T.S. Eliot

Literature and Export Trade

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PREFACE

The produce of the earth — all that is derived from its surface by the united application of labour, machinery, and capital, is divided among three classes of the community; namely, the proprietor of the land, the owner of the stock or capital necessary for its cultivation, and the labourers by whose industry it is cultivated.

But in different stages of society, the proportions of the whole produce of the earth which will be allotted to each of these classes, under the names of rent, profit, and wages, will be essentially different; depending mainly on the actual fertility of the soil, on the accumulation of capital and population, and on the skill, ingenuity, and instruments employed in agriculture.

To determine the laws which regulate this distribution, is the principal problem in Political Economy: much as the science has been improved by the writings of Turgot, Stuart, Smith, Say, Sismondi, and others, they afford very little satisfactory information respecting the natural course of rent, profit, and wages.

In 1815, Mr Malthus, in his 'Inquiry into the Nature and Progress of Rent,' and a Fellow of University College, Oxford', in his 'Essay on the Application of Capital to Land,' presented to the world, nearly at the same moment, the true doctrine of rent; without a knowledge of which, it is impossible to understand the effect of the progress of wealth on profits and wages, or to trace satisfactorily the influence of taxation on different classes of the community; particularly when the commodities taxed are the productions immediately derived from the surface of the earth. Adam Smith, and the other able writers to whom I have alluded, not having viewed correctly the principles of rent, have, it appears to me, overlooked many important truths, which can only be discovered after the subject of rent is thoroughly understood.

To supply this deficiency, abilities are required of a far superior cast to any possessed by the writer of the following pages; yet, after having given to this subject his best consideration -- after the aid which he has derived from the works of the above-mentioned eminent writers -- and after the valuable experience which a few late years, abounding in facts, have yielded to the present generation -- it will not, he trusts, be deemed presumptuous in him to state his opinions on the laws of profits and wages, and on the operation of taxes. If the principles which he deems correct, should be found to be so, it will be for others, more able than himself, to trace them to all their important consequences.

The writer, in combating received opinions, has found it necessary to advert more particularly to those passages in the writings of Adam Smith from which he sees reason to differ; but he hopes it will not, on that account, be suspected that he does not, in common with all those who acknowledge the importance of

the science of Political Economy, participate in the admiration which the profound work of this celebrated author so. justly excites.

The same remark may be applied to the excellent works of M. Say, who not only was the first, or among the first, of continental writers, who justly appreciated and applied the principles of Smith, and who has done more than all other continental writers taken together, to recommend the principles of that enlightened and beneficial system to the nations of Europe; but who has succeeded in placing the science in a more logical, and more instructive order; and has enriched it by several discussions, original, accurate, and profound. The respect, however, which the author entertains for the writings of this gentleman, has not prevented him from commenting with that freedom which he thinks the interests of science require, on such passages of the 'Economie Politique,' as appeared at variance with his own ideas.

Advertisement to the Third Edition

In this Edition I have endeavoured to explain more fully than in the last, my opinion on the difficult subject of VALUE, and for that purpose have made a few additions to the first chapter. I have also inserted a new chapter on the subject of MACHINERY, and on the effects of its improvement on the interests of the different classes of the State. In the chapter on the DISTINCTIVE PROPERTIES OF VALUE AND RICHES, I have examined the doctrines of M. Say on that important question, as amended in the fourth and last edition of his work. I have in the last chapter endeavoured to place in a stronger point of view than before, the doctrine of the ability of a country to pay additional money taxes, although the aggregate money value of the mass of its commodities should fall, in consequence either of the diminished quantity of labour required to produce its corn at home, by improvements in its husbandry, or from its obtaining a part of its corn at a cheaper price from abroad, by means of the exportation of its manufactured commodities. This consideration is of great importance, as it regards the question of the policy of leaving unrestricted the importation of foreign corn, particularly in a country burthened with a heavy fixed money taxation, the consequence of an immense National Debt. I have endeavoured to shew, that the ability to pay taxes, depends, not on the gross money value of the mass of commodities, nor on the net money value of the revenues of capitalists and landlords, but on the money value of each man's revenue, compared to the money value of the commodities which he usually consumes.

March 26, 1821.

Chapter 1

On Value

The value of a commodity, or the quantity of any other commodity for which it will exchange, depends on the relative quantity of labour which is necessary for its production, and not on the greater or less compensation which is paid for that labour.

It has been observed by Adam Smith, that 'the word Value has two different meanings, and sometimes expresses the utility of some particular object, and sometimes the power of purchasing other goods which the possession of that object conveys. The one may be called value in use; the other value in exchange. The things,' he continues, 'which have the greatest value in use, have frequently little or no value in exchange; and, on the contrary, those which have the greatest value in exchange, have little or no value in use. Water and air are abundantly useful; they are indeed indispensable to existence, yet, under ordinary circumstances, nothing can be obtained in exchange for them. Gold, on the contrary, though of little use compared with air or water, will exchange for a great quantity of other goods.

Utility then is not the measure of exchangeable value, although it is absolutely essential to it. If a commodity were in no way useful, — in other words, if it could in no way contribute to our gratification, — it would be destitute of exchangeable value, however scarce it might be, or whatever quantity of labour might be necessary to procure it.

Possessing utility, commodities derive their exchangeable value from two sources: from their scarcity, and from the quantity of labour required to obtain them.

There are some commodities, the value of which is determined by their scarcity alone. No labour can increase the quantity of such goods, and therefore their value cannot be lowered by an increased supply. Some rare statues and pictures, scarce books and coins, wines of a peculiar quality, which can be made only from grapes grown on a particular soil, of which there is a very limited quantity, are all of this description. Their value is wholly independent of the quantity of labour originally necessary to produce them, and varies with the varying wealth and inclinations of those who are desirous to possess them.

These commodities, however, form a very small part of the mass of commodities daily exchanged in the market. By far the greatest part of those goods which are the objects of desire, are procured by labour, ; and they may be multiplied, not in one country alone, but in many, almost without any assignable limit, if we are disposed to bestow the labour necessary to obtain them.

In speaking then of commodities, of their exchangeable value, and of the laws which regulate their relative prices, we mean always such commodities only as

can be increased in quantity by the exertion of human industry, and on the production of which competition operates without restraint.

In the early stages of society, the exchangeable value of these commodities, or the rule which determines how much of one shall be given in exchange for another, depends almost exclusively on the comparative quantity of labour expended on each.

'The real price of every thing,' says Adam Smith, 'what every thing really costs to the man who wants to acquire it, is the toil and trouble of acquiring it. What every thing is really worth to it, or the man who has acquired it, and who wants to dispose of it, or exchange it for something else, is the toil and trouble which it can save to himself, and which it can impose upon other people.' 'Labour was the first price — the original purchase-money that was paid for all things.' Again, in that early and rude state of society, which precedes both the accumulation of stock and the appropriation of land, the proportion between the quantities of labour necessary for acquiring different objects seems to be the only circumstance which can afford any rule for exchanging them for one another. If among a nation of hunters, for example, it usually cost twice the labour to kill a beaver which it does to kill a deer, one beaver should naturally exchange for, or be worth two deer. It is natural that what is usually the produce of two days', or two hours' labour, should be worth double of what is usually the produce of one day's, or one hour's labour.'

That this is really the foundation of the exchangeable value of all things, excepting those which cannot be increased by human industry, is a doctrine of the utmost importance in political economy; for from no source do so many errors, and so much difference of opinion in that science proceed, as from the vague ideas which are attached to the word value.

If the quantity of labour realized in commodities, regulate their exchangeable value, every increase of the quantity of labour must augment the value of that commodity on which it is exercised, as every diminution must lower it.

Adam Smith, who so accurately defined the original source of exchangeable value, and who was bound in consistency to maintain, that all things became more or less valuable in proportion as more or less labour was bestowed on their production, has himself erected another standard measure of value, and speaks of things being more or less valuable, in proportion as they will exchange for more or less of this standard measure. Sometimes he speaks of corn, at other times of labour, as a standard measure; not the quantity of labour bestowed on the production of any object, but the quantity which it can command in the market: as if these were two equivalent expressions, and as if because a man's labour had become doubly efficient, and he could therefore produce twice the quantity of a commodity, he would necessarily receive twice the former quantity in exchange for it.

If this indeed were true, if the reward of the labourer were always in proportion to what he produced, the quantity of labour bestowed on a commodity, and the quantity of labour which that commodity would purchase, would be equal, and either might accurately measure the variations of other things: but they are not equal; the first is under many circumstances an invariable standard, indicating correctly the variations of other things; the latter is subject to as many fluctuations as the commodities compared with it. Adam Smith, after most ably showing the insufficiency of a variable medium, such as gold and silver, for the purpose of determining the varying value of other things, has himself, by fixing on corn or labour, chosen a medium no less variable.

Gold and silver are no doubt subject to fluctuations, from the discovery of new and more abundant mines; but such discoveries are rare, and their effects, though powerful, are limited to periods of comparatively short duration. They are subject also to fluctuation, from improvements in the skill and machinery with which the mines may be worked; as in consequence of such improvements, a greater quantity may be obtained with the same labour. They are further subject to fluctuation from the decreasing produce of the mines, after they have yielded a supply to the world, for a succession of ages. But from which of these sources of fluctuation is corn exempted? Does not that also vary, on one hand, from improvements in agriculture, from improved machinery and implements used in husbandry, as well as from the discovery of new tracts of fertile land, which in other countries may be taken into cultivation, and which will affect the value of corn in every market where importation is free? Is it not on the other hand subject to be enhanced in value from prohibitions of

importation, from increasing population and wealth, and the greater difficulty of obtaining the increased supplies, on account of the additional quantity of labour which the cultivation of inferior lands requires? Is not the value of labour equally variable; being not only affected, as all other things are, by the proportion between the supply and demand, which uniformly varies with every change in the condition of the community, but also by the varying price of food and other necessaries, on which the wages of labour are expended?

In the same country double the quantity of labour may be required to produce a given quantity of food and necessaries at one time, that may be necessary at another, and a distant time; yet the labourer's reward may possibly be very little diminished. If the labourer's wages at the former period, were a certain quantity of food and necessaries, he probably could not have subsisted if that quantity had been reduced. Food and necessaries in this case will have risen 100 per cent if estimated by the quantity of labour necessary to their production, while they will scarcely have increased in value, if measured by the quantity of labour for which they will exchange.

The same remark may be made respecting two or more countries. In America and Poland, on the land last taken into cultivation, a year's labour of any given number of men, will produce much more corn than on land similarly circumstanced in England. Now, supposing all other necessaries to be equally cheap in those three countries, would it not be a great mistake to conclude, that the quantity of corn awarded to the labourer, would in each country be in proportion to the facility of production?

If the shoes and clothing of the labourer, could, by improvements in machinery, be produced by one fourth of the labour now necessary to their production, they would probably fall 75 per cent; but so far is it from being true, that the labourer would thereby be enabled permanently to consume four coats, or four pair of shoes, instead of one, that it is probable his wages would in no long time be adjusted by the effects of competition, and the stimulus to population, to the new value of the necessaries on which they were expended. If these improvements extended to all the objects of the labourer's consumption, we should find him probably at the end of a very few years, in possession of only a small, if any, addition to his enjoyments, although the exchangeable value of those commodities, compared with any other commodity, in the manufacture of which no such improvement were made, had sustained a very considerable reduction; and though they were the produce of a very considerably diminished quantity of labour.

It cannot then be correct, to say with Adam Smith, 'that as labour may sometimes purchase a greater, and sometimes a smaller quantity of goods, it is their value which varies, not that of the labour which purchases them;' and therefore, 'that labour alone never varying in its own value, is alone the ultimate and real standard by which the value of all commodities can at all times and places be estimated and compared;' — but it is correct to say, as Adam Smith had previously said, 'that the proportion between the quantities of labour necessary for acquiring different objects seems to be the only circumstance which can afford any rule for exchanging them for one another;' or in other words, that it is the comparative quantity of commodities which labour will produce, that determines their present or past relative value, and not the comparative quantities of commodities, which are given to the labourer in exchange for his labour.

Two commodities vary in relative value, and we wish to know in which the variation has really taken place. If we compare the present value of one, with shoes, stockings, hats, iron, sugar, and all other commodities, we find that it will exchange for precisely the same quantity of all these things as before. If we compare the other with the same commodities, we find it has varied with respect to them all: we may then with great probability infer that the variation has been in this commodity, and not in the commodities with which we have compared it. If on examining still more particularly into all the circumstances connected with the production of these various commodities, we find that precisely the same quantity of labour and capital are necessary to the production of the shoes, stockings, hats, iron, sugar, &c.; but that the same quantity as before is not necessary to produce the single commodity whose relative value is altered, probability is changed into certainty, and we are sure that the variation is in the single commodity: we then discover also the cause of its variation.

