DEMAND AND SUPPLY are terms used in political economy to express the relations between consumption and production—between the demand of purchasers and the supply of commodities by those who have them to sell. The relations between the demand for an article and its supply determine its price or exchangeable value [VALUE]: the relations between the demand for labour and its supply determine the amount of wages to be earned by the labourer [WAGES]. For causes explained elsewhere, the price of an article will rarely vary, for any length of time, very much above or below its cost of production;* nor will the wages of labour, for any length of time, much exceed or fall below the amount necessary to maintain labourers and their families in such comforts as their habits of life have accustomed them to believe necessary for their subsistence; but bearing in mind that, in the prices of commodities and labour, there is a certain point, determined by causes independent of demand or supply, above or below which prices cannot materially vary for any considerable time: all variations of price, if the medium in which they are calculated remains unchanged, may be referred to the proportion which exists between the demand for commodities and the supply of them—between the quantities which purchasers are willing and able to buy, and the quantities which producers are able and willing to sell.

To have any influence upon prices a demand must be accompanied by the means of purchasing. A demand is not simply a want—a desire to obtain and enjoy the products of other men's labour; for if this were its meaning, there would never be the least proportion between demand and supply: all men would always want everything, and production could not keep pace with consumption. But an "effective demand," as it is termed by Adam Smith, exists wherever one man is anxious to exchange the products of his own labour for that of other men. It is, therefore, of an effective demand only that political economists are speaking when they examine the circumstances of demand and supply in connexion with prices.

But although a demand, without the means of purchase, cannot affect prices, the universal desire of mankind to possess articles of comfort and luxury suggests other important considerations. As this desire is natural to man, and too often is so strong as to tempt him even to commit crime, it obviously needs no encouragement; men will always gratify it whenever they have the means, and these means consist in the products of their own labour. Hence all that is required to convert this desire of acquisition into an effective demand is ample employment for industry. Increase the production of all commodities and an increased consumption of them is the certain result; for, men having larger products of their own labour to offer in exchange for the products of other men's labour, are enabled to purchase what they are always eager to acquire. Production, therefore, is the great object to be secured, not only as furnishing a supply of commodities necessary and useful to mankind, but also as creating an effective demand for them. When trade is depressed by a languid demand, it is commonly said that increased consumption is all that is required to restore its prosperity. But how is this consumption to be caused? The desire to consume is invariable, and thus any falling off in consumption must be attributed to a diminished production in some departments of industry which causes an inability to consume. When production is restored, an effective demand for all articles will immediately follow; but until the productive energies of the consumers are in a state of activity it is in vain to expect from them an increased demand.

These considerations lead us to the conclusion that a universal glut of all commodities is impossible. The supply of particular commodities may easily exceed the demand for them, and very often does exceed it; but as the constant desire

* "Cost of production" is used by political economists in a sense different from that of commerce, and includes profits. (See M'Culloch's edition of Adam Smith, c. 7.) It means, in fact, the price below which no man would continue to sell his goods. An ordinary profit is a part of the cost of production in an enlarged sense, as much as the expense of wages and materials.

to obtain commodities needs nothing but the power of offering other commodities in exchange, to become an effective demand, it is evident that a universal increase of production is necessarily accompanied by a proportionate increase of consumption. Men are stimulated by no love of production for its own sake, but they produce in order to consume directly, or because by exchanging their produce with others they are able to enjoy the various comforts and luxuries which they are all desirous of obtaining. Active production, therefore, in all departments of industry causes a general and effective demand for commodities, which will continue to be equal to the supply unless it be checked by war, by restrictions upon commerce, or by other circumstances which prevent a free interchange of commodities.

A country is in the highest prosperity when there is an active and steady demand for commodities and labour, and a sufficient supply of them. Any disturbance of the proportion between one and the other is injurious to the community; and the injury is greater or less according to the extent and duration of such disturbance. When the proportion is well adjusted, the whole community derive benefit from the circumstance, both as producers and consumers; when it is disturbed, they are injured in both capacities.

Having described thus generally the nature and causes of demand, and its intimate connexion with supply, it becomes necessary to examine the influence of demand and supply upon one another, and upon production, consumption, prices, and profits. This influence varies according to the circumstances of the market, and the nature of the commodities to which its laws may be applied. These may be best understood by considering, 1st, the effects of a demand exceeding the supply; and, 2ndly, of a supply exceeding the demand.

