

John Prince-Smith, Excerpts from his *Collected Writings* (1843–63)

Abstract

Due to dissatisfaction with restrictions on guild rights, protective tariffs, and feudal agricultural law, the idea of free trade gained increasing support. One of the most important proponents of free trade in Germany was the Englishman and Prussian citizen John Prince-Smith (1809–1874). Excerpts from his 1843 and 1845 essays on free trade and protectionism are included here.

Source

I. On Hostility to Trade (1843)

I believe that I may introduce the following propositions as irrefutable, namely:

that government interference in the course of trade through tariffs can only *prohibit profit* or *compel loss*;

that creating certain branches of industry through protective tariffs does not increase employment for labor and capital, but can only provide for a damaging type of employment;

that, without this kind of artificial provision, the capital and labor to be employed in protected trades would find application in free, profit-making trades; — (because the price that the protected trades need to pay for capital and labor is the price that the unprotected trades offer for the same);

that a protective system diminishes the funds for employing workers overall by way of destroying capital;

that entrepreneurs in protected industries have to suffer under the general pressure that the protective system distributes across all members of the nation in the form of increased prices for articles for consumption;

that the protective system puts exotic trades that depend upon restricted sales at home in the place of natural, home-grown branches of production that might win out in world markets;

that an attempt at reprisal by way of protective tariffs only increases the damage to [a country's] own subjects;

that an attempt to offset a disadvantage arising from a restriction imposed by others with a self-imposed restriction will actually increase the losses to those subjects who were disadvantaged in the first place;

that the entire prohibitive system, which stems from ignorance, aspires to imagined advantages, without any calculation of the costs.

But there is another point of view, from which the reprehensible nature of the protective system shines forth. If a profit really were to accrue to certain producers under this system, at the consumers' cost, then no government would have the right to implement anything of the kind. — Government is there to protect everyone in enjoying the fruits of his own industriousness. It not only oversteps the powers of the state administration, but also runs contrary to [government's] primary duty, when earned possessions are taken away from one person in order to be given to another. The government can take from its subjects' surplus funds insofar as it needs the means to maintain order and security; it is also entitled to

demand an additional sacrifice in order to promote general charitable activities, to the extent that an advantage outweighing the sacrifice arises for *those burdened thereby*. But its authority does not extend any further. Even if certain capitalists would gain an advantage from using three million thalers and 5000 workers for a beet sugar factory, the government does not have the right, in order to make this possible, to burden all the other subjects to the tune of a million thalers annually in order to cover the resulting tax loss. If the most basic wisdom did not warn against this, then most common feeling of justice would have to forbid it. That such things are happening is attributable not only to the distorted views of financial officials, but also to those of almost all peoples everywhere. — The harmfulness of the protective system is certainly appreciated by the finest Prussian statesmen. Dr. Borwing even says point blank in his report about the German Customs Union that the general conviction of department heads in Prussia is *against* protective legislation. An even more reliable testimony for the Prussian government's enlightened trade principles is meanwhile provided by a ministerial instruction from December 26, 1808, wherein it is stated:

“It is always most conducive for the state and its individual members to let trade take its natural course in every instance, which means: not to favor and improve any [trade] through special subsidies, but also not to limit any in its creation, management, and expansion.”

“In addition to the unrestricted manufacture and refinement of products, it is necessary to have ease of traffic and freedom of trade, both at home and abroad, if industry, industriousness, and welfare are going to flourish, and this is also the most natural, most effective, and most lasting means to promote these.

“Trades that can be conducted to advantage will therefore come into being, and these will be the ones most appropriate for the production conditions of the country and the cultural condition of the nation. It is incorrect to believe that it is advantageous for the state to manufacture things itself even when they can be purchased more inexpensively abroad. The additional costs that accrue to [the state] from domestic manufacture are simply lost and could, if they had been invested in another trade, prove quite lucrative. It is wrong to believe, in cases like this, that one needs to keep the money at home and preferably not buy. If the state has products that it can sell off, then it can also buy gold and silver and have it coined.”

“It is not necessary to give trade preferential treatment; [trade] simply needs not to be burdened.”

“The government's attention needs to be drawn to promoting freedom of trade and commerce as much as possible and abolishing the various restrictions to which these are still subject.” —

II. On Disadvantages to Industry through Increasing Import Tariffs (1845)

With enormous effort and astonishing sacrifice, Germany is now building highways, railroads, and steamships. It is directing its chief energies at expanding and facilitating the means of transportation in the interest of industry. Commerce and industry are, in the contemporary view, two inseparable, mutually determining elements. Expanded industry requires facilitated commerce, and from the latter we expect, in turn, an economic upturn for the former in the future.