If I found that an ounce of gold would exchange for a less quantity of all the commodities above enumerated, and many others; and if, moreover, I found that by the discovery of a new and more fertile mine, or by the employment of machinery to great advantage, a given quantity of gold could be obtained with a less quantity of labour, I should be justified in saying that the cause of the alteration in the value of gold relatively to other commodities, was the greater facility of its production, or the smaller quantity of labour necessary to obtain it. In like manner, if labour fell very considerably in value, relatively to all other things, and if I found that its fall was in consequence of an abundant supply, encouraged by the great facility with which corn, and the other necessaries of the labourer, were produced, it would, I apprehend, be correct for me to say that corn and necessaries had fallen in value in consequence of less quantity of labour being necessary to produce them, and that this facility of providing for the support of the labourer had been followed by a fall in the value of labour. No, say Adam Smith and Mr Malthus, in the case of the gold you were correct in calling its variation a fall of its value, because corn and labour had not then varied; and as gold would command a less quantity of them, as well as of all other things, than before, it was correct to say that all things had remained stationary, and that gold only had varied; but when corn and labour fall, things which we have selected to be our standard measure of value, notwithstanding all the variations to which we acknowledge they are subject, it would be highly improper to say so; the correct language will be to say, that corn and labour have remained stationary, and all other things have risen in value.

Now it is against this language that I protest. I find that precisely, as in the case of the gold, the cause of the variation between corn and other things, is the smaller quantity of labour necessary to produce it, and therefore, by all just reasoning, I am bound to call the variation of corn and labour a fall in their value, and not a rise in the value of the things with which they are compared. If I have to hire a labourer for a week, and instead of ten shillings I pay him eight, no variation having taken place in the value of money, the labourer can probably obtain more food and necessaries, with his eight shillings, than he before obtained for ten: but this is owing, not to a rise in the real value of his wages, as stated by Adam Smith, and more recently by Mr Malthus, but to a fall in the value of the things on which is wages are expended, things perfectly distinct; and yet for calling this a fall in the real value of wages, I am told that I adopt new and unusual language, not reconcileable with the true principles of the science. To me it appears that the unusual and, indeed, inconsistent language, is that used by my opponents.

Suppose a labourer to be paid a bushel of corn for a week's work, when the price of corn is 80s. per quarter, and that he is paid a bushel and a quarter when the price falls to 40s. Suppose, too, that he consumes half a bushel of corn a-week in his own family, and exchanges the remainder for other things, such as fuel, soap, candles, tea, sugar, salt, &c. &c.; if the three-fourths of a bushel which will remain to him, in one case, cannot procure him as much of the above commodities as half a bushel did in the other, which it will not, will labour have risen or fallen in value? Risen, Adam Smith must say, because his standard is corn, and the labourer receives more corn for a week's labour. Fallen, must the same Adam Smith say, 'because the value of a thing depends on the power of purchasing other goods which the possession of that object conveys,' and labour has a less power of purchasing such other goods.

Section II

Labour of different qualities differently rewarded. This is no cause of variation in the relative value of commodities.

In speaking, however, of labour, as being the foundation of all value, and the relative quantity of labour as almost exclusively determining the relative value of commodities, I must not be supposed to be inattentive to the different qualities of labour, and the difficulty of comparing an hour's or a day's labour, in one employment, with the same duration of labour in another. The estimation in which different qualities of labour are held, comes soon to be adjusted in the market with sufficient precision for all practical purposes, and depends much on the comparative skill of the labourer, and intensity of the labour performed. The scale, when once formed, is liable to little variation. If a day's labour of a working jeweller be more valuable than a day's labour of a common labourer, it has long ago been adjusted, and placed in its proper position in the scale of value.

In comparing therefore the value of the same commodity, at different periods of time, the consideration of the comparative skill and intensity of labour, required for that particular commodity, needs scarcely to be attended to, as it operates equally at both periods. One description of labour at one time is compared with the same description of labour at another; if a tenth, a fifth, or a fourth, has been added or taken away, an effect proportioned to the cause will be produced on the relative value of the commodity.

If a piece of cloth be now of the value of two pieces of linen, and if, in ten years hence, the ordinary value of a piece of cloth should be four pieces of linen, we may safely conclude, that either more labour is required to make the cloth, or less to make the linen, or that both causes have operated.

As the inquiry to which I wish to draw the reader's attention, relates to the effect of the variations in the relative value of commodities, and not in their absolute value, it will be of little importance to examine into the comparative degree of estimation in which the different kinds of human labour are held. We may fairly conclude, that whatever inequality there might originally have been in them, whatever the ingenuity, skill, or time necessary for the acquirement of one species of manual dexterity more than another, it continues nearly the same from one generation to another; or at least, that the variation is very inconsiderable from year to year, and therefore, can have little effect, for short periods, on the relative value of commodities.

'The proportion between the different rates both of wages and profit in the different employments of labour and stock, seems not to be much affected, as has already been observed, by the riches or poverty, the advancing, stationary, or declining state of the society. Such revolutions in the public welfare, though they affect the general rates both of wages and profit, must in the end affect them equally in all different employments. The proportion between them therefore must remain the same, and cannot well be altered, at least for any considerable time, by any such revolutions.'

Section III

Not only the labour applied immediately to commodities affect their value, but the labour also which is bestowed on the complements, tools, and buildings, with which much labour is assisted.

Even in that early state to which Adam Smith refers, some capital, though possibly made and accumulated by the hunter himself, would be necessary to enable him to kill his game. Without some weapon, neither the beaver nor the deer could be destroyed, and therefore the value of these animals would be regulated, not solely by the time and labour necessary to their destruction, but also by the time and labour necessary for providing the hunter's capital, the weapon, by the aid of which their destruction was effected.

Suppose the weapon necessary to kill the beaver, was constructed with much more labour than that necessary to kill the deer, on account of the greater difficulty of approaching near to the former animal, and the consequent necessity of its being more true to its mark; one beaver would naturally be of more value than two deer, and precisely for this reason, that more labour would, on the whole, be necessary to its destruction. Or suppose that the same quantity of labour was necessary to make both weapons, but that they were of very unequal durability; of the durable implement only a small portion of its value would be transferred to the commodity, a much greater portion of the value of the less durable implement would be realized in the commodity which it contributed to produce.

All the implements necessary to kill the beaver and deer might belong to one class of men, and the labour employed in their destruction might be furnished by another class; still, their comparative prices would be in proportion to the actual labour bestowed, both on the formation of the capital, and on the destruction of the animals. Under different circumstances of plenty or scarcity of capital, as compared with labour, under different circumstances of plenty or scarcity of the food and necessaries essential to the support of men, those who furnished an equal value of capital for either one employment or for the other, might have a half, a fourth, or an eighth of the produce obtained, the remainder being paid as wages to those who furnished the labour; yet this division could not affect the relative value of these commodities, since whether the profits of capital were greater or less, whether they were 50, 20, or 10 per cent or whether the wages of labour were high or low, they would operate equally on both employments.

If we suppose the occupations of the society extended, that some provide canoes and tackle necessary for fishing, others the seed and rude machinery first used in agriculture, still the same principle would hold true, that the exchangeable value of the commodities produced would be in proportion to the labour bestowed on their production; not on their immediate production only, but on all those implements or machines required to give effect to the particular labour to which they were applied.

If we look to a state of society in which greater improvements have been made, and in which arts and commerce flourish, we shall still find that commodities vary in value conformably with this principle: in estimating the exchangeable value of stockings, for example, we shall find that their value, comparatively with other things, depends on the total quantity of labour necessary to manufacture them, and bring them to market. First, there is the labour necessary to cultivate the land on which the raw cotton is grown; secondly, the labour of conveying the cotton to the country where the stockings are to be manufactured, which includes a portion of the labour bestowed in building the ship in which it is conveyed, and which is charged in the freight of the goods; thirdly, the labour of the spinner and weaver; fourthly, a portion of the labour of the engineer, smith, and carpenter, who erected the buildings and machinery, by the help of which they are made; fifthly, the labour of the retail dealer, and of many others, whom it is unnecessary further to particularize. The aggregate sum of these various kinds of labour, determines the quantity of other things for which these stockings will exchange, while the same consideration of the various quantities of labour which have been bestowed on those other things, will equally govern the portion of them which will be given for the stockings.

To convince ourselves that this is the real foundation of exchangeable value, let us suppose any improvement to be made in the means of abridging labour in any one of the various processes through which the raw cotton must pass, before the manufactured stockings come to the market, to be exchanged for other things, and observe the effects which will follow. If fewer men were required to cultivate the raw cotton, or if fewer sailors were employed in navigating, or shipwrights in constructing the ship, in which it was conveyed to us; if fewer hands were employed in raising the buildings and machinery, or if these, when raised, were rendered more efficient, the stockings would inevitably fall in value, and consequently command less of other things. They would fall, because a less quantity of labour was necessary to their production, and would therefore exchange for a smaller quantity of those things in which no such abridgment of labour had been made.

Economy in the use of labour never fails to reduce the relative value of a commodity, whether the saving be in the labour necessary to the manufacture of the commodity itself, or in that necessary to the formation of the capital, by the aid of which it is produced. In either case the price of stockings would fall, whether there were fewer men employed as bleachers, spinners, and weavers, persons immediately necessary to their manufacture; or as sailors, carriers, engineers, and smiths, persons more indirectly concerned. In the one case, the whole saving of labour would fall on the stockings, because that portion of labour was wholly confined to the stockings; in the other, a portion only would fall on the stockings, the remainder being applied to all those other commodities, to the production of which the buildings, machinery, and carriage, were subservient.

Suppose that in the early stages of society, the bows and arrows of the hunter were of equal value, and of equal durability, with the canoe and implements of the fisherman, both being the produce of the same quantity of labour. Under such circumstances the value of the deer, the produce of the hunter's day's labour, would be exactly equal to the value of the fish, the produce of the fisherman's day's labour. The comparative value of the fish and the game, would be entirely regulated by the quantity of labour realized in each; whatever might be the quantity of production, or however high or low general wages or profits might be. If for example the canoes and implements of the fisherman were of the value of £100 and were calculated to last for ten years, and he employed ten men, whose annual labour cost £100 and who in one day obtained by their labour twenty salmon: If the weapons employed by the hunter were also of £100 value and calculated to last ten years, and if he also employed ten men, whose annual labour cost £100 and who in one day procured him ten deer; then the natural price of a deer would be two salmon,

whether the proportion of the whole produce bestowed on the men who obtained it, were large or small. The proportion which might be paid for wages, is of the utmost importance in the question of profits; for it must at once be seen, that profits would be high or low, exactly in proportion as wages were low or high; but it could not in the least affect the relative value of fish and game, as wages would be high or low at the same time in both occupations. If the hunter urged the plea of his paying a large proportion, or the value of a large proportion of his game for wages, as an inducement to the fisherman to give him more fish in exchange for his game, the latter would state that he was equally affected by the same cause; and therefore under all variations of wages and profits, under all the effects of accumulation of capital, as long as they continued by a day's labour to obtain respectively the same quantity of fish, and the same quantity of game, the natural rate of exchange would be one deer for two salmon.

If with the same quantity of labour a less quantity of fish, or a greater quantity of game were obtained, the value of fish would rise in comparison with that of game. If, on the contrary, with the same quantity of labour a less quantity of game, or a greater quantity of fish was obtained, game would rise in comparison with fish.

If there were any other commodity which was invariable in its value, we should be able to ascertain, by comparing the value of fish and game with this commodity, how much of the variation was to be attributed to a cause which affected the value of fish, and how much to a cause which affected the value of game.

Suppose money to be that commodity. If a salmon were worth £1 and a deer £2 one deer would be worth two salmon. But a deer might become of the value of three salmon, for more labour might be required to obtain the deer, or less to get the salmon or both these causes might operate at the same time. If we had this invariable standard, we might easily ascertain in what degree either of these causes operated. If salmon continued to sell for £1 whilst deer rose to £3 we might conclude that more labour was required to obtain the deer. If deer continued at the same price of £2 and salmon sold for 13s. 4d. we might then be sure that less labour was required to obtain the salmon; and if deer rose to

£2 10s. and salmon fell to 16s. 8d. we should be convinced that both causes had operated in producing the alteration of the relative value of these commodities.

No alteration in the wages of labour could produce any alteration in the relative value of these commodities; for suppose them to rise, no greater quantity of labour would be required in any of these occupations, but it would be paid for at a higher price, and the same reasons which should make the hunter and fisherman endeavour to raise the value of their game and fish, would cause the owner of the mine to raise the value of his gold. This inducement acting with the same force on all these three occupations, and the relative situation of those engaged in them being the same before and after the rise of wages, the relative value of game, fish, and gold, would continue unaltered. Wages might rise twenty per cent, and profits consequently fall in a greater or less proportion, without occasioning the least alteration in the relative value of these commodities.

Now suppose, that with the same labour and fixed capital, more fish could be produced, but no more gold or game, the relative value of fish would fall in comparison with gold or game. If, instead of twenty salmon, twenty-five were the produce of one day's labour, the price of a salmon would be sixteen shillings instead of a pound, and two salmon and a half, instead of two salmon, would be given in exchange for one deer, but the price of deer would continue at £2 as before. In the same manner, if fewer fish could be obtained with the same capital and labour, fish would rise in comparative value. Fish then would rise or fall in exchangeable value, only because more or less labour was required to obtain a given quantity; and it never could rise or fall beyond the proportion of the increased or diminished quantity of labour required.