1. The first effect of a demand exceeding the supply of a commodity, is to raise its price. As more persons want to buy the commodity than the producers are able or willing to supply, they cannot all obtain what they desire; but must share the supply between them in some manner. But their wants are very much regulated by the cost of gratifying them. One man would purchase an article for a shilling for which he may be unwilling or unable to pay two; while others, rather than forego the purchase, will consent to pay that amount. Those who have commodities to sell, finding that they have more customers than they can satisfy, immediately infer that they are selling them too cheaply, and that they could dispose of all their stock at a higher price. The price is accordingly raised, when the sale becomes limited to those who are not restrained from buying by the increased price. In principle, though not in outward form, the market is in the nature of an auction. The sellers endeavour to obtain the highest price for their goods; the price rises with the eagerness of those who wish to buy, and the highest bidders only secure the prizes. In the market, however, the competition of the buyers is not perceptible amongst themselves except through the prices demanded. Their competition determines the prices, but the sellers judge of its extent, and regulate their demands so as to obtain the greatest possible advantage from it.

Some commodities are positively necessary for the support of the people, of which the supply may fall very short of the demand and be incapable of increase. This is the case when there is a bad harvest in a country which is excluded from a foreign supply by war or by fiscal restrictions. Here the price rises in proportion to the deficiency of the crops. The competition for food is universal. Some, indeed, may be driven to the consumption of inferior articles of food, and others to a diminished consumption; but all must eat. The number of consumers is not diminished, while the supply is reduced; and the price must, therefore, rise and continue high until a fresh supply can be obtained. In a siege the competition is still greater. The prices of provisions become enormous: the rich alone can buy; the poor must starve or plunder.

A similar effect is produced if the supply, without being deficient, be confined to the possession of a small number of persons, who limit it to the consumers in order to secure higher prices. However abundant corn might be in a besieged town, if one man were exclusively authorised by law to sell it, it might rise to a famine price, unless the people broke into the granaries, or the government interfered with the monopoly. Less in degree but similar in principle is the effect upon prices of every limitation of the market by fiscal restrictions. When any sellers are excluded, the others are enabled to raise their prices.

These are cases in which the supply cannot be increased to meet the demand, or in which the supply is monopolized. But the greater number of commodities may be increased in quantity, and the supply of them is not artificially limited. The price of these also rises when the demand exceeds the supply: but the increased price raises the profit of the producer and attracts the competition of others in the market. Fresh capital and labour are applied to the production of the profitable article, until the supply is accommodated to the demand or exceeds it. The prices gradually fall, and at length the profits are reduced to the same level as the profits in other undertakings, or even lower. The encouragement to further production is thus withdrawn, and prices are adjusted so as to secure to the producers the ordinary rate of profits, and no more.

But sometimes the demand for a commodity is diminished, if the supply fall short of it for any considerable time. There are various articles useful and agreeable to mankind but not essential to their existence, which they are eager to enjoy as far as they can, but for which they are not prepared to make great sacrifices. When the price of an article of this description is raised by a deficient supply, continuing for some length of time, it is placed beyond the reach of many persons who learn to regard it with indifference. They would buy it if it were cheap; but as it is dear, they go without it or are satisfied with a substitute. In this manner the number of consumers is diminished. Others again, who will not be deprived of an accustomed luxury, enjoy it more sparingly, and consume it in less quantities. But so long as the supply is not increased, the price will continue high, because the consumers who still purchase the article, notwithstanding its price, keep up an effective demand equal to the whole supply; while there is still a dormant demand, only awaiting a reduction of price to become effective.

For the same reasons a demand for articles is diminished when their price is artificially raised by taxation. The demand is gradually confined to a smaller number of persons, and many consume more sparingly. [Tax, Taxation.]

In these various ways demand and supply become adjusted through the medium of price, whenever the one exceeds the other. This is the result of natural laws, the operation of which is of the highest value to mankind. If the supply be incapable of increase, it economises consumption: if the supply can be increased, it encourages production. In either case it is of great benefit to the consumer. To revert, for a moment, to the example of a bad harvest in a country excluded from all foreign supply. Suppose that prices did not rise, but remained precisely the same as if the harvest had been abundant, what would be the consequence? The whole population would consume as much bread as usual, and use flour in every way that luxury points out, unconscious of any scarcity. Farmers might even feed their cattle with wheat. By reason of this improvidence the whole of the corn would be consumed before the next harvest, and the horrors of famine would burst, without any warning, upon a people living as if they were in the midst of plenty. This evil is prevented by a rise of prices, which is a symptom of scarcity, just as pain is a symptom of disease. By timely precaution the danger is averted. A high price renders economy and providence compulsory, and thus limits consumption. The supply, therefore, instead of being exhausted before the next harvest, is spread over the whole year. In the case of food it is true that such economy is painful and presses heavily upon the poor: but this evil is a mercy compared with famine. If no privation had been endured before scarcity became alarming, none but rich men could buy a loaf: for every one who had a loaf to sell would be risking his own life if he sold it.

