, of meat, of wool, and of most other commodities was rather lower than during the intervals of peace throughout the same period.* This may not prove that there is any necessary connexion between war and *low* prices; but at least it is, so far as it goes, a complete answer to the appeal to experience.

Coming, now, to the twenty-two years of war which followed the French revolution, it must be conceded in the first place that, for the most part, the price of agricultural produce was high during that time — at certain seasons, as in 1801, and again in 1812, exorbitantly high; but whatever countenance the theory of war prices may derive from this concession is at once dispelled on a closer examination of the facts. In the first place, quite independently of any influence which the war may have exercised, the high range of prices which prevailed between 1793 and 1815 is, if not entirely, at least in its chief extent, accounted for by the very unusual number of short harvests which occurred during that period. Those who desire to satisfy themselves upon this point I must refer to the pages of Mr. Tooke, who, in his *History of Prices*, on incontrovertible evidence establishes the fact, and shows that the fluctuations in the price of corn during that time are in every case co-incident, not with the variations in the amount of expenditure on account of war, but with the character of the seasons.

But further, even if the fact of an unusual succession of unfavorable seasons could not be made out, the statistics of prices during that time, when closely examined, are yet absolutely irreconcilable with the theory in question. Thus, for example, the price of wheat, which, in December, 1792, before the war broke out, was 47s. 2d., and which, in the spring of 1796, reached the price of 100s., fell again in November, 1798, while the expenditure on behalf of the war was increasing, to nearly its original level, viz., to 47s. 10d.† Again in the summer of 1801, just before the signing of the peace of Amiens, the price of wheat rose to 140s. the quarter, but in March, 1804, a year after the resumption of hostilities, it fell once more to 49s. 6d.‡ The year of highest prices throughout the whole period of the war was 1812. In August of that year,§ wheat was sold in Mark-lane for 180s.; but in December, 1813, it fell to 74s., and in April, 1815, just at the time when the utmost efforts were being made to prepare for the campaign which was closed by the battle of Waterloo, the price fell to 60s.; while, again in 1817, nearly two years after peace had been concluded, the price of wheat rose once more to 112s.¶ The most cursory consideration of these figures must satisfy any one that there is no kind of correspondence between the fluctuations in the price of corn and the varying in-

* Tooke's *History of Prices*, vol. 1, p. 97.

† Tooke, v. 1, p. 187-8.

‡ *Ibid.*, v. 1, p. 255.

§ *Ibid.*, v. 1, p. 323.

¶ Tooke's *History of Prices*, vol. 2, Appendix.

teusity of the contest; and, therefore, that the latter cannot, with any show of reason, be assigned as the *cause* of the former.

There is one other feature connected with the history of prices under review, which it is important to notice, as it seems to be as once destructive of the theory of "war prices," as that phrase it ordinarily understood; it is this, that the fluctuations in the prices of commodities of general consumption were very often in opposite directions; the prices of one class of articles being often found steadily to advance, while those of another class as steadily declined; proving, as it manifestly does, that such oscillations in price were connected with special causes affecting the particular commodity, and not with any cause of general operation, such as the abstraction of capital by Government loans, according to Dr. Chalmers' theory, or the increased Government expenditure incident to the war, according to the ordinary notion. Thus, for example, while between the years 1796 and the close of 1798 the prices of provisions suffered, as I have shown, a very remarkable decline, the prices of articles of colonial produce, such as coffee, sugar, cotton, and tobacco, underwent an equally striking rise;* the advance in the latter articles proceeding to 100 per cent., beyond their previous rates, while the former showed a decline of 50 per cent.; that is to say, the price of one class of articles was halved, while that of the other was doubled—a phenomenon which was repeated in the interval between 1813 and 1815 in a still more remarkable manner.

Another instance of the same kind will be found on comparing the fluctuations in the prices of meat and corn between 1804 and 1808. During these four years the price of corn exhibits a steady and progressive rise, while the price of meat as steadily falls,† and this, notwithstanding the large demands for the victualling of the army and navy which were made towards the close of 1808, when fleets and armies were being despatched for the war in the Peninsula. "If," says Mr. Tooke, in recording this circumstance, "the rise in the price of corn is to be explained by the supposed operation of Government demand, how is the fall in the price of meat to be accounted for?"