If we had then an invariable standard, by which measure the variation in other commodities, we should the utmost limit to which they could permanently rise, if produced under the circumstances supposed, was proportioned the additional quantity of labour required for their production; and that unless more labour were required for their production, they could not rise in any degree whatever. A rise of wages would not raise them in money value, nor relatively to any other commodities, the production of which required no additional quantity of labour, which employed the same proportion of fixed and circulating capital, and fixed capital of the same durability. If more or less labour were required in the production of the other commodity, we have already stated that this will immediately occasion an alteration in its relative value, but such alteration is owing to the altered quantity of requisite labour, and not to the rise of wages.

Section IV

The principle that the quantity of labour bestowed on the production of commodities regulates their relative value, considerably modified by the employment of machinery and other fixed and durable capital.

In the former section we have supposed the implements and weapons necessary to kill the deer and salmon, to be equally durable, and to be the result of the same quantity of labour, and we have seen that the variations in the relative value of deer and salmon depended solely on the varying quantities of labour necessary to obtain them, — but in every state of society, the tools, implements, buildings, and machinery employed in different trades may be of various degrees of durability, and may require different portions of labour to produce them. The proportions, too, in which the capital that is to support labour, and the capital that is invested in tools, machinery and buildings, may be variously combined. This difference in the degree of durability of fixed capital, and this variety in the proportions in which the two sorts of capital may be combined, introduce another cause, besides the greater or less quantity of labour necessary to produce commodities, for the variations in their relative value — this cause is the rise or fall in the value of labour.

The food and clothing consumed by the labourer, the buildings in which he works, the implements with which his labour is assisted, are all of a perishable nature. There is however a vast difference in the time for which these different capitals will endure: a steam-engine will last longer than a ship, a ship than the clothing of the labourer, and the clothing of the labourer longer than the food which he consumes.

According as capital is rapidly perishable, and requires to be frequently reproduced, or is of slow consumption, it is classed under the heads of circulating, or of fixed capital. A brewer, whose buildings and machinery are valuable and durable, is said to employ a large portion of fixed capital: on the contrary, a shoemaker, whose capital is chiefly employed in the payment of wages, which are expended on food and clothing, commodities more perishable than buildings and machinery, is said to employ a large proportion of his capital as circulating capital.

It is also to be observed that the circulating capital may circulate, or be returned to its employer, in very unequal times. The wheat bought by a farmer to sow is comparatively a fixed capital to the wheat purchased by a baker to make into loaves. One leaves it in the ground, and can obtain no return for a year; the other can get it ground into flour, sell it as bread to his customers, and have his capital free to renew the same, or commence any other employment in a week.

Two trades then may employ the same amount of capital; but it may be very differently divided with respect to the portion which is fixed, and that which is circulating.

In one trade very little capital may be employed as circulating capital, that is to say in the support of labour — it may be principally invested in machinery, implements, buildings, &c. capital of a comparatively fixed and durable character. In another trade the same amount of capital may be used, but it may be chiefly employed in the support of labour, and very little may be invested in implements, machines, and buildings. A rise in the wages of labour cannot fail to affect unequally, commodities produced under such different circumstances.

Again two manufacturers may employ the same amount of fixed, and the same amount of circulating capital; but the durability of their fixed capitals may be very unequal. One may have steam-engines of the value of £10,000, the other, ships of the same value.

If men employed no machinery in production but labour only, and were all the same length of time before they brought their commodities to market, the exchangeable value of their goods would be precisely in proportion to the quantity of labour employed.

If they employed fixed capital of the same value and of the same durability, then, too, the value of the commodities produced would be the same, and they would vary with the greater or less quantity of labour employed on their production.

But although commodities produced under similar circumstances, would not vary with respect to each other, from any cause but an addition or diminution of the quantity of labour necessary to produce one or other of them, yet compared with others not produced with the same proportionate quantity of fixed capital, they would vary from the other cause also which I have before mentioned, namely, a rise in the value of labour, although neither more nor less labour were employed in the production of either of them. Barley and oats would continue to bear the same relation to each other under any variation of wages. Cotton goods and cloth would do the same, if they also were produced under circumstances precisely similar to each other, but yet with a rise or fall of wages, barley might be more or less valuable compared with cotton goods, and oats compared with cloth.

Suppose two men employ one hundred men each for a year in the construction of two machines, and another man employs the same number of men in cultivating corn, each of the machines at the end of the year will be of the same value as the corn, for they will each be produced by the same quantity of labour. Suppose one of the owners of one of the machines to employ it, with the assistance of one hundred men, the following year in making cloth, and the owner of the other machine to employ his also, with the assistance likewise of one hundred men, in making cotton goods, while the farmer continues to employ one hundred men as before in the cultivation of corn. During the second year they will all have employed the same quantity of labour, but the goods and machine together of the clothier, and also of the cotton manufacturer, will be the result of the labour of two hundred men, employed for a year; or, rather, of the labour of one hundred men for two years; whereas the corn will be produced by the labour of one hundred men for one year, consequently if the corn be of the value of £500 the machine and cloth of the clothier together, ought to be of the value of £1,000 and the machine and cotton goods of the cotton manufacturer ought to be also of twice the value of the corn. But they will be of more than twice the value of the corn, for the profit on the clothier's and cotton manufacturer's capital for the first year has been added to their capitals, while that of the farmer has been expended and enjoyed. On account then of the different degrees of durability of their capitals, or, which is the same thing, on account of the time which must elapse before one set of commodities can be brought to market, they will be valuable, not exactly in proportion to the quantity of labour bestowed on them, - they will not be as two to one, but something more, to compensate for the greater length of time which must elapse before the most valuable can be brought to market.

Suppose that for the labour of each workman £50 per annum were paid, or that £5,000 capital were employed and profits were 10 per cent, the value of each of the machines as well as of the corn, at the end of the first year, would be £5,500. The second year the manufacturers and farmer will again employ £5,000 each in the support of labour, and will therefore again sell their goods for £5,500, but the men using the machines, to be on a par with the farmer, must not only obtain £5,500, for the equal capitals of £5,000 employed on labour, but they must obtain a further sum of £550; for the profit on £5,500 which they have invested in machinery, and consequently their goods must sell for £6,050. Here then are capitalists employing precisely the same quantity of labour annually on the production of their commodities, and yet the goods they produce differ in value on account of the different quantities of fixed capital, or accumulated labour, employed by each respectively. The cloth and cotton goods are of the same value, because they are the produce of equal quantities of labour, and equal quantities of fixed capital; but corn is not of the same value as these commodities, because it is produced, as far as regards fixed capital, under different circumstances.

But how will their relative value be affected by a rise in the value of labour? It is evident that the relative values of cloth and cotton goods will undergo no change, for what affects one must equally affect the other, under the circumstances supposed: neither will the relative values of wheat and barley undergo any change, for they are produced under the same circumstances as far as fixed and circulating capital are concerned; but the relative value of corn to cloth, or to cotton goods, must be altered by a rise of labour.

There can be no rise in the value of labour without a fall of profits. If the corn is to be divided between the farmer and the labourer, the larger the proportion that is given to the latter, the less will remain for the former. So if cloth or cotton goods be divided between the workman and his employer, the larger the proportion given to the former, the less remains for the latter. Suppose then, that owing to a rise of wages, profits fall from 10 to 9 per cent, instead of adding £550 to the common price of their goods (to £5,500) for the profits on their fixed capital, the manufacturers would add only 9 per cent on that sum, or £495, consequently the price would be £5,995 instead of £6,050. As the corn would continue to sell for £5,500, the manufactured goods in which more fixed capital was employed, would fall relatively to corn or to any other goods in which a less portion of fixed capital entered. The degree of alteration in the relative value of goods, on account of a rise or fall of labour, would depend on the proportion which the fixed capital bore to the whole capital employed. All commodities which are produced by very valuable machinery, or in very valuable buildings, or which require a great length of time before they can be brought to market, would fall in relative value, while all those which were chiefly produced by labour, or which would be speedily brought to market would rise in relative value.

The reader, however, should remark, that this cause of the variation of commodities is comparatively slight in its effects. With such a rise of wages as should occasion a fall of one per. cent in profits, goods produced under the circumstances I have supposed, vary in relative value only one per cent; they fall with so great a fall of profits from £6,050 to £5,995. The greatest effects which could be produced on the relative prices of these goods from a rise of wages, could not exceed 6 or 7 per cent; for profits could not, probably, under any circumstances, admit of a greater general and permanent depression than to that amount.

Not so with the other great cause of the variation in the value of commodities, namely, the increase or diminution in the quantity of labour necessary to produce them. If to produce the corn, eighty, instead of one hundred men, should be required, the value of the corn would fall 20 per cent or from £5,500 to £4,400. If to produce the cloth, the labour of eighty instead of one hundred men would suffice, cloth would fall from £6,050 to £4,950. An alteration in the permanent rate of profits, to any great amount, is the effect of causes which do not operate but in the course of years; whereas alterations in the quantity of labour necessary to produce commodities, are of daily occurrence. Every improvement in machinery, in tools, in buildings, in raising the raw material, saves labour, and enables us to produce the commodity to which the improvement is applied with more facility, and consequently its value alters. In estimating, then, the causes of the variations in the value of commodities, although it would be wrong wholly to omit the consideration of the effect produced by a rise or fall of labour, it would be equally incorrect to attach much importance to it; and consequently, in the subsequent part of this work, though I shall occasionally refer to this cause of variation, I shall consider all the great variations which take place in the relative value of commodities to be produced by the greater or less quantity of labour which may be required from time to time to produce them.

It is hardly necessary to say, that commodities which have the same quantity of labour bestowed on their production, will differ in exchangeable value, if they cannot be brought to market in the same time.

Suppose I employ twenty men at an expense of £1,000 for a year in the production of a commodity, and at the end of the year I employ twenty men again for another year, at a further expense of £1,000 in finishing or perfecting the same commodity, and that I bring it to market at the end of two years, if profits be 10 per cent, my commodity must sell for £2,310; for I have employed £1,000 capital for one year, and £2,100 capital for one year more. Another man employs precisely the same quantity of labour, but he employs it all in the first year; he employs forty men at an expense of £2,000, and at the end of the first year he sells it with 10 per cent profit, or for £2,200. Here then are two commodities having precisely the same quantity of labour bestowed on them, one of which sells for £2,310 — the other for £2,200.

This case appears to differ from the last, but is, in fact, the same. In both cases the superior price of one commodity is owing to the greater length of time which must elapse before it can be brought to market. In the former case the machinery and cloth were more than double the value of the corn, although only double the quantity of labour was bestowed on them. In the second case, one commodity is more valuable than the other, although no more labour was employed on its production. The difference in value arises in both cases from the profits being accumulated as capital, and is only a just compensation for the time that the profits were withheld.

It appears then that the division of capital into different proportions of fixed and circulating capital, employed in different trades, introduces a considerable modification to the rule, which is of universal application when labour is almost exclusively employed in production; namely, that commodities never vary in value, unless a greater or less quantity of labour be bestowed on their production, it being shown in this section that without any variation in the quantity of labour, the rise of its value merely will occasion a fall in the exchangeable value of those goods, in the production of which fixed capital is employed; the larger the amount of fixed capital, the greater will be the fall.

Section V

The principle that value does not vary with the rise or fall of wages, modified also by the unequal durability of capital, and by the unequal rapidity with which it is returned to its employer.

In the last section we have supposed that of two equal capitals in two different occupations, the proportions of fixed and circulating capitals were unequal, now let us suppose them to be in the same proportion but of unequal durability. In proportion as fixed capital is less durable, it approaches to the nature of circulating capital. It will be consumed and its value reproduced in a shorter time, in order to preserve the capital of the manufacturer. We have just seen, that in proportion as fixed capital preponderates in a manufacture, when wages rise, the value of commodities produced in that manufacture, is relatively lower than that of commodities produced in manufactures where circulating capital preponderates. In proportion to the less durability of fixed capital, and its approach to the nature of circulating capital, the same effect will be produced by the same cause.

If fixed capital be not of a durable nature, it will require a great quantity of labour annually to keep it in its original state of efficiency; but the labour so bestowed may be considered as really expended on the commodity manufactured, which must bear a value in proportion to such labour. If I had a machine worth £20,000 which with very little labour was efficient to the production of commodities, and if the wear and tear of such machine were of trifling amount, and the general rate of profit 10 per cent, I should not require much more than £2,000 to be added to the price of the goods, on account of the employment of my machine; but if the wear and tear of the machine were great, if the quantity of labour requisite to keep it in an efficient state were that of fifty men annually, I should require an additional price for my goods, equal to that which would be obtained by any other manufacturer who employed fifty men in the production of other goods, and who used no machinery at all.

But a rise in the wages of labour would not equally affect commodities produced with machinery quickly consumed, and commodities produced with machinery slowly consumed. In the production of the one, a great deal of labour would be continually transferred to the commodity produced — in the other very little would be so transferred. Every rise of wages, therefore, or, which is the same thing, every fall of profits, would lower the relative value of those commodities which were produced with a capital of a durable nature, and would proportionally elevate those which were produced with capital more perishable. A fall of wages would have precisely the contrary effect.