These observations are also applicable in some measure to cases in which prices are raised by the supply being confined to one or to a few persons, who have contrived to buy up the whole or nearly the whole of any commodity. But such exclusive possession (sometimes improperly called a monopoly) cannot exist, for any length of time, in articles of which the supply is capable of increase. The extreme case has been put of a besieged town in which the whole supply of corn was monopolized by one man. Under those circumstances of course he would demand a high price; but unless his exclusive supply were upheld by law, it does not follow that the inhabitants would suffer on that account. A most provident consumption of food is absolutely necessary for the defence of a town, and no organization could distribute provisions according to the wants of the people so well as a system of purchase restrained by a high price. It must also be recollected that, without any such exclusive possession, the fact of the siege alone must raise prices by cutting off fresh supplies. If the siege continue, provisions are more likely to last out by the instrumentality of prices than by any other means. At the same time the sole possessor of the corn would be restrained from keeping back the supply beyond the actual necessity of the occasion by many considerations. He would know that if a popular tumult arose, if the town were relieved, the siege raised—a capitulation agreed to or the place suddenly carried by assault —the value of his exclusive property would be destroyed. His own interest, therefore, is coincident with that of the people. It is better for both that the supply should be meted out with parsimony; it is dangerous to both that it should be immoderately stinted.

In circumstances less peculiar than these, very little evil can arise from an exclusive possession of any commodity not protected directly or indirectly by law. If the supply be capable of increase, and the demand be sufficient to enable the owner to secure a high price, for reasons already explained, the market would rapidly be supplied from other quarters. If the supply cannot be increased, that fact alone would raise the price; and it is probable that the supply would not have been so great without the extraordinary activity of the capitalist who had been able to secure for his country the whole accessible supply to be collected from the markets of the world.

A monopoly, properly so called, is of a totally different character: for however abundant the supply of an article may be, it may, nevertheless, be inaccessible to the consumer. [MONOPOLY.] Such monopolies were properly condemned so far back as the reign of James I. (21 James I. c. 3), although vast monopolies are still indirectly maintained by our fiscal laws. [TAX, TAXATION.] The legislature of this country, however, did not observe any distinction between a legal monopoly and the great speculative enterprises of commerce, miscalled monopolies; and severe penalties were inflicted both by the common and statute laws against offences called "badgering, forestalling, regrating and engrossing." The impolicy of such laws was gradually perceived. If prices were occasionally raised by speculations of this kind, yet the restraints upon commerce, which resulted from these laws, were infinitely more injurious to the consumer. Many of the statutes were therefore repealed by act 12 Geo. III. c. 71; but the common law, and all the statutes relating to the offences of forestalling, regrating, and engrossing, were not erased from our commercial code until the year 1844 (act 7 & 8 Vict. c. 24).

When prices are high by reason of the demand exceeding the supply, it is by no means necessary that the profits of those who sell the dear commodities should always be greater than the profits in other branches of trade. It must always be recollected, that where scarcity is the cause of the high price, the sellers who demand it have the less to sell. Where scarcity is not the cause, but the demand is great because the supply, notwithstanding the exertions of producers, cannot keep pace with it, the profits are undoubtedly greater than usual, until the supply has been increased.

II. It is now time to consider the

effects of a supply exceeding the demand, and this division of the inquiry will require less elucidation, as the effects of such a condition of the market may be stated to be the very reverse of those which we have just been examining. When there is more of a commodity than people are prepared to buy, its price must fall. Its sellers must offer it for sale at the price at which they can induce people to purchase. All is now in favour of consumers. They are no longer bidding against each other: but the sellers are competing among themselves to get rid of their goods. The price falls generally in proportion to the excess of the quantity, but this result is very much qualified by the nature of the article. If there be an excess of supply in perishable goods, there is nothing to prevent the natural fall of prices. When fish is unusually abundant, it must be cheap, or a great part of it will be destroyed: it must be eaten at once, or not at all; and to induce people to eat it, it must be offered to them at a low price. But with articles which may be held back, in expectation of higher prices, their value may be partially sustained. Production may be reduced, and the stock gradually brought into the market, until the supply has been equalized with the demand; and wherever the article is such as to admit of voluntary increase or diminution, the natural result of an excessive supply is to reduce production, until the balance of supply and demand has been restored. This mutual adjustment is in perpetual operation, and is ordinarily effected with such precision, that it may be said, without exaggeration, that a large city is supplied exactly with everything its inhabitants require—even down to an egg or a pint of milk. There is always enough of everything, and rarely too much.