So far, then, as regards the general question, I think it is sufficiently plain that neither in the principles of political economy, nor yet in the experience of past wars, is there any foundation for the common opinion which supposes a necessary connexion between a state of war and a high range of prices for articles of general consumption. How far the existence of a state of war is calculated to produce a *disturbance* in the markets of the belligerent nations,—enhancing the price of certain articles, while it depresses that of others—is another question, and one which can only be determined by the special circumstances of each particular case. It would, at the present moment, be an interesting inquiry, and one which would serve to clear up many difficulties connected with the question under consideration, if we were to pass under review some of the principal articles of consumption in this country—to ascertain the fluctuations which have taken place in their prices since the

* Tooke, vol. 1, p. 190.

† Id., vol. 1, p. 271.

commencement of hostilities, and after making allowance for the various influences exercised upon them by causes extrinsic to the war,—such as the yield of the raw material, the circumstances affecting the production of the manufactured article, the state of demand in foreign markets, and so on,—to form some estimate of the effect upon their price, whether of exaltation or depression, which the war has produced; and thus to verify by experimental proof the conclusions deduced from general principles. Not only, however, would such an investigation have involved me in a discussion altogether inconsistent with the dimensions of a paper of this sort, but there was also against it this more conclusive objection, that I had no means of obtaining the information requisite for the prosecution of such an inquiry to any useful issue. It would, indeed, have been extremely easy to have brought forward an imposing show of statistics from the various published tables of prices current, and, by virtue of a slight exercise of ingenuity, to have cooked up a very respectable case in support of the general argument. Such statistics, however, would obviously be wholly worthless for the purpose of any sound deduction; since it would be evidently unsafe and fallacious to attribute such fluctuations as have taken place during the last two years in the price of any commodity to the influence of the war, unless we could show at the same time what *other* causes were in operation, and how far their action was calculated to modify the particular result; and this was information which, however necessary for the complete treatment of the subject which I had taken in hand, I had yet no means of obtaining.

But though, for these reasons, a systematic and detailed treatment of the subject of prices is out of the question at present, I hope to be able, with reference to one important article of general consumption, to bring forward some facts, which, while they may be found to possess some interest in themselves, will serve at the same time to illustrate the principles which I have endeavoured to establish. The article which I have in view is corn, about which, if our information is not as accurate or full as might be desired, we have yet sufficient data to guide us to some important conclusions.

It is evident there are but two possible ways in which a state of war can affect the prices of commodities—either through demand or supply.* That the present war is calculated to diminish our supply of corn in this country there can be no doubt; but what is the extent of this diminution? and how far is it likely to influence price? In order to answer these questions, the facts to be ascertained are, firstly, what is the amount of our usual importations of corn from Russian sources? secondly, how far is the existing blockade calculated to obstruct these importations? and thirdly, what proportion does the quantity thus cut off bear to the total consumption of grain in the United Kingdom?

* It has been suggested that price may be affected by cost of production, which is true, but only by its action on demand or supply; and the only way in which I can see that a state of war would affect *appreciably* the cost of production, would be in the case of foreign articles imported, by increasing the risk of importation, and, therefore, the cost of insurance; but, in regarding the effect of the present war, while the navies of Russia are shut up under their batteries or sunk, and privateering does not exist, this consideration may be safely neglected.

In endeavouring to arrive at these points, I have taken the necessary data from the Statistical Abstract of the United Kingdom published this year by Government, so far as they are given in that document; and where, in the absence of exact statistics it was necessary to resort to a conjectural estimate, I have had recourse to Mr. McCulloch's Commercial Dictionary. I am quite aware of the precarious character of all such conjectural estimates, and the consequent precariousness of any conclusions deduced from them. It will be seen, however, that in the present case the results arrived at are such as to allow of considerable latitude for error, before the character of the conclusions deduced can be materially affected. The details of the calculation I give in a note.* The general result at which I arrive is, that the quantity of grain of all kinds cut off by the blockade of Russian ports is in the proportion of about two per cent to the whole quantity consumed in the United Kingdom; and, in the case of wheat, for which we are dependent in a larger degree upon Russia than in that of other cereals, the deduction from our supply produced by the war would appear to be about four per cent of our total consumption.