I have already said that fixed capital is of various degrees of durability — suppose now a machine which could in any particular trade be employed to do the work of one hundred men for a year, and that it would last only for one year. Suppose too, the machine to cost £5,000, and the wages annually paid to one hundred men to be £5,000, it is evident that it would be a matter of indifference to the manufacturer whether he bought the machine or employed the men. But suppose labour to rise, and consequently the wages of one hundred men for a year to amount to £5,500, it is obvious that the manufacturer would now no longer hesitate, it would be for his interest to buy the machine and get his work done for £5,000. But will not the machine rise in price, will not that also be worth £5,500 in consequence of the rise of labour? It would rise in price if there were no stock employed on its construction, and no profits to be paid to the maker of it. If for example, the machine were the produce of the labour of one hundred men, working one year upon it with wages of £50 each, and its price were consequently £5,000; should those wages rise to £55, its price would be £5,500, but this cannot be the case; less than one hundred men are employed or it could not be sold for £5,000, for out of the £5,000 must be paid the profits of the stock which employed the men. Suppose then that only eighty-five men were employed at an expense of £50 each, or £4,250 per annum, and that the £750 which the sale of the machine would produce over and above the wages advanced to the men, constituted the profits of the engineer's stock. When wages rose 10 per cent he would be obliged to employ an additional capital of £425 and would therefore employ £4,675 instead of £4,250, on which capital he would only get a profit of £325 if he continued to sell his machine for £5,000; but this is precisely the case of all manufacturers and capitalists; the rise of wages affects them all. If therefore the maker of the machine should raise the price of it in consequence of a rise of wages, an unusual quantity of capital would be employed in the construction of such machines, till their price afforded only the common rate of profits. We see then that machines would not rise in price, in consequence of a rise of wages.

The manufacturer, however, who in a general rise of wages, can have recourse to a machine which shall not increase the charge of production on his commodity, would enjoy peculiar advantages if he could continue to charge the same price for his goods; but he, as we have already seen, would be obliged to lower the price of his commodities, or capital would flow to his trade till his profits had sunk to the general level. Thus then is the public benefited by machinery: these mute agents are always the produce of much less labour than that which they displace, even when they are of the same money value. Through their influence, an increase in the price of provisions which raises wages will affect fewer persons; it will reach, as in the above instance, eighty-five men instead of a hundred, and the saving which is the consequence, shows itself in the reduced price of the commodity manufactured. Neither machines, nor the commodities made by them, rise in real value, but all commodities made by machines fall, and fall in proportion to their durability.

It will be seen, then, that in the early stages of society, before much machinery or durable capital is used, the commodities produced by equal capitals will be nearly of equal value, and will rise or fall only relatively to each other on account of more or less labour being required for their production; but after the introduction of these expensive and durable instruments, the commodities produced by the employment of equal capitals will be of very unequal value; and although they will still be liable to rise or fall relatively to each other, as more or less labour becomes necessary to their production, they will be subject to another, though a minor variation, also, from the rise or fall of wages and profits. Since goods which sell for £5,000 may be the produce of a capital equal in amount to that from which are produced other goods which sell for £10,000, the profits on their manufacture will be the same; but those profits would be unequal, if the prices of the goods did not vary with a rise or fall in the rate of profits.

It appears, too, that in proportion to the durability of capital employed in any kind of production, the relative prices of those commodities on which such durable capital is employed, will vary inversely as wages; they will. fall as wages rise, and rise as wages fall; and, on the contrary, those which are produced chiefly by labour with less fixed capital, or with fixed capital of a less durable character than the medium in which price is estimated, will rise as wages rise, and fall as wages fall.

Section VI

On an invariable measure of value

When commodities varied in relative value, it would be desirable to have the means of ascertaining which of them fell and which rose in real value, and this could be effected only by comparing them one after another with some invariable standard measure of value, which should itself be subject to none of the fluctuations to which other commodities are exposed. Of such a measure it is impossible to be possessed, because there is no commodity which is not itself exposed to the same variations as the things, the value of which is to be ascertained; that is, there is none which is not subject to require more or less labour for its production. But if this cause of variation in the value of a medium could be removed — if it were possible that in the production of our money for instance, the same quantity of labour should at all times be required, still it would not be a perfect standard or invariable measure of value, because, as I have already endeavoured to explain, it would be subject to relative variations

from a rise or fall of wages, on account of the different proportions of fixed capital which might be necessary to produce it, and to produce those other commodities whose alteration of value we wished to ascertain. It might be subject to variations too, from the same cause, on account of the different degrees of durability of the fixed capital employed on it, and the commodities to be compared with it — or the time necessary to bring the one to market, might be longer or shorter than the time necessary to bring the other commodities to market, the variations of which were to be determined; all which circumstances disqualify any commodity that can be thought of from being a perfectly accurate measure of value.

If, for example, we were to fix on gold as a standard, it is evident that it is but a commodity obtained under the same contingencies as every other commodity, and requiring labour and fixed capital to produce it. Like every other commodity, improvements in the saving of labour might be applied to its production, and consequently it might fall in relative value to other things merely on account of the greater facility of producing it.

If we suppose this cause of variation to be removed, and the same quantity of labour to be always required to obtain the same quantity of gold, still gold would not be a perfect measure of value, by which we could accurately ascertain the variations in all other things, because it would not be produced with precisely the same combinations of fixed and circulating capital as all other things; nor with fixed capital of the same durability[1] ; nor would it require precisely the same length of time, before it could be brought to market. It would be a perfect measure of value for all things produced under the same circumstances precisely as itself, but for no others. If, for example, it were produced under the same circumstances as we have supposed necessary to produce cloth and cotton goods, it would be a perfect measure of value for those things, but not so for corn, for coals, and other commodities produced with either a less or a greater proportion of fixed capital, because, as we have shown, every alteration in the permanent rate of profits would have some effect on the relative value of all these goods, independently of any alteration in the quantity of labour employed on their production. If gold were produced under the same circumstances as corn, even if they never changed, it would not, for the same reasons, be at all times a perfect measure of the value of cloth and cotton goods. Neither gold then, nor any other commodity, can ever be a perfect measure of value for all things; but I have already remarked, that the effect on the relative prices of things, from a variation in profits, is comparatively slight; that by far the most important effects are produced by the varying quantities of labour required for production; and therefore, if we suppose this important cause of variation removed from the production of gold, we shall probably possess as near an approximation to a standard measure of value as can be theoretically conceived. May not gold be considered as a commodity produced with such proportions of the two kinds of capital as approach nearest to the the average quantity employed in the production of most commodities? May not these proportions be so nearly equally distant from the two extremes, the one where little fixed capital is used, the other where little labour is employed, as to form a just mean between them?

If, then, I may suppose myself to be possessed of a standard so nearly approaching to an invariable one, the advantage is, that I shall be enabled to speak of the variations of other things, without embarrassing myself on every occasion with the consideration of the possible alteration in the value of the medium in which price and value are estimated.

To facilitate, then, the object of this enquiry, although I fully allow that money made of gold is subject to most of the variations of other things, I shall suppose it to be invariable, and therefore all alterations in price to be occasioned by some alteration in the value of the commodity of which I may be speaking.

Before I quit this subject, it may be proper to observe, that Adam Smith, and all the writers who have followed him, have, without one exception that I know of, maintained that a rise in the price of labour would be uniformly followed by a rise in the price of all commodities. I hope I have succeeded in showing, that there are no grounds for such an opinion, and that only those commodities would rise which had less fixed capital employed upon them than the medium in which price was estimated, and that all those which had more, would positively fall in price when wages rose. On the contrary, if wages fell, those commodities only would fall, which had a less proportion of fixed capital employed on them, than the medium in which price was estimated; all those which had more, would positively rise in price.

It is necessary for me also to remark, that I have not said, because one commodity has so much labour bestowed upon it as will cost £1,000 and another so much as will cost £2,000 that therefore one would be of the value of £1,000 and the other of the value of £2,000 but I have said that their value will be to each other as two to one, and that in those proportions they will be exchanged. It is of no importance to the truth of this doctrine, whether one of these commodities sells for £1,100 and the other for £2,200, or one for £1,500 and the other for £3,000; into that question I do not at present enquire; I affirm only, that their relative values will be governed by the relative quantities of labour bestowed on their production.

Section VII

Different effects from the alteration in the value of money, the medium in which PRICE is always expressed, or from the alteration in the value of the commodities which money purchases.

Although I shall, as I have already explained, have occasion to consider money as invariable in value, for the purpose of more distinctly pointing out the causes of relative variations, in the value of other things, it may be useful to notice the different effects which will follow from the prices of goods being altered by the causes to which I have already adverted, namely, the different quantities of labour required to produce them, and their being altered by a variation in the value of money itself.

Money, being a variable commodity, the rise of money-wages will be frequently occasioned by a fall in the value of money. A rise of wages from this cause will, indeed, be invariably accompanied by a rise in the price of commodities; but in such cases, it will be found that labour and all commodities have not varied in regard to each other, and that the variation has been confined to money.

Money, from its being a commodity obtained from a foreign country, from its being the general medium of exchange between all civilized countries, and from its being also distributed among those countries in proportions which are ever changing with every improvement in commerce and machinery, and with every increasing difficulty of obtaining food and necessaries for an increasing population, is subject to incessant variations. In stating the principles which regulate exchangeable value and price, we should carefully distinguish between those variations which belong to the commodity itself, and those which are occasioned by a variation in the medium in which value is estimated, or price expressed.

A rise in wages, from an alteration in the value of money, produces a general effect on price, and for that reason it produces no real effect whatever on profits. On the contrary, a rise of wages, from the circumstance of the labourer being more liberally rewarded, or from a difficulty of procuring the necessaries on which wages are expended, does not, except in some instances, produce the effect of raising price, but has a great effect in lowering profits. In the one case, no greater proportion of the annual labour of the country is devoted to the support of the labourers; in the other case, a larger portion is so devoted.

It is according to the division of the whole produce of the land of any particular farm, between the three classes of landlord, capitalist, and labourer, that we are to judge of the rise or fall of. rent, profit, and wages, and not according to the value at which that produce may be estimated in a medium which is confessedly variable.

It is not by the absolute quantity of produce obtained by either class, that we can correctly judge of the rate of profit, rent, and wages, but by the quantity of labour required to obtain that produce. By improvements in machinery and agriculture, the whole produce may be doubled; but if wages, rent, and profit be also doubled, these three will bear the same proportions to one another as before, and neither could be said to have relatively varied. But if wages partook not of the whole of this increase; if instead of being doubled, were only increased one-half; if rent instead of being doubled, were only increased three fourths, and the remaining increase went to profit, it would, I apprehend be correct for me to say, that rent and wages had had risen; for if we had an invariable standard by which to measure the value of this produce, we should find that a less value had fallen to the class of labourers and landlords, and a greater to the class of capitalists, than had given before. We might find, for example, that though the absolute quantity of commodities had been doubled, they were the produce of precisely the former quantity of labour. Of every hundred hats, coats, and quarters of corn produced, if

The labourers had before... 25
The landlords ... 25
And the capitalists ... 50
100

And if, after these commodities were double the quantity, of every 100

The labourers had only... 22
The landlords ... 22
And the capitalists... 56
100

In that case I should say, that wages and rent had fallen and profits risen; though, in consequence of the abundance of commodities, the quantity paid to the labourer and landlord would have increased in the proportion of 25 to 44. Wages are to be estimated by their real value, viz. by the quantity of labour and capital employed in producing them, and not by their nominal value either in coats, hats, money, or corn. Under the circumstances I have just supposed, commodities would have fallen to half their former value, and if money had not varied, to half their former price also. If then in this medium, which had not varied in value, the wages of the labourer should be found to have fallen, it will not the less be a real fall, because they might furnish him with a greater quantity of cheap commodities than his former wages.

The variation in the value of money, however great, makes no difference in the rate of profits; for suppose the goods of the manufacturer to rise from £1,000 to £2,000, or 100 per cent, if his capital, on which the variations of money have as much effect as on the value of produce, if his machinery, buildings, and stock in trade rise also 100 per cent, his rate of profits will be the same, and he will have the same quantity, and no more, of the produce of the labour of the country at his command.

If, with a capital of a given value, he can, by economy in labour, double the quantity of produce, and it fall to half its former price, it will bear the same proportion to the capital that produced it which it did before, and consequently profits will still be at the same rate.

If, at the same time that he doubles the quantity of produce by the employment of the same capital, the value of money is by any accident lowered one half, the produce will sell for twice the money value that it did before; but the capital employed to produce it will also be of twice its former money value; and therefore in this case too, the value of the produce will bear the same proportion to the value of the capital as it did before; and although the produce be doubled, rent, wages, and profits will only vary as the proportions vary, in which this double produce may be divided among the three classes that share it.

Chapter 2

On Rent

It remains however to be considered, whether the appropriation of land, and the consequent creation of rent, will occasion any variation in the relative value of commodities, independently of the quantity of labour necessary to production. In order to understand this part of the subject, we must enquire into the nature of rent, and the laws by which its rise or fall is regulated.