The question of inhibiting commerce has acquired completely new importance these days. In previous times, when commerce was so greatly restricted by invincible natural barriers, artificial inhibitors, while certainly capable of encumbering the development of industry, could not interfere with the entire system; for industry at the time was not based on wide-ranging commerce; there was a lack of funds to build this kind of foundation. But now, where human energy, with the help of iron and steam, drives the most colossal loads through valley and mountain and ocean with a speed that almost causes distances to disappear, – now, since commerce, so wonderfully liberated from natural shackles, is orchestrating a general reorganization of industry, interference with the natural course of development must have the

most widespread and far-reaching consequences. Every facilitated or newly opened transportation route induces a new division of labor, greater centralization and localization of trade, a more advantageous application of the means of production.^[1] Placing large sums of capital in highways, railroads, and steamships only happens with the prospect that one will draw a larger income from the remaining operating funds, through a more advantageous application, than one previously drew from the entire working capital. From the splendor of the applications now made for communication one can measure the size of the changes in all the capital investment undertaken or about to be undertaken. Trade is cut back here, expanded there. Here old branches of industry disappear, there new ones arise; all of industry receives a new foundation with a new division of labor, every branch a new circle of activity; and, accordingly, all of industry has to reorganize its facilities to the broadest extent. One should therefore consider what consequences would follow if one interfered clumsily at a moment like this and blundered, — if one, out of ignorance of the system of industry, or seduced by the deceptive intrigues of special interests, gave shape to a lively course of development that, to the extent that it runs contrary to nature, must also be untenable. Great losses in property, which force one to disadvantageous application, will be the lesser evils. *The harm will lie in how one involves a great working population in industrial branches that — insofar as they are inappropriate for the conditions of a country and not rooted in indigenous soil — cannot expand with the growth of the people and its needs and that, through unproductive application, reduce rather than increase the sources for earning a living altogether.* The inevitable punishment for such mistakes lies in social crises whose outbreak will be felt first and most harshly by the creators of these ills. It is no longer the era in which one may pursue his profit without regard for the consequences to the mass of the people. The era of communist agitation is not a time in which consumers might be taxed by individual capitalists, — not a time in which the general interest may be sacrificed to the special interest. *The century of railroad construction is not a time for restricting gainful commerce.*

III. The Market (1863)

In the *labor market*, the most numerous class of human beings, those with no material capital and, owing to a lack of education, only a little personal capital, seeks to unite with the greater material and personal capital that can help it achieve the necessary means of subsistence. It hires out its labor power to qualified capitalists. The wage or hire price of labor is directly dependent, as with any price, on the relationship between supply and demand. The size of the demand for labor is determined by the size of accumulated capital; for the capitalist has the most immediate interest in employing as many workers as he, depending on the kind of company he has, can furnish with the necessary equipment and advance payments.^[2] The size of the labor supply is determined by the number of wage-seekers and their degree of efficiency. Improving wages is only possible when capital is increased more robustly than the number of workers. The individual worker can only receive more payment funds when his work is supported by more capital and more payment funds are thereby created. All endeavors and proposals aiming at something other than this are illusions. In order for the largest class of human beings (by far) to enjoy more, they need to create more goods for consumption, and this can only happen on the path of general economic progress, through increasing and perfecting productive aids and equipment, and through improved training of the labor force.

As self-evident as this should be, some individuals believed that the goal could be reached by way of a shorter path. Without having enlarged the total product, they want to have an enlarged share of this product go to the workers, and consequently to cut the capitalists' share.^[3] But if one cuts the profit of the capitalist, then one lessens his interest in accumulating and maintaining capital, as well as his capacity for enlarging his capital, and consequently his demand for labor. A higher profit on capital, by contrast, leads most quickly to a wage increase; for it provides the strongest incentive to increase capital. The worst condition for workers is when profit on capital and increased capital are substantially reduced by state expenditures for unproductive purposes; — capitalists would be able to give the people

working for them much more to consume if they did not, at the same time, need to maintain so many peacetime soldiers, who do not repay their provisions through work. If all European states were to introduce the Swiss militia system, capital would increase in a short time, and wages would rise, so that the distress of the working class would no longer be the [subject of] discussion. Herein lies the solution to the labor question.