Having thus ascertained, as nearly as circumstances will admit, the facts of the case, the question arises as to the effect which such a deduction (all other things being supposed the same),—a deduction say

* GRAIN OF ALL KINDS.

	QUARTERS.
Average annual quantity of grain of all kinds derived from Russian sources, southern as well as northern ports, (4 years ending 1853)	1,324,539
Quantity which we shall probably continue to receive from Russia during war, either overland through German ports, from the Danube, or by eluding the blockade	300,000
Total quantity of grain of all kinds cut off by the blockade	1,024,539
Total consumption of grain of all kinds in the United Kingdom, (Mr. McCulloch's estimate)	53,900,000
In round numbers, therefore, the quantity cut off by the blockade is to the total supply in the ratio of 1,000,000 quarters to 54,000,000 quarters, or something less than 2 per cent.	

WHEAT.

Average annual quantity of Wheat derived from Russian sources (4 years ending 1853)	785,800
Probable quantity which we shall continue to receive	100,000
Total wheat cut off by blockade	685,000
Total consumption of Wheat in the United Kingdom (Mr. McCulloch's estimate)	18,000,000
The deduction, therefore, effected in our total supply of wheat through the operation of this blockade would be about one twenty-sixth or 3.88 per cent.	

Perhaps some will be of opinion that I have not allowed sufficiently for the greater stringency with which in future the blockade will be enforced. To which I answer that, even if we suppose the exclusion of Russian supplies to be absolutely complete, something must still be allowed for the tendency which such exclusion would have to force Russian wheat into the German markets, which, if it did not reach us by an indirect course, would at least have this effect—that it would lessen the competition against us on the part of the Germans in the markets of the world; at all events, if we assumed the whole to be cut off absolutely, the difference would not very materially disturb the calculation.

of four per cent from our supply of wheat, or of two per cent from grain of all kinds,—is calculated to produce upon the price of wheat, or of grain in general. This is a problem to the solution of which unfortunately no certain rule can be applied. It is beyond question that a given deficiency in the supply of wheat, or other grain used for human food, will produce a greater effect upon the price than a corresponding deficiency in the supply of any other commodity whatever; and for this very obvious reason, that a man will make any sacrifice rather than be deprived of his accustomed share of that which is necessary for his subsistence. It is also evident that the result will depend in a considerable degree upon the condition of the bulk of the population, and the surplus means at their disposal beyond what is required for the purchase of subsistence in ordinary times—a consideration which is of particular importance in estimating the effect of deficiency at the present time. Bearing these principles in mind, and taking, further, as our guide, the practical rule which Mr. Tooke tells us has generally been found to hold good, viz., “that the price of corn in this country has risen from 100 to 200 per cent and upwards, when the utmost computed deficiency of the crops has not been more than between one-sixth and one-third below an average, and when that deficiency has been relieved by foreign supplies,”*—I say, giving due force to all these considerations, I don't think I shall be very far wide of the mark, and certainly am not likely to be *under* the mark, if I assume that a deficiency of nearly 4 per cent in the supply of wheat would cause a rise of not less than 25 per cent in its price. So far with regard to the question of supply.

And, then, with regard to demand, it appears to me that the effect of war in this respect is very unimportant. There are but two ways in which, so far as I can see, the prosecution of hostilities can lead to any increase in the consumption of food—either in the actual destruction of stores, against which we have to set off (what probably would more than balance the account) viz., the destruction of consumers in the losses of the hostile armies, or, secondly, in the additional quantity of bread consumed by our soldiers abroad beyond what the same men would have consumed had they continued to form part of the labouring population at home; and this I conceive would be something quite insignificant, and probably would not produce as much effect on the price of corn as a single wet day in harvest time.†

The influence of the war, therefore, as far as I am able to compute

* History of Prices, vol. 1, p. 13.