Rent is that portion of the produce of the earth, which is paid to the landlord for the use of the original and indestructible powers of the soil. It is often, however, confounded with the interest and profit of capital, and, in popular language, the term is applied to whatever is annually paid by a farmer to his landlord. If, of two adjoining farms of the same extent, and of the same natural fertility, one had all the conveniences of farming buildings, and, besides, were properly drained and manured, and advantageously divided by hedges, fences and walls, while the other had none of these advantages, more remuneration would naturally be paid for the use of one, than for the use of the other; yet in both cases this remuneration would be called rent. But it is evident, that a portion only of the money annually to be paid for the improved farm, would be given for the original and indestructible powers of the soil; the other portion would be paid for the use of the capital which had been employed in ameliorating the quality of the land, and in erecting such buildings as were necessary to secure and preserve the produce. Adam Smith sometimes speaks of rent, in the strict sense to which I am desirous of confining it, but more often in the popular sense, in which the term is usually employed. He tells us, that the demand for timber, and its consequent high price, in the more southern countries of Europe, caused a rent to be paid for forests in Norway, which could before afford no rent. Is it not, however, evident, that the person who paid what he thus calls rent, paid it in consideration of the valuable commodity which was then standing on the land, and that he actually repaid himself with a profit, by the sale of the timber? If, indeed, after the timber was removed, any compensation were paid to the landlord for the use of the land, for the purpose of growing timber or any other produce, with a view to future demand, such compensation might justly be called rent, because it would be paid for the productive powers of the land; but in the case stated by Adam Smith, the compensation was paid for the liberty of removing and selling the timber, and not for the liberty of growing it. He speaks also of the rent of coal mines, and of stone quarries, to which the same observation applies — that the compensation given for the mine or quarry, is paid for the value of the coal or stone which can be removed from them, and has no connection with the original and indestructible powers of the land. This is a distinction of great importance, in an enquiry concerning rent and profits; for it is found, that the laws which regulate the progress of rent, are widely different from those which regulate the progress of profits, and seldom operate in the same direction. In all improved countries, that which is annually paid to the landlord, partaking of both characters, rent and profit, is sometimes kept stationary by the effects of

opposing causes; at other times advances or recedes, as one or the other of these causes preponderates. In the future pages of this work, then, whenever I speak of the rent of land, I wish to be understood as speaking of that compensation, which is paid to the owner of land for the use of its original and indestructible powers.

On the first settling of a country, in which there is an abundance of rich and fertile land, a very small proportion of which is required to be cultivated for the support of the actual population, or indeed can be cultivated with the capital which the population can command, there will be no rent; for no one would pay for the use of land, when there was an abundant quantity not yet appropriated, and, therefore, at the disposal of whosoever might choose to cultivate it.

On the common principles of supply and demand, no rent could be paid for such land, for the reason stated why nothing is given for the use of air and water, or for any other of the gifts of nature which exist in boundless quantity. With a given quantity of materials, and with the assistance of the pressure of the atmosphere, and the elasticity of steam, engines may perform work, and abridge human labour to a very great extent; but no charge is made for the use of these natural aids, because they are inexhaustible, and at every man's disposal. In the same manner the brewer, the distiller, the dyer, make incessant use of the air and water for the production of their commodities; but as the supply is boundless, they bear no price. If all land had the same properties, if it were unlimited in quantity, and uniform in quality, no charge could be made for its use, unless where it possessed peculiar advantages of situation. It is only, then, because land is not unlimited in quantity and uniform in quality, and because in the progress of population, land of an inferior quality, or less advantageously situated, is called into cultivation, that rent is ever paid for the use of it. When in the progress of society, land of the second degree of fertility is taken into cultivation, rent immediately commences on that of the first quality, and the amount of that rent will depend on the difference in the quality of these two portions of land.

When land of the third quality is taken into cultivation, rent immediately commences on the second, and it is regulated as before, by the difference in their productive powers. At the same time, the rent of the first quality will rise, for that must always be above the rent of the second, by the difference between the produce which they yield with a given quantity of capital and labour. With every step in the progress of population, which shall oblige a country to have recourse to land of a worse quality, to enable it to raise its supply of food, rent, on all the more fertile land, will rise.

Thus suppose land — No. 1, 2, 3, — to yield, with an equal employment of capital and labour, a net produce of 100, 90, and 80 quarters of corn. In a new country, where there is an abundance of fertile land compared with the population, and where therefore it is only necessary to cultivate No. 1, the whole net produce will belong to the cultivator, and will be the profits of the stock which he advances. As soon as population had so far increased as to make it necessary to cultivate No. 2, from which ninety quarters only can be obtained after supporting the labourers, rent would commence on No. 1; for either there must be two rates of profit on agricultural capital, or ten quarters, or the value of ten quarters must be withdrawn from the produce of No. 1, for some other purpose. Whether the proprietor of the land, or any other person, cultivated No. 1, these ten quarters would equally constitute rent; for the cultivator of No. 2 would get the same result with his capital, whether he cultivated No. 1, paying ten quarters for rent, or continued to cultivate No. 2, paying no rent. In the same manner it might be shown that when No. 3 is brought into cultivation, the rent of No. 2 must be ten quarters, or the value of ten quarters, whilst the rent of No. 1 would rise to twenty quarters; for the cultivator of No. 3 would have the same profits whether he paid twenty quarters for the rent of No. 1, ten quarters for the rent of No. 2, or cultivated No. 3 free of all rent.

It often, and, indeed, commonly happens, that before No. 2, 3, 4, or 5, or the inferior lands are cultivated, capital can be employed more productively on those lands which are already in cultivation. It may perhaps be found, that by doubling the original capital employed on No. 1, though the produce will not be doubled, will not be increased by 100 quarters, it may be increased by eighty-five quarters, and that this quantity exceeds what could be obtained by employing the same capital, on land No. 3.

In such case, capital will be preferably employed on the old land, and will equally create a rent; for rent is always the difference between the produce obtained by the employment of two equal quantities of capital and labour. If, with a capital of £1,000, a tenant obtain 100 quarters of wheat from his land, and by the employment of a second capital of £1,000, he obtain a further return of eighty-five, his landlord would have the power at the expiration of his lease, of obliging him to pay fifteen quarters, or an equivalent value, for additional rent; for there cannot be two rates of profit. If he is satisfied with a diminution of fifteen quarters in the return for his second £1,000, it is because no employment more profitable can be found for it. The common rate of profit would be in that proportion, and if the original tenant refused, some other person would be found willing to give all which exceeded that rate of profit to the owner of the land from which he derived it.

In this case, as well as, in the other, the capital last employed pays no rent. For the greater productive powers of the first £1,000, fifteen quarters is paid for rent, for the employment of the second £1,000 no rent whatever is paid. If a third £1,000 be employed on the same land, with a return of seventy-five quarters, rent will then be paid for the second £1,000, and will be equal to the difference between the produce of these two, or ten quarters; and at the same time the rent of the first £1,000 will rise from fifteen to twenty-five quarters; while the last £1,000 will pay no rent whatever.

If, then, good land existed in a quantity much more abundant than the production of food for an increasing population required, or if capital could be indefinitely employed without a diminished return on the old land, there could be no rise of rent; for rent invariably proceeds from the employment of an additional quantity of labour with a proportionally less return.

The most fertile, and most favorably situated, land will be first cultivated, and the exchangeable value of its produce will be adjusted in the same manner as the exchangeable value of all other commodities, by the total quantity of labour necessary in various forms, from first to last, to produce it, and bring it to market. When land of an inferior quality is taken into cultivation, the exchangeable value of raw produce will rise, because more labour is required to produce it.

The exchangeable value of all commodities, whether they be manufactured, or the produce of the mines, or the produce of land, is always regulated, not by the less quantity of labour that will suffice for their production under circumstances highly favorable, and exclusively enjoyed by those who have peculiar facilities of production; but by the greater quantity of labour necessarily bestowed on their production by those who have no such facilities; by those who continue to produce them under the most unfavorable circumstances; meaning — by the most unfavorable circumstances, the most unfavorable under which the quantity of produce required, renders it necessary to carry on the production.

Thus, in a charitable institution, where the poor are set to work with the funds of benefactors, the general prices of the commodities, which are the produce of such work, will not be governed by the peculiar facilities afforded to these workmen, but by the common, usual, and natural difficulties, which every other manufacturer will have to encounter. The manufacturer enjoying none of these facilities might indeed be driven altogether from the market, if the supply afforded by these favored workmen were equal to all the wants of the community; but if he continued the trade, it would be only on condition that he should derive from it the usual and general rate of profits on stock; and that could only happen when his commodity sold for a price proportioned to the quantity of labour bestowed on its production.

It is true, that on the best land, the same produce would still be obtained with the same labour as before, but its value would be enhanced in consequence of the diminished returns obtained by those who employed fresh labour and stock on the less fertile land. Notwithstanding, then, that the advantages of fertile over inferior lands are in no case lost, but only transferred from the cultivator, or consumer, to the landlord, yet, since more labour is required on the inferior lands, and since it is from such land only that we are enabled to furnish ourselves with the additional supply of raw produce, the comparative value of that produce will continue permanently above its former level, and make it exchange for more hats, cloth, shoes, &c. &c. in the production of which no such additional quantity of labour is required.

The reason then, why raw produce rises in comparative value, is because more labour is employed in the production of the last portion obtained, and not because a rent is paid to the landlord. The value of corn is regulated by the quantity of labour bestowed on its production on that quality of land, or with that portion of capital, which pays no rent. Corn is not high because a rent is paid, but a rent is paid because corn is high; and it has been justly observed, that no reduction would take place in the price of corn, although landlords should forego the whole of their rent. Such a measure would only enable some farmers to live like gentlemen, but would not diminish the quantity of labour necessary to raise raw produce on the least productive land in cultivation.

Nothing is more common than to hear of the advantages which the land possesses over every other source of useful produce, on account of the surplus which it yields in the form of rent. Yet when land is most abundant, when most productive, and most fertile, it yields no rent; and it is only when its powers decay, and less is yielded in return for labour, that a share of the original produce of the more fertile portions is set apart for rent. It is singular that this quality in the land, which should have been noticed as an imperfection, compared with the natural agents by which manufacturers are assisted, should have been pointed out as constituting its peculiar pre-eminence. If air, water, the elasticity of steam, and the pressure of the atmosphere, were of various qualities; if they could be appropriated, and each quality existed only in moderate abundance, they, as well as the land, would afford a rent, as the successive qualities were brought into use. With every worse quality employed, the value of the commodities in the manufacture of which they were used, would rise, because equal quantities of labour would be less productive. Man would do more by the sweat of his brow, and nature perform less; and the land would be no longer pre-eminent for its limited powers.

If the surplus produce which land affords in the form of rent be an advantage, it is desirable that, every year, the machinery newly constructed should be less efficient than the old, as that would undoubtedly give a greater exchangeable value to the goods manufactured, not only by that machinery but by all the other machinery in the kingdom; and a rent would be paid to all those who possessed the most productive machinery.

The rise of rent is always the effect of the increasing wealth of the country, and of the difficulty of providing food for its augmented population. It is a symptom, but it is never a cause of wealth; for wealth often increases most rapidly while rent is either stationary, or even falling. Rent increases most rapidly, as the disposable land decreases in its productive powers. Wealth increases most rapidly in those countries where the disposable land is most fertile, where importation is least restricted, and where through agricultural improvements, productions can be multiplied without any increase in the proportional quantity of labour, and where consequently the progress of rent is slow.

If the high price of corn were the effect, and not the cause of rent, price would be proportionally influenced as rents were high or low, and rent would be a component part of price. But that corn which is produced by the greatest quantity of labour is the regulator of the price of corn; and rent does not and cannot enter in the least degree as a component part of its price. Adam Smith, therefore, cannot be correct in supposing that the original rule which regulated the exchangeable value of commodities, namely, the comparative quantity of labour by which they were produced, can be at all altered by the appropriation of land and the payment of rent. Raw material enters into the composition of most commodities, but the value of that raw material, as well as corn, is regulated by the productiveness of the portion of capital last employed on the land, and paying no rent; and therefore rent is not a component part of the price of commodities.

We have been hitherto considering the effects of the natural progress of wealth and population on rent, in a country in which the land is of variously productive powers; and we have seen, that with every portion of additional capital which it becomes necessary to employ on the land with a less productive return, rent would rise. It follows from the same principles, that any circumstances in the society which should make it unnecessary to employ the same amount of capital on the land, and which should therefore make the portion last employed more productive, would lower rent. Any great reduction in the capital of a country, which should materially diminish the funds destined for the maintenance of labour, would naturally have this effect. Population regulates itself by the funds which are to employ it, and therefore always increases or diminishes with the increase or diminution of capital. Every reduction of capital is therefore necessarily followed by a less effective demand for corn, by a fall of price, and by diminished cultivation. In the reverse order to that in which the accumulation of capital raises rent, will the diminution of it lower rent. Land of a less unproductive quality will be in succession relinquished, the exchangeable value of produce will fall, and land of a superior quality will be the land last cultivated, and that which will then pay no rent.

The same effects may however be produced, when the wealth and population of a country are increased, if that increase is accompanied by such marked improvements in agriculture, as shall have the same effect of diminishing the necessity of cultivating the poorer lands, or of expending the same amount of capital on the cultivation of the more fertile portions.