“But,” one argues, “all the capital increases won’t help, because the number of job seekers necessarily keeps pace, indeed, according to an *iron law* confirmed by all economists, whereby the working wage is constantly depressed to a level that suffices only for the meagerest of livelihoods.” This objection is completely unfounded. The science of economics refers rather to a law that secures a progressive improvement in the situation of the workers. A population increases more rapidly or more slowly, namely, according to whether it feels more or less comfortable, i.e., according to whether its payment funds more or less satisfy its customary living demands. With a given mass of payment funds, one nation can feel quite comfortable and proliferative, while another, better-situated nation would complain about oppressive misery and collapse. What matters here is habituation, the cultural level attained, in other words, the cultural history of that nation. In general, population increase has everywhere the same relationship to capital increase that secures the customary mass of payment; — if payment achieved becomes smaller than this mass, previous population growth slows down. If, by contrast, as often happens, an increase in capital enjoys a major upswing, e.g., as the result of new inventions and discoveries or the expansion of economic freedom, then there is a sudden demand for more workers. But more workers are not instantly there for the taking; they first need to be produced in greater numbers, and this requires several years; and during this time a higher wage reigns, and this [wage] is accustomed to increased living demands, consequently increasing the mass of payment funds that the capitalists need to grant in order to see their demand for workers in their previous condition fulfilled. But in order to hold onto specific living demands, the working class already needs to be accustomed to a more or less secure livelihood, to cleanliness, and a modest propriety of its domesticity, as well as to certain spiritual [intellectual] and social satisfactions; it needs to have moral stability in the form of self-esteem; and this it can achieve only in [a climate of] economic and political freedom. The *golden law* of social progress lies in a situation where the improvement of the material condition of the working class is fundamentally secured by its spiritual [intellectual] and ethical improvement. — The misery of the lowest popular stratum should not, incidentally, be confused with the distress of the working classes. Those workers who truly have a place in the economic system, whose energies are sufficiently supported by capital, by no means live in misery; the capitalist can only use them when he nourishes them in such a way that they have a surplus of energy, for only this proves beneficial to him. The truly suffering are those whose labor power is almost completely unsupported by capital and who therefore produce little, those who have remained stuck in a pre-economic stage, and for whom there is not yet enough available capital to place them in the actual operation of a business. Yet for the complete employment of all, sufficient capital can be easily and even quickly created with complete freedom of economic movement,^[4] — if only the state does not devour too much of what has been created.

NOTES

^[1] *Major von Prittwitz* demonstrates that sales, from a certain point onward, grow *in a square* of that ratio in which shipping costs are reduced; because the distance up to which something can be shipped with profit, or the radius of the shipping circle, stands in a reverse ratio to the transportation costs — original footnote.

^[2] When, however, fear of political or economic disturbances prevails, many capitalists prefer to let their funds lie fallow, which is why such crises can occasionally diminish the demand for labor considerably — original footnote.

^[3] They say: “The workers create everything.” Certainly, with the assistance of capital. But how much could the workers create on their own without capital? Compare, e.g., the harvest that a man

can obtain on raw soil with a simple hoe with what he can help produce on a cultivated field with a plow. The surplus, however, is not entirely awarded to the capitalist; for the field worker receives in his wages more payment funds than he could produce without capital — original footnote.

[4] It cannot go unmentioned, that in many countries, e.g., in Germany, much of the land is owned by farmers, who completely lack the knowledge to apply capital to agriculture. Thus, foodstuffs cannot be offered for the same low price as manufactured wares. The wage is limited by the price of manufactured wares, whereas the worker's nourishment depends upon the relationship between his wage and the price of foodstuffs – original footnote.

Source: Excerpt I: John Prince-Smith, “Ueber Handelsfeindseligkeit,” in *John Prince-Smith's gesammelte Schriften*, eds. Otto Michaelis and Karl Braun-Wiesbaden. Berlin: Verlag von F. A. Herbig, 1877–80, vol. 2, p. 141–44; Excerpt II: John Prince-Smith, “Ueber die Nachtheile der Industrie durch Erhöhung der Einfuhrzölle,” in *John Prince-Smith's gesammelte Schriften*, vol. 2, pp. 177–79; Excerpt III: John Prince-Smith, “Der Markt, eine Skizze,” in *John Prince-Smith's gesammelte Schriften*, vol. 1, pp. 19–22.

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