† In noticing this point, Mr. Tooke remarks (History of Prices, vol. 1, p. 101. note), “This additional consumption is hardly worth mentioning; for, take it at its utmost, it is a quantity quite insignificant compared with the difference between a good and bad crop of wheat. Suppose, for instance, that the extra consumption is four bushels of wheat per head for each (an extravagant supposition) of the men composing the army and navy; suppose these to have amounted to 300,000, there is an extra demand for 150,000 quarters. While between the limits of a bad harvest like 1816, which has been computed as low as 9,000,000 quarters, and an abundant one like 1820, which was supposed to have yielded 16,000,000, there is a difference in supply of 7,000,000. And, accordingly, it is well known by experience that the most wasteful consumption produces very little impression on a superabundant crop.”

it, goes but a short way in accounting for the high price of corn, which we have now for some years been experiencing. Let us see whether we cannot find the explanation in other causes. And, first, let us contemplate the exact character of the problem for solution. It appears by reference to the Statistical Abstract published by Government, that from the last months of 1849 to the end of 1851 there was but little fluctuation in the price of corn. The price of wheat was particularly steady, ranging between 38s. and 42s. the imperial quarter. From about the end of 1851, however, barley and oats are found to advance, an advance in which wheat does not appear to have shared till about a year later. But from the beginning of 1853 a steady rise is exhibited in the price of wheat, till, in January, 1854, three months *before* the war broke out, the average price of wheat rose to 80s. 1d.—a point which has not since been much exceeded. From that point a reaction was experienced, and in September of the same year, six months *after* the declaration of war, the price of wheat had receded to 56s. 7d., and in October to about 58s., from which point again it has advanced, and after some slight fluctuations it again stands at upwards of 80s. Further it is to be noted, that, as the high price of corn does not coincide with the war in point of time, no more does it in point of locality. In 1853, according to a statement which I find in the *Daily News* (November 9th, 1855) “the average price of wheat in Prussia was 45s. 9d.; being 13s. 11d. above the average of the previous twenty-five years; and it has since continually risen.” In New York last year, corn was as high as in London; and notwithstanding the large yield of the late harvest in the United States, the price, I understand, is still maintained.

I suppose it will not be denied that a considerable portion of these fluctuations is to be set down to the character of the seasons; tho’ I think it will scarcely be maintained that the seasons afford a complete explanation of the phenomenon. Unfortunately the records of agricultural statistics in the United Kingdom are not such as will enable us to form anything like an accurate estimate of the influence of this cause; and we have all seen what a wide discrepancy of opinion exists upon this subject amongst practical men, who yet all profess to have formed their opinion from the minutest personal inspection. Even, however, if we suppose the utmost deficiency in the crops in England that has been contended for, and if further we assume (what I believe is the case) a considerable deficiency of yield in some continental countries, this will scarcely be sufficient to explain a rise of 100 per cent in the price of corn as compared with four years ago: a rise, which, with a single and almost momentary exception, has had no parallel throughout the last thirty years, (in the course of which we have had harvests quite as deficient as that of last year, and the greater portion of which was passed under protective laws;) more particularly, when we have to set against the deficiencies of the European markets the overflowing yield of this year’s crop in America. It appears to me evident that to explain fully the present high price of corn, we must take into account other influences, which have been strangely enough almost quite overlooked in all the controversies on this question; and these are, firstly, the increase which has, in the

course of the last five or six years, taken place in the number of corn consumers in the world, and by consequence in the demand for corn; and, secondly, the increase in the quantity of the circulating medium of the world, which has resulted from the gold discoveries in California and Australia.

With regard to the first point, it cannot, I conceive, be doubted that in the case of the United Kingdom the consumption of corn has, on the whole, increased. It is true the population of this portion of the empire has of late years diminished; but the rate of wages is higher, the reduced population is much better off, and the number now who can afford to eat bread cannot but be greater than some six years ago. In England and Scotland the population is increasing, and wages certainly have not fallen. The consequence must be an increase in the demand for corn. In America not only is the population increasing by virtue of its inherent fruitfulness, but it has also, during the last six years, been enormously swollen by immigration. The effect of the emigration from Europe has had a two-fold operation on the demand for corn—firstly, by thinning the supply of labour in the old countries it tends to raise wages, and thus to increase the number of those at home who can afford to consume corn, and especially the better kinds of corn; and secondly, by the new demand created by the emigrants in America, who, sharing in the high rate of wages which prevails there, at once take their place in the rank of corn-consumers.