If a million of quarters of corn be necessary for the support of a given population, and it be raised on land of the qualities of No. 1, 2, 3; and if an improvement be afterwards discovered by which it can be raised on No. 1 and 2, without employing No. 3, it is evident that the immediate effect must be a fall of rent; for No. 2, instead of No. 3, will then be cultivated without paying any rent; and the rent of No. 1, instead of being the difference between the produce of No. 3 and No. 1, will be the difference only between No. 2 and 1. With the same population, and no more, there can be no demand for any additional quantity of corn; the capital and labour employed on No. 3 will be devoted to the production of other commodities desirable to the community, and can have no effect in raising rent, unless the raw material from which they are made cannot be obtained without employing capital less advantageously on the land, in which case No. 3 must again be cultivated.

It is undoubtedly true, that the fall in the relative price of raw produce, in consequence of the improvement in agriculture, or rather in consequence of less labour being bestowed on its production, would naturally lead to increased accumulation; for the profits of stock would be greatly augmented. This accumulation would lead to an increased demand for labour, to higher wages, to an increased population, to a further demand for raw produce, and to an increased cultivation. It is only, however, after the increase in the population, that rent would be as high as before; that is to say, after No. 3 was taken into cultivation. A considerable period would have elapsed, attended with a positive diminution of rent.

But improvements in agriculture are of two kinds: those which increase the productive powers of the land, and those which enable us, by improving our machinery, to obtain its produce with less labour. They both lead to a fall in the price of raw produce; they both affect rent, but they do not affect it equally. If they did not occasion a fall in the price of raw produce, they would not be improvements; for it is the essential quality of an improvement to diminish the quantity of labour before required to produce a commodity; and this diminution cannot take place without a fall of its price or relative value.

The improvements which increase the productive powers of the land, are such as the more skilful rotation of crops, or the better choice of manure. These improvements absolutely enable us to obtain the same produce from a smaller quantity of land. If, by the introduction of a course of turnips, I can feed my sheep besides raising my corn, the land on which the sheep were before fed becomes unnecessary, and the same quantity of raw produce is raised by the employment of a less quantity of land. If I discover a manure which will enable me to make a piece of land produce 20 per cent more corn, I may withdraw at least a portion of my capital from the most unproductive part of my farm. But, as I before observed, it is not necessary that land should be thrown out of cultivation, in order to reduce rent: to produce this effect, it is sufficient that successive portions of capital are employed on the same land with different results, and that the portion which gives the least result should be withdrawn. If, by the introduction of the turnip husbandry, or by the use of a more invigorating manure, I can obtain the same produce with less capital, and without disturbing the difference between the productive powers of the successive portions of capital, I shall lower rent; for a different and more productive portion will be that which will form the standard from which every other will be reckoned. If, for example, the successive portions of capital yielded 100, 90, 80, 70; whilst I employed these four portions, my rent would be 60, or the difference between

70 and 100 = 30
70 and 90 = 20

70 and 80 = 10
60

whilst the produce would be 340

100 90 80 70 340

and while I employed these portions, the rent would remain the same, although the produce of each should have an equal augmentation. If, instead of 100, 90, 80, 70, the produce should be increased to 125, 115, 105, 95, the rent would still be 60, or the difference between

95 and 125 = 30
95 and 115 = 20
95 and 105 = 10
60

whilst the produce would be increased to 440

125 115 105 95 440

But with such an increase of produce, without an increase of demand, there could be no motive for employing so much capital on the land; one portion would be withdrawn, and consequently the last portion of capital would yield 105 instead of 95, and rent would fall to 30, or the difference between

105 adn 125 = 20 105 and 115 = 10

30

whilst the produce will be still adequate to the wants of the population, for it would be 345 quarters, or

125 115 105 345

the demand being only for 240 quarters. — But there are improvements which may lower the relative value of produce without lowering the corn rent, though they will lower the money rent of land. Such improvements do not increase the productive powers of the land; but they enable us to obtain its produce with less labour. They are rather directed to the formation of the capital applied to the land, than to the cultivation of the land itself. Improvements in agricultural implements, such as the plough and the thrashing machine, economy in the use of horses employed in husbandry, and a better knowledge of the veterinary art, are of this nature. Less capital, which is the same thing as less labour, will be employed on the land; but to obtain the same produce, less land cannot be cultivated. Whether improvements of this kind, however, affect corn rent, must depend on the question, whether the difference between the produce obtained by the employment of different portions of capital be increased, stationary, or diminished. If four portions of capital, 50, 60, 70, 80, be employed on the land, giving each the same results, and any improvement in the formation of such capital should enable me to withdraw 5 from each, so that they should be 45, 55, 65, and 75, no alteration would take place in the corn rent; but if the improvements were such as to enable me to make the whole saving on that portion of capital, which is least productively employed, corn rent would immediately fall, because the difference between the capital most productive, and the capital least productive, would be diminished; and it is this difference which constitutes rent.

Without multiplying instances, I hope enough has been said to show, that whatever diminishes the inequality in the produce obtained from successive portions of capital employed on the same or on new land, tends to lower rent; and that whatever increases that inequality, necessarily produces an opposite effect, and tends to raise it.

In speaking of the rent of the landlord, we have rather considered it as the proportion of the produce, obtained with a given capital on any given farm, without any reference to its exchangeable value; but since the same cause, the difficulty of production, raises the exchangeable value of raw produce, and raises also the proportion of raw produce paid to the landlord for rent, it is obvious that the landlord is doubly benefited by difficulty of production. First, he

obtains a greater share, and secondly the commodity in which he is paid is of greater value.

Chapter 3

On the Rent of Mines

The metals, like other things, are obtained by labour. Nature, indeed, produces them; but it is the labour of man which extracts them from the bowels of the earth, and prepares them for our service.

Mines, as well as land, generally pay a rent to their owner; and this rent, as well as the rent of land, is the effect, and never the cause of the high value of their produce.

If there were abundance of equally fertile mines, which any one might appropriate, they could yield no rent; the value of their produce would depend on the quantity of labour necessary to extract the metal from the mine and bring it to market.

But there are mines of various qualities, affording very different results, with equal quantities of labour. The metal produced from the poorest mine that is worked, must at least have an exchangeable value, not only sufficient to procure all the clothes, food, and other necessaries consumed by those employed in working it, and bringing the produce to market, but also to afford the common and ordinary profits to him who advances the stock necessary to carry on the undertaking. The return for capital from the poorest mine paying no rent, would regulate the rent of all the other more productive mines. This mine is supposed to yield the usual profits of stock. All that the other mines produce more than this, will necessarily be paid to the owners for rent. Since this principle is precisely the same as that which we have already laid down respecting land, it will not be necessary further to enlarge on it.

It will be sufficient to remark, that the same general rule which regulates the value of raw produce and manufactured commodities, is applicable also to the metals; their value depending not on the rate of profits, nor on the rate of wages, nor on the rent paid for mines, but on the total quantity of labour necessary to obtain the metal, and to bring it to market.

Like every other commodity, the value of the metals is subject to variation. Improvements may be made in the implements and machinery used in mining, which may considerably abridge labour; new and more productive mines may be discovered, in which, with the same labour, more metal may be obtained; or the facilities of bringing it to market may be increased. In either of these cases the metals would fall in value, and would therefore exchange for a less quantity of other things. On the other hand, from the increasing difficulty of obtaining the metal, occasioned by the greater depth at which the mine must be worked, and the accumulation of water, or any other contingency, its value compared with that of other things, might be considerably increased.

It has therefore been justly observed, that however honestly the coin of a country may conform to its standard, money made of gold and silver is still liable to fluctuations in value, not only to accidental and temporary, but to permanent and natural variations, in the same manner as other commodities.

By the discovery of America and the rich mines in which it abounds, a very great effect was produced on the natural price of the precious metals. This effect is by many supposed not yet to have terminated. It is probable, however, that all the effects on the value of the metals, resulting from the discovery of America, have long ceased; and if any fall has of late years taken place in their value, it is to be attributed to improvements in the mode of working the mines.

From whatever cause it may have proceeded, the effect has been so slow and gradual, that little practical inconvenience has been felt from gold and silver being the general medium in which the value of all other things is estimated. Though undoubtedly a variable measure of value, there is probably no commodity subject to fewer variations. This and the other advantages which these metals possess, such as their hardness, their malleability, their divisibility, and many more, have justly secured the preference every where given to them, as a standard for the money of civilized countries.

If equal quantities of labour, with equal quantities of fixed capital, could at all times obtain, from that mine which paid no rent, equal quantities of gold, gold would be as nearly an invariable measure of value, as we could in the nature of things possess. The quantity indeed would enlarge with the demand, but its value would be invariable, and it would be eminently well calculated to measure the varying value of all other things. I have already in a former part of this work considered gold as endowed with this uniformity, and in the following chapter I shall continue the supposition. In speaking therefore of varying price, the variation will be always considered as being in the commodity, and never in the medium in which it is estimated.

Chapter 4

On Natural and Market Price

In making labour the foundation of the value of commodities, and the comparative quantity of labour which is necessary to their production, the rule which determines the respective quantities of goods which shall be given in exchange for each other, we must not be supposed to deny the accidental and temporary deviations of the actual or market price of commodities from this, their primary and natural price.

In the ordinary course of events, there is no commodity which continues for any length of time to be supplied precisely in that degree of abundance, which the wants and wishes of mankind require, and therefore there is none which is not subject to accidental and temporary variations of price.

It is only in consequence of such variations, that capital is apportioned precisely, in the requisite abundance and no more, to the production of the different commodities which happen to be in demand. With the rise or fall of price, profits are elevated above, or depressed below their general level, and capital is either encouraged to enter into, or is warned to depart from the particular employment in which the variation has taken place.

Whilst every man is free to employ his capital where he pleases, he will naturally seek for it that employment which is most advantageous; he will naturally be dissatisfied with a profit of 10 per cent, if by removing his capital he can obtain a profit of 15 per cent. This restless desire on the part of all the employers of stock, to quit a less profitable for a more advantageous business, has a strong tendency to equalize the rate of profits of all, or to fix them in such proportions, as may in the estimation of the parties, compensate for any advantage which one may have, or may appear to have over the other. It is perhaps very difficult to trace the steps by which this change is effected: it is probably effected, by a manufacturer not absolutely changing his employment, but only lessening the quantity of capital he has in that employment. In all rich countries, there is a number of men forming what is called the monied class; these men are engaged in no trade, but live on the interest of their money, which is employed in discounting bills, or in loans to the more industrious part of the community. The bankers too employ a large capital on the same objects. The capital so employed forms a circulating capital of a large amount, and is employed, in larger or smaller proportions, by all the different trades of a country. There is perhaps no manufacturer, however rich, who limits his business to the extent that his own funds alone will allow: he has always some portion of this floating capital, increasing or diminishing according to the activity of the demand for his commodities. When the demand for silks increases, and that for cloth diminishes, the clothier does not remove with his capital to the silk trade, but he dismisses some of his workmen, he discontinues his demand for the loan from bankers and monied men; while the

case of the silk manufacturer is the reverse: he wishes to employ more workmen, and thus his motive for borrowing is increased: he borrows more, and thus capital is transferred from one employment to another, without the necessity of a manufacturer discontinuing his usual occupation. When we look to the markets of a large town, and observe how regularly they are supplied both with home and foreign commodities, in the quantity in which they are required, under all the circumstances of varying demand, arising from the caprice of taste, or a change in the amount of population, without often producing either the effects of a glut from a too abundant supply, or an enormously high price from the supply being unequal to the demand, we must confess that the principle which apportions capital to each trade in the precise amount that it is required, is more active than is generally supposed.

A capitalist, in seeking profitable employment for his funds, will naturally take into consideration all the advantages which one occupation possesses over another. He may therefore be willing to forego a part of his money profit, in consideration of the security, cleanliness, ease, or any other real or fancied advantage which one employment may possess over another.

If from a consideration of these circumstances, the profits of stock should be so adjusted, that in one trade they were 20, in another 25, and in another 30 per cent, they would probably continue permanently with that relative difference, and with that difference only; for if any cause should elevate the profits of one of these trades 10 per cent either these profits would be temporary and would soon again fall back to their usual station, or the profits of the others would be elevated in the same proportion.

The present time appears to be one of the exceptions to the justness of this remark. The termination of the war has so deranged the division which before existed of employments in Europe, that every capitalist has not yet found his place in the new division which has now become necessary.

Let us suppose that all commodities are at their natural price, and consequently that the profits of capital in all employments are exactly at the same rate, or differ only so much as, in the estimation of the parties, is equivalent to any real or fancied advantage which they possess or forego.

Suppose now that a change of fashion should increase the demand for silks, and lessen that for woollens; their natural price, the quantity of labour necessary to their production, would continue unaltered, but the market price of silks would rise, and that of woollens would fall; and consequently the profits of the silk manufacturer would be above, whilst those of the woollen manufacturer would be below, the general and adjusted rate of profits. Not only the profits, but the wages of the workmen, would be affected in these employments. This increased demand for silks would however soon be supplied, by the transference of capital and labour from the woollen to the silk manufacture; when the market prices of silks and woollens would again approach their natural prices, and then the usual profits would be obtained by the respective manufacturers of those commodities.