Whenever there is an excessive production of any commodity, it is an evil almost as great as scarcity. It is true that the consumer derives benefit from it, but the producing classes are most injuriously affected. In order to raise the value of the produce of their labour, they must cease to produce, or must produce in less quantities. The workmen are thus either deprived of employment altogether for a time, or are employed for a portion of their time only, at reduced wages; while their employers are disposing of their goods at low prices, which scarcely repay the outlay of their capital. Nor does the penalty of over-production fall exclusively upon those engaged in the trade in which supply has exceeded the demand. Their distresses extend to other classes. It has been shown already that it is to production we must look as the cause of sustained consumption, and thus the pressure upon any considerable branch of productive industry must be sensibly felt by those who have the produce of their own labour to sell. Production has failed, and consumption must therefore be diminished.

The ruinous consequences of gluts, in particular staples of trade and manufacture, are too well known, especially in this country, to require any further illustration; but their causes are not always agreed upon. Such gluts are often attributed to the facility with which manufactures are produced by machinery, but we have shown that over-production in all branches of industry is impossible, and if that be true, it is evident that when partial gluts are produced by the aid of machinery, that powerful agent must have been misapplied. It is not contended that nothing can be produced in too great abundance. Whether machinery be used or not, production must be governed by the same laws of demand and supply. Those things only must be produced for which there is a demand, and they must not be produced in greater abundance than the demand warrants. But the more generally machinery is used, the more abundant will be the products which men will have to exchange with each other, and therefore the better will be the market. It follows that machinery can only cause a glut when applied excessively to particular objects, precisely in the same manner as an excessive quantity of labour would cause one if applied where it was not needed by the demands of commerce.

The supply of markets is a very speculative business, and is often conducted with more zeal than discretion. When a particular trade is supposed to be more prosperous than others, capitalists rush into it in order to secure high profits; and in this country the abundance of capital, the perfection of our machinery, and the skill of our workmen, enable them to produce with extraordinary facility. Over-production in that particular trade is the consequence, and all engaged in it suffer from the depreciation in the value of their goods; but if, instead of rushing into the favourite trade, they had distributed their enterprises more widely, their own interest and that of the community would have been promoted. When a ship is wrecked, if all the crew precipitate themselves into one boat, they swamp it; but if they wait till all the boats are lowered, and apportion their numbers to the size of each, they may all reach the shore in safety. And so it is in trade: one trade may easily be glutted, while there is room in other trades for all the capital and industry that need employment.

In proportion to the extent of the market and the variety and abundance of commodities to be exchanged, will be the facility of disposing of the products of capital and labour; and this consideration points out as the most probable antidote to gluts a universal freedom of commerce. When the free interchange of commodities is restricted, not only is a glut caused more easily, but its causes are more uncertain, and dependent upon unforeseen events. With the whole world for a market, the operation of the laws of demand and supply would be more equable, and the universality of the objects of exchange would make gluts of rare occurrence. The market would still be liable to disturbance by bad harvests, by errors in the monetary system, by shocks to public credit, and by war; but apart from these causes of derangement, demand and supply would be adjusted, and the productive energies of all nations called into full activity.

(Adam Smith, *Wealth of Nations*, book i.; M'Culloch, *Principles of Political Economy*, part i. ch. 7, and part ii. ch. 1, 2; Malthus, *Principles of Political Economy*; Ricardo, ch. 30; Mill, *Essays on Unsettled Questions of Political Economy*, Essay ii.)

DEMESNE. [MANOR.]

DEMISE, from the Latin Demissio, is commonly used to express an estate for years. The word *demisi*, 'I have demised,' is a term that is or may be used in the grant of a lease for years. The word demise may also signify an estate granted in fee or for term of life; but the most common signification is that which has been stated.

The term demise, as applied to the crown of England, signifies the transmission (demissio) of the crown and dignity by the death of a king to his successor.

DEMOCRACY (δημοκρατία), a word taken from the Greek language, like aristocracy, oligarchy, monarchy, and other political terms.

The third book of Herodotus (chap. 80—82) contains what we may consider to be the views of the oldest extant Greek historian on the merits and defects of the three respective forms of government as they are called, democracy, oligarchy, and monarchy. It would be difficult to extract from the chapters referred to an exact definition of democracy, but still we learn from them what were considered to be essentials: first, complete political equality (ἰσονομίη); secondly, the election of magistrates by lot (πάλῳ)—which, coupled with the first condition, implies that public offices must be accessible to all; thirdly, responsibility or accountability in public functionaries (ἀρχὴ ὑπεύθυνος), which implies a short term of office and liability to be ejected from it; fourthly, the decision by the community at large of all public matters (τὸ βουλεύματα πάντα ἐς τὸ κοινὸν ἀναφέρειν).

It is unnecessary to discuss the merits and defects of a democracy as pointed out in the above chapters, the defects being only certain consequences supposed to flow from, and the merits certain advantages incident to, a democratical institution, and neither being essentially parts of the fundamental notion of a democracy.

In forming a notion of a democracy as conceived by the Greeks, and indeed in forming any exact notion of a pure democracy, it is convenient to consider a