We shall be further confirmed in this conclusion if we consider the vast extension which has taken place in the foreign trade of the United Kingdom, and, by consequence, of the world, in the last five or six years. To take one or two instances, the exports from this country to the United States and California have increased from (in round numbers) £12,000,000, in 1849 to nearly £24,000,000 in 1853; while in the case of Australia the exports thither have increased from £2,000,000 in 1849, to £14,000,000 in 1853. And in many other countries, as, for example, our North American possessions, the Hanse towns, Holland, Belgium, and France, the increase has also been steadily progressive. The plain inference from these facts is that the wealth of these communities has been greatly augmented, and consequently the purchasing power of the general population.

If this account of the matter be correct, we might expect to find the advance which has taken place in the price of corn accompanied by a corresponding advance in the price of other articles which enter into the consumption of the general population; since the same augmented purchasing power which has been assigned as the cause of an increase in the consumption of corn, would be equally efficacious in extending consumption in other directions, and would manifest itself there also in an advance of price; and such in fact we find to be the case. The price of butcher's meat, for example, is now about two pence a pound higher than it was in 1851 and 1852; and this notwithstanding the increase which has taken place in the supply of stock during that time. I may remark by the way, that tho', at particular junctures, the markets would seem to have been affected in a slight degree by the operations of Government, yet that,

on the whole, the advance which has taken place does not exhibit any general correspondence with the progress of the war expenditure. The price, for example, from March to August, 1853, a year before the declaration of war, was almost as high as it is at present; while during the first half of 1854, while hostilities were either in active preparation or being actually carried on, the price on an average appears to have fallen about three halfpence the pound. What is manifest in this case, as in the case of corn, is on the whole a progressive advance, not commencing with the outbreak of hostilities, but at least two years earlier, about the year 1851, accompanied by some remarkable fluctuations, which are evidently due to special causes of a temporary character affecting the particular commodity.

But while the enlarged demand, springing out of this great and almost unparalleled industrial and commercial development, has been powerfully tending to augment the *real* exchange value of the necessaries of life, another cause has been in operation of a still more general character, tending to act upon their *nominal* value as well as upon the nominal value of all other things. The Californian and Australian mines have now been, the one six, the other three years in full work. According to the returns given by Mr. Newmarch in his treatise on "The New Supplies of Gold," the quantity of gold produced in both these places up to the end of 1852 was £56,000,000; and, supposing the mines to have gone on producing at the same rate since that time, the increase to the circulating medium of the world from these sources alone cannot now be less than £110,000,000 sterling. The action of this vast additional sum upon the prices of commodities (as has been shown by Professor Walsh in his able paper upon this subject,*) has been, owing to the influence of other and concurring causes, to a certain extent neutralized and to a certain extent concealed. Professor Walsh, however, is of opinion,—an opinion which is fully supported by the facts which he adduces,—that this great increase of the circulating medium is now beginning to make itself felt in a general advance of prices—an advance which he shows must, in the first instance, manifest itself chiefly in the price of those articles which fall within the consumption of the general population. To his remarks upon this subject I will venture to add, that, as one of the principal causes which have hitherto neutralized the action of the increased gold supplies upon prices has been the great commercial development of the last five or six years, opening as it did new channels to the new supplies of gold almost as fast as they were produced; and as this commercial progress would seem now to have received a slight but decided check; it is just, therefore, at the present time that the effect of these new supplies in advancing prices might be expected unequivocally to show itself. In other words, the principles of economic science applied to this problem lead to conclusions which strictly correspond with the actual facts of the case.