It is then the desire, which every capitalist has, of diverting his funds from a less to a more profitable employment, that prevents the market price of commodities from continuing for any length of time either much above, or much below their natural price. It is this competition which so adjusts the exchangeable value of commodities, that after paying the wages for the labour necessary to their production, and all other expenses required to put the capital employed in its original state of efficiency, the remaining value or overplus will in each trade be in proportion to the value of the capital employed.

In the 7th chap. of the Wealth of Nations, all that concerns this question is most ably treated. Having fully acknowledged the temporary effects which, in particular employments of capital, may be produced on the prices of commodities, as well as on the wages of labour, and the profits of stock, by accidental causes, without influencing the general price of commodities, wages, or profits, since these effects are equally operative in all stages of society, we will leave them entirely out of our consideration, whilst we are treating of the laws which regulate natural prices, natural wages and natural profits, effects totally independent of these accidental causes. In speaking then of the exchangeable value of commodities, or the power of purchasing possessed by any one commodity, I mean always that power which it would possess, if not disturbed by any temporary or accidental cause, and which is its natural price.

Chapter 5

Of Wages

Labour, like all other things which are purchased and sold, and which may be increased or diminished in quantity, has its natural and its market price. The natural price of labour is that price which is necessary to enable the labourers, one with another, to subsist and to perpetuate their race, without either increase or diminution.

The power of the labourer to support himself, and the family which may be necessary to keep up the number of labourers, does not depend on the quantity of money which he may receive for wages, but on the quantity of food, necessaries, and conveniences become essential to him from habit, which that money will purchase. The natural price of labour, therefore, depends on the price of the food, necessaries, and conveniences required for the support of the labourer and his family. With a rise in the price of food and necessaries, the natural price of labour will rise; with the fall in their price, the natural price of labour will fall.

With the progress of society the natural price of labour has always a tendency to rise, because one of the principal commodities by which its natural price is regulated, has a tendency to become dearer, from the greater difficulty of producing it. As, however, the improvements in agriculture, the discovery of new markets, whence provisions may be imported, may for a time counteract the tendency to a rise in the price of necessaries, and may even occasion their natural price to fall, so will the same causes produce the correspondent effects on the natural price of labour.

The natural price of all commodities, excepting raw produce and labour, has a tendency to fall, in the progress of wealth and population; for though, on one hand, they are enhanced in real value, from the rise in the natural price of the raw material of which they are made, this is more than counterbalanced by the improvements in machinery, by the better division and distribution of labour, and by the increasing skill, both in science and art, of the producers.

The market price of labour is the price which is really paid for it, from the natural operation of the proportion of the supply to the demand; labour is dear when it is scarce, and cheap when it is plentiful. However much the market price of labour may deviate from its natural price, it has, like commodities, a tendency to conform to it.

It is when the market price of labour exceeds its natural price, that the condition of the labourer is flourishing and happy, that he has it in his power to command a greater proportion of the necessaries and enjoyments of life, and therefore to rear a healthy and numerous family. When, however, by the encouragement which high wages give to the increase of population, the

number of labourers is increased, wages again fall to their natural price, and indeed from a re-action sometimes fall below it.

When the market price of labour is below its natural price, the condition of the labourers is most wretched: then poverty deprives them of those comforts which custom renders absolute necessaries. It is only after their privations have reduced their number, or the demand for labour has increased, that the market price of labour will rise to its natural price, and that the labourer will have the moderate comforts which the natural rate of wages will afford.

Notwithstanding the tendency of wages to conform to their natural rate, their market rate may, in an improving society, for an indefinite period, be constantly above it; for no sooner may the impulse, which an increased capital gives to a new demand for labour be obeyed, than another increase of capital may produce the same effect; and thus, if the increase of capital be gradual and constant, the demand for labour may give a continued stimulus to an increase of people.

Capital is that part of the wealth of a country which is employed in production, and consists of food, clothing, tools, raw materials, machinery, &c. necessary to give effect to labour.

Capital may increase in quantity at the same time that its value rises. An addition may be made to the food and clothing of a country, at the same time that more labour may be required to produce the additional quantity than before; in that case not only the quantity, but the value of capital will rise.

Or capital may increase without its value increasing, and even while its value is actually diminishing; not only may an addition be made to the food and clothing of a country, but the addition may be made by the aid of machinery, without any increase, and even with an absolute diminution in the proportional quantity of labour required to produce them. The quantity of capital may increase, while neither the whole together, nor any part of it singly, will have a greater value than before, but may actually have a less.

In the first case, the natural price of labour, which always depends on the price of food, clothing, and other necessaries, will rise; in the second, it will remain stationary, or fall; but in both cases the market rate of wages will rise, for in proportion to the increase of capital will be the increase in the demand for labour; in proportion to the work to be done will be the demand for those who are to do it.

In both cases too the market price of labour will rise above its natural price; and in both cases it will have a tendency to conform to its natural price, but in the first case this agreement will be most speedily effected. The situation of the labourer will be improved, but not much improved; for the increased price of food and necessaries will absorb a large portion of his increased wages; consequently a small supply of labour, or a trifling increase in the population, will soon reduce the market price to the then increased natural price of labour.

In the second case, the condition of the labourer will be very greatly improved; he will receive increased money wages, without having to pay any increased price, and perhaps even a diminished price for the commodities which he and his family consume; and it will not be till after a great addition has been made to the population, that the market price of labour will again sink to its then low and reduced natural price.

Thus, then, with every improvement of society, with every increase in its capital, the market wages of labour will rise; but the permanence of their rise will depend on the question, whether the natural price of labour has also risen; and this again will depend on the rise in the natural price of those necessaries on which the wages of labour are expended.

It is not to be understood that the natural price of labour, estimated even in food and necessaries, is absolutely fixed and constant. It varies at different times in the same country, and very materially differs in different countries. It essentially depends on the habits and customs of the people. An English labourer would consider his wages under their natural rate, and too scanty to support a family, if they enabled him to purchase no other food than potatoes, and to live in no better habitation than a mud cabin; yet these moderate demands of nature are often deemed sufficient in countries where 'man's life is

cheap', and his wants easily satisfied. Many of the conveniences now enjoyed in an English cottage, would have been thought luxuries at an earlier period of our history.

From manufactured commodities always falling, and raw produce always rising, with the progress of society, such a disproportion in their relative value is at length created, that in rich countries a labourer, by the sacrifice of a very small quantity only of his food, is able to provide liberally for all his other wants.

Independently of the variations in the value of money, which necessarily affect money wages, but which we have here supposed to have no operation, as we have considered money to be uniformly of the same value, it appears then that wages are subject to a rise or fall from two causes:

1st. The supply and demand of labourers.

2dly. The price of the commodities on which the wages of labour are expended.

In different stages of society, the accumulation of capital, or of the means of employing labour, is more or less rapid, and must in all cases depend on the productive powers of labour. The productive powers of labour are generally greatest when there is an abundance of fertile land: at such periods accumulation is often so rapid, that labourers cannot be supplied with the same rapidity as capital.

It has been calculated, that under favourable circumstances population may be doubled in twenty-five years; but under the same favourable circumstances, the whole capital of a country might possibly be doubled in a shorter period. In that case, wages during the whole period would have a tendency to rise, because the demand for labour would increase still faster than the supply.

In new settlements, where the arts and knowledge of countries far advanced in refinement are introduced, it is probable that capital has a tendency to increase faster than mankind: and if the deficiency of labourers were not supplied by more populous countries, this tendency would very much raise the price of labour. In proportion as these countries become populous, and land of a worse quality is taken into cultivation, the tendency to an increase of capital diminishes; for the surplus produce remaining, after satisfying the wants of the existing population, must necessarily be in proportion to the facility of production, viz. to the smaller number of persons employed in production. Although, then, it is probable, that under the most favourable circumstances, the power of production is still greater than that of population, it will not long continue so; for the land being limited in quantity, and differing in quality, with every increased portion of capital employed on it, there will be a decreased rate of production, whilst the power of population continues always the same.

In those countries where there is abundance of fertile land, but where, from the ignorance, indolence, and barbarism of the inhabitants, they are exposed to all the evils of want and famine, and where it has been said that population presses against the means of subsistence, a very different remedy should be applied from that which is necessary in long settled countries, where, from the diminishing rate of the supply of raw produce, all the evils of a crowded population are experienced. In the one case, the evil proceeds from bad government, from the insecurity of property, and from a want of education in all ranks of the people. To be made happier they require only to be better governed and instructed, as the augmentation of capital, beyond the augmentation of people, would be the inevitable result. No increase in the population can be too great, as the powers of production are still greater. In the other case, the population increases faster than the funds required for its support. Every exertion of industry, unless accompanied by a diminished rate of increase in the population, will add to the evil, for production cannot keep pace with it.

With a population pressing against the means of subsistence, the only remedies are either a reduction of people, or a more rapid accumulation of capital. In rich countries, where all the fertile land is already cultivated, the latter remedy is neither very practicable nor very desirable, because its effect would be, if pushed very far, to render all classes equally poor. But in poor countries, where there are abundant means of production in store, from fertile land not yet brought into cultivation, it is the only safe and efficacious means of removing the evil, particularly as its effect would be to elevate all classes of the people.

The friends of humanity cannot but wish that in all countries the labouring classes should have a taste for comforts and enjoyments, and that they should be stimulated by all legal means in their exertions to procure them. There cannot be a better security against a superabundant population. 1 In those countries, where the labouring classes have the fewest wants, and are contented with the cheapest food, the people are exposed to the greatest vicissitudes and miseries. They have no place of refuge from calamity; they cannot seek safety in a lower station; they are already so low, that they can fall no lower. On any deficiency of the chief article of their subsistence, there are few substitutes of which they can avail themselves, and dearth to them is attended with almost all the evils of famine.

In the natural advance of society, the wages of labour will have a tendency to fall, as far as they are regulated by supply and demand; for the supply of labourers will continue to increase at the same rate, whilst the demand for them will increase at a slower rate. If, for instance, wages were regulated by a yearly increase of capital, at the rate of 2 per cent, they would fall when it accumulated only at the rate of 1 1/2 per cent. They would fall still lower when it increased only at the rate of 1, or 1/2 per cent, and would continue to do so until the capital became stationary, when wages also would become stationary, and be only sufficient to keep up the numbers of the actual population. I say that, under these circumstances, wages would fall, if they were regulated only by the supply and demand of labourers; but we must not forget, that wages are also regulated by the prices of the commodities on which they are expended.

As population increases, these necessaries will be constantly rising in price, because more labour will be necessary to produce them. If, then, the money wages of labour should fall, whilst every commodity on which the wages of labour were expended rose, the labourer would be doubly affected, and would be soon totally deprived of subsistence. Instead, therefore, of the money wages of labour falling, they would rise; but they would not rise sufficiently to enable the labourer to purchase as many comforts and necessaries as he did before the rise in the price of those commodities. If his annual wages were before £24, or six quarters of corn when the price was £4 per quarter, he would probably receive only the value of five quarters when corn rose to £5 per quarter. But five quarters would cost £25; he would therefore receive an addition in his money wages, though with that addition he would be unable to furnish himself with the same quantity of corn and other commodities, which he had before consumed in his family.

Notwithstanding, then, that the labourer would be really worse paid, yet this increase in his wages would necessarily diminish the profits of the manufacturer; for his goods would sell at no higher price, and yet the expense of producing them would be increased. This, however, will be considered in our examination into the principles which regulate profits.

It appears, then, that the same cause which raises rent, namely, the increasing difficulty of providing an additional quantity of food with the same proportional quantity of labour, will also raise wages; and therefore if money be of an unvarying value, both rent and wages will have a tendency to rise with the progress of wealth and population.

But there is this essential difference between the rise of rent and the rise of wages. The rise in the money value of rent is accompanied by an increased share of the produce; not only is the landlord's money rent greater, but his corn rent also; he will have more corn, and each defined measure of that corn will exchange for a greater quantity of all other goods which have not been raised in value. The fate of the labourer will be less happy; he will receive more money wages, it is true, but his corn wages will be reduced; and not only his command of corn, but his general condition will be deteriorated, by his finding it more difficult to maintain the market rate of wages above their natural rate. While the price of corn rises 10 per cent, wages will always rise less than 10 per cent, but rent will always rise more; the condition of the labourer will generally decline, and that of the landlord will always be improved.

When wheat was at £4 per quarter, suppose the labourer's wages to be £24 per annum, or the value of six quarters of wheat, and suppose half his wages to be expended on wheat, and the other half, or £12, on other things. He would receive

£24 14s. £25 10s. £26 8s. £27 8s. 6d.

when wheat was at

£4 4s. 8d. £4 10s. £4 16s. £5 2s. 10d.

or the value of

5.83 qrs. 5.66 qrs. 5.50 qrs. 5.33 qrs.

He would receive these wages to enable him to live just as well, and no better, than before; for when corn was at £4 per quarter, he would expend for three quarters of corn, at £4 per quarter

..... £12 and on other thing £12

£24

When wheat was £4 4s. 8d., three quarters, which he and his family consumed, would cost him... £12 14s. other things not altered in price... £12

£24 14s.