The result, then, of this inquiry into the present high price of

* Journal of the Dublin Statistical Society, part 4, January, 1856.

corn is that, though in some degree caused by special influences connected with the war, though in some degree the effect of unfavourable seasons, it is principally due to that increased demand for food which has arisen out of the commercial enterprise and industrial activity of the last six years, and in a slight measure also to the depreciation in the value of gold, consequent on the great increase which has taken place in its quantity. If these conclusions are to be trusted, some important consequences may be deduced from them. We may infer, in the first place, that as the present high price of corn is but in a slight degree connected with the existence of hostilities, it may consequently be expected to be but in a slight degree affected by their cessation. We may further, from a consideration of the nature of those causes to which this high range of prices is principally owing, judge as to their probable duration and effects. So far as the advance which has taken place in price is owing to the demand for corn outrunning the supply, so far, it is evident, it must continue till the supply shall be made to overtake the demand. Whether it shall *ever* recede to its former level as a permanent average must depend upon the extent to which the skill and knowledge brought to bear upon the practice of farming may ultimately overcome the increasing difficulty which always attends the extraction of increased produce from the soil. On the other hand, whatever portion of the advance in price is due to the increased supplies of gold, this, so far from falling off, must continue and progress so long as the yield of the gold mines continues. It is, however, to be borne in mind, that whatever advance in price corn may experience from *this* cause, has no tendency permanently either to benefit or injure landlord, farmer, or consumer.* It can have no permanent influence on the value of either rents, profits, or wages; and for this reason, that any rise of price resulting from a depreciation of the circulating medium will, in its ultimate effects, extend itself equally over all other commodities; its operation, therefore, so far as regards the permanent interests of those classes must be entirely nugatory.

In the foregoing observations (of the extremely incomplete and meagre character of which, I beg to say, I am perfectly sensible), I have been occupied rather in showing what effect war does *not* produce on prices than in showing the effect which it does produce. It is evident, however, that the first step towards a satisfactory discussion of this subject must consist in clearing away the various hypotheses and hallucinations which surround it. Even if we went not a step further, it appears to me that the practical lesson to be derived from such merely negative conclusions is far from being unimportant. If producers, merchants, and dealers, instead of acting on some hazy notion that in time of war prices must be constantly rising, would direct their attention more steadily, each to the cir-

* To this general assertion, the reader will apply the proper and obvious limitation, namely, as regards persons whose incomes consist of a fixed money sum, who evidently must be losers to the extent of the depreciation. All that is intended to be asserted is, that the depreciation of the circulating medium through an increase of its quantity will not affect the profitableness of the different modes of investment either absolutely or in relation to each other; nor, again, the relation between these and the real value of services.

cumstances of his own business,—to the actual stocks in the country and the actual demand in the market,—and would content himself with acting on such knowledge, much foolish speculation and much unnecessary aggravation of the inevitable evils of war might be avoided. Amongst farmers in particular the belief that war and high prices are inseparably connected is extremely strong; and I have little doubt that the advance in the price of corn which took place some months ago, considerably beyond what experience has since proved the conditions of demand and supply warranted, is entirely to be attributed to this conviction. Farmers, in the hope of extravagant prices, held back their supplies from market till they produced the phenomenon they desired. Now, however, when they are bringing their supplies into market, prices, which were before unduly inflated, are beginning to recede, and will decline as much below their natural average as they were previously forced above it. Nor is corn by any means the only instance in which this delusion has led for the moment to the fulfilment of its own predictions. The recent rapid advance and as rapid decline in sugar is also, I suspect, to be attributed to the influence of the same delusion; and other cases might be mentioned.

Though, therefore, the reasonings of this paper have been directed chiefly to conclusions of a negative kind, tending to establish what war does *not* rather than what it does effect, I hope it may not be regarded on this account as entirely without point or application. When the fundamental errors which prevail on this subject are removed, the question becomes then reduced for the most part to a question of fact, respecting the particular circumstances of each trade—a question which those engaged in such trades are in general much more competent to decide for themselves than any mere theorist like myself can be to decide for them.

III.—*Condition of the Labouring Population of Jamaica, as connected with the present state of Landed Property in that Island—*
By Richard Hussey Walsh, LL.B., Archbishop Whately's
Professor of Political Economy in the University of Dublin.

[Read before the Statistical section of the British Association, Glasgow,
September 13th, 1855.]

INTRODUCTION.

THE Council of the Dublin Statistical Society have directed me to bring before this section a report containing the result of an inquiry into the condition of the labouring population of Jamaica, as connected with the present state of landed property in that island. The inquiry was commenced in the year 1853 by the Council of the Social Inquiry Society of Ireland, which is now amalgamated with