When at £4 10s., three quarters of wheat would cost £13 10s. and other things £12.

£25 10s.

When at £4 16s., three quarters of wheat... £14 8s. Other things £12

£26 8s.

When at £5 2s. 10d. three quarters of wheat would cost £15 8s. 6d. Other things £12

£27 8s. 6d.

In proportion as corn became dear, he would receive less corn wages, but his money wages would always increase, whilst his enjoyments, on the above supposition, would be precisely the same. But as other commodities would be raised in price in proportion as raw produce entered into their composition, he would have more to pay for some of them. Although his tea, sugar, soap, candles, and house rent, would probably be no dearer, he would pay more for his bacon, cheese, butter, linen, shoes, and cloth; and therefore, even with the above increase of wages, his situation would be comparatively worse. But it may be said that I have been considering the effect of wages on price, on the supposition that gold, or the metal from which money is made, is the produce of the country in which wages varied; and that the consequences which I have deduced agree little with the actual state of things, because gold is a metal of foreign production. The circumstance, however, of gold being a foreign production, will not invalidate the truth of the argument, because it may be shewn, that whether it were found at home, or were imported from abroad, the effects ultimately and, indeed, immediately would be the same.

When wages rise, it is generally because the increase of wealth and capital have occasioned a new demand for labour, which will, infallibly be attended with an increased production of commodities. To circulate these additional commodities, even at the same prices as before, more money is required, more of this foreign commodity from which money is made, and which can only be obtained by importation. Whenever a commodity is required in greater abundance than before, its relative value rises comparatively with those commodities with which its purchase is made. If more hats were wanted, their price would rise, and more gold would be given for them. If more gold were required, gold would rise, and hats would fall in price, as a greater quantity of hats and of all other things would then be necessary to purchase the same quantity of gold. But in the case supposed, to say that commodities will rise, because wages rise, is to affirm a positive contradiction; for we first say that gold will rise in relative value in consequence of demand, and secondly, that it will fall in relative value because prices will rise, two effects which are totally incompatible with each other. To say that commodities are raised in price, is the same thing as to say that money is lowered in relative value; for it is by commodities that the relative value of gold is estimated. If then all commodities rose in price, gold could not come from abroad to purchase those dear commodities, but it would go from home to be employed with advantage in purchasing the comparatively cheaper foreign commodities. It appears, then,

that the rise of wages will not raise the prices of commodities, whether the metal from which money is made be produced at home or in a foreign country. All commodities cannot rise at the same time without an addition to the quantity of money. This addition could not be obtained at home, as we have already shewn; nor could it be imported from abroad. To purchase any additional quantity of gold from abroad, commodities at home must be cheap, not dear. The importation of gold, and a rise in the price of all home-made commodities with which gold is purchased or paid for, are effects absolutely incompatible. The extensive use of paper money does not alter this question, for paper money conforms, or ought to conform, to the value of gold, and therefore its value is influenced by such causes only as influence the value of that metal.

These then are the laws by which wages are regulated, and by which the happiness of far the greatest part of every community is governed. Like all other contracts, wages should be left to the fair and free competition of the market, and should never be controlled by the interference of the legislature.

The clear and direct tendency of the poor laws, is in direct opposition to these obvious principles: it is not, as the legislature benevolently intended, to amend the condition of the poor, but to deteriorate the condition of both poor and rich; instead of making the poor rich, they are calculated to make the rich poor; and whilst the present laws are in force, it is quite in the natural order of things that the fund for the maintenance of the poor should progressively increase, till it has absorbed all the net revenue of the country, or at least so much of it as the state shall leave to us, after satisfying its own never failing demands for the public expenditure.

This pernicious tendency of these laws is no longer a mystery, since it has been fully developed by the able hand of Mr Malthus; and every friend to the poor must ardently wish for their abolition. Unfortunately, however, they have been so long established, and the habits of the poor have been so formed upon their operation, that to eradicate them with safety from our political system, requires the most cautious and skilful management. It is agreed by all who are most friendly to a repeal of these laws, that if it be desirable to prevent the most overwhelming distress to those for whose benefit they were erroneously enacted, their abolition should be effected by the most gradual steps.

It is a truth which admits not a doubt, that the comforts and well- being of the poor cannot be permanently secured without some regard on their part, or some effort on the part of the legislature, to regulate the increase of their numbers, and to render less frequent among them early and improvident marriages. The operation of the system of poor laws has been directly contrary to this. They have rendered restraint superfluous, and have invited imprudence, by offering it a portion of the wages of prudence and industry.

The nature of the evil points out the remedy. By gradually contracting the sphere of the poor laws; by impressing on the poor the value of independence, by teaching them that they must look not to systematic or casual charity, but to their own exertions for support, that prudence and forethought are neither unnecessary nor unprofitable virtues, we shall by degrees approach a sounder and more healthful state.

No scheme for the amendment of the poor laws merits the least attention, which has not their abolition for its ultimate object; and he is the best friend to the poor, and to the cause of humanity, who can point out how this end can be attained with the most security, and at the same time with the least violence. It is not by raising in any manner different from the present, the fund from which the poor are supported, that the evil can be mitigated. It would not only be no improvement, but it would be an aggravation of the distress which we wish to see removed, if the fund were increased in amount, or were levied according to some late proposals, as a general fund from the country at large. The present mode of its collection and application has served to mitigate its pernicious effects. Each parish raises a separate fund for the support of its own poor. Hence it becomes an object of more interest and more practicability to keep the rates low, than if one general fund were raised for the relief of the poor of the whole kingdom. A parish is much more interested in an economical collection of the rate, and a sparing distribution of relief, when the whole saving will be for its own benefit, than if hundreds of other parishes were to partake of it.

It is to this cause, that we must ascribe the fact of the poor laws not having yet absorbed all the net revenue of the country; it is to the rigour with which they are applied, that we are indebted for their not having become overwhelmingly oppressive. If by law every human being wanting support could be sure to obtain it, and obtain it in such a degree as to make life tolerably comfortable, theory would lead us to expect that all other taxes together would be light compared with the single one of poor rates. The principle of gravitation is not more certain than the tendency of such laws to change wealth and power into misery and weakness; to call away the exertions of labour from every object, except that of providing mere subsistence; to confound all intellectual distinction; to busy the mind continually in supplying the body's wants; until at last all classes should be infected with the plague of universal poverty. Happily these laws have been in operation during a period of progressive prosperity, when the funds for the maintenance of labour have regularly increased, and when an increase of population would be naturally called for. But if our progress should become more slow; if we should attain the stationary state, from which I trust we are yet far distant, then will the pernicious nature of these laws become more manifest and alarming, and then, too, will their removal be obstructed by many additional difficulties.

Chapter 6

On Profits

The profits of stock, in different employments, having been shown to bear a proportion to each other, and to have a tendency to vary all in the same degree and in the same direction, it remains for us to consider what is the cause of the permanent variations in the rate of profit, and the consequent permanent alterations in the rate of interest.

We have seen that the price of corn is regulated by the quantity of labour necessary to produce it, with that portion of capital which pays no rent. We have seen, too, that all manufactured commodities rise and fall in price, in proportion as more or less labour becomes necessary to their production. Neither the farmer who cultivates that quantity of land, which regulates price, nor the manufacturer, who manufactures goods, sacrifice any portion of the produce for rent. The whole value of their commodities is divided into two portions only: one constitutes the profits of stock, the other the wages of labour.

Supposing corn and manufactured goods always to sell at the same price, profits would be high or low in proportion as wages were low or high. But suppose corn to rise in price because more labour is necessary to produce it; that cause will not raise the price of manufactured goods in the production of which no additional quantity of labour is required. If, then, wages continued the same, the profits of manufacturers would remain the same; but if, as is absolutely certain, wages should rise with the rise of corn, then their profits would necessarily fall.

If a manufacturer always sold his goods for the same money, for £1,000, for example, his profits would depend on the price of the labour necessary to manufacture those goods. His profits would be less when wages amounted to £800 than when he paid only £600. In proportion then as wages rose, would profits fall. But if the price of raw produce would increase, it may be asked, whether the farmer at least would not have the same rate of profits, although he should pay an additional sum for wages? Certainly not: for he will not only have to pay, in common with the manufacturer, an increase of wages to each labourer he employs, but he will be obliged either to pay rent, or to employ an additional number of labourers to obtain the same produce; and the rise in the price of raw produce will be proportioned only to that rent, or that additional number, and will not compensate him for the rise of wages.

If both the manufacturer and farmer employed ten men, on wages rising from £24 to £25 per annum per man, the whole sum paid by each would be £250 instead of £240. This is, however, the whole addition that would be paid by the manufacturer to obtain the same quantity of commodities; but the farmer on new land would probably be obliged to employ an additional man, and therefore to pay an additional sum of £25 for wages; and the farmer on the old land would be obliged to pay precisely the same additional sum of £25 for rent; without which additional labour, corn would not have risen, nor rent have been increased. One will therefore have to pay £275 for wages alone, the other, for wages and rent together; each £25 more than the manufacturer: for this latter £25 the farmer is compensated by the addition to the price of raw produce, and therefore his profits still conform to the profits of the manufacturer. As this proposition is important, I will endeavour still further to elucidate it.

We have shewn that in early stages of society, both the landlord's and the labourer's share of the value of the produce of the earth, would be but small; and that it would increase in proportion to the progress of wealth, and the difficulty of procuring food. We have shewn, too, that although the value of the labourer's portion will be increased by the high value of food, his real share will be diminished; whilst that of the landlord will not only be raised in value, but will also be increased in quantity.

The remaining quantity of the produce of the land, after the landlord and labourer are paid, necessarily belongs to the farmer, and constitutes the profits of his stock. But it may be alleged, that though as society advances, his proportion of the whole produce will be diminished, yet as it will rise in value, he, as well as the landlord and labourer, may, notwithstanding, receive a greater value.

It may be said for example, that when corn rose from £4 to £10, the 180 quarters obtained from the best land would sell for £1,800 instead of £720; and, therefore, though the landlord and labourer be proved to have a greater value for rent and wages, still the value of the farmer's profit might also be augmented. This, however, is impossible, as I shall now endeavour to shew.

In the first place, the price of corn would rise only in proportion to the increased difficulty of growing it on land of a worse quality.

It has been already remarked, that if the labour of ten men will, on land of a certain quality, obtain 180 quarters of wheat, and its value be £4 per quarter, or £720; and if the labour of ten additional men, will on the same or any other land produce only 170 quarters in addition, wheat would rise from £4 to £4 4s.

8d.; for 170:180::£4:£4 4s. 8d. In other words, as for the production of 170 quarters, the labour of ten men is necessary, in the one case, and only that of 9.44 in the other, the rise would be as 9.44 to 10, or, as £4 to £4 4s. 8d. In the same manner it might be shewn, that if the labour of ten additional men would only produce 160 quarters, the price would further rise to £4 10s.; if 150, to £4 16s. &c. &c.

But when 180 quarters were produced on the land paying no rent, and its price was £4 per quarter, it is sold for.......... £720 And when 170 quarters were produced on the land paying no rent, and the price rose to £4 4s. 8d. it still sold for.......... 720 So 160 quarters at £4 10s. produce..... 720 And 150 quarters at £4 16s. produce the same sum of. 720

Now it is evident, that if out of these equal values, the farmer is at one time obliged to pay wages regulated by the price of wheat at £4, and at other times at higher prices, the rate of his profits will diminish in proportion to the rise in the price of corn.

In this case, therefore, I think it is clearly demonstrated that a rise in the price of corn, which increases the money wages of the labourer, diminishes the money value of the farmer's profits.

But the case of the farmer of the old and better land will be in no way different; he also will have increased wages to pay, and will never retain more of the value of the produce, however high may be its price, than £720 to be divided between himself and his always equal number of labourers; in proportion therefore as they get more, he must retain less.

When the price of corn was at £4 the whole 180 quarters belonged to the cultivator, and he sold it for £720. When corn rose to £4 4s. 8d. he was obliged to pay the value of ten quarters out of his 180 for rent, consequently the remaining 170 yielded him no more than £720: when it rose further to £4 10s. he paid twenty quarters, or their value, for rent, and consequently only retained 160 quarters, which yielded the same sum of £720. It will be seen, then, that whatever rise may take place in the price of corn, in consequence of the necessity of employing more labour and capital to obtain a given additional

quantity of produce, such rise will always be equalled in value by the additional rent, or additional labour employed; so that whether corn sells for £4, £4 10s. or £5 2s. 10d. the farmer will obtain for that which remains to him, after paying rent, the same real value. Thus we see, that whether the produce belonging to the farmer be 180, 170, 160, or 150 quarters, he always obtains the same sum of £720 for it; the price increasing in an inverse proportion to the quantity.

Rent then, it appears, always falls on the consumer, and never on the farmer; for if the produce of his farm should uniformly be 180 quarters, with the rise of price, he would retain the value of a less quantity for himself, and give the value of a larger quantity to his landlord; but the deduction would be such as to leave him always the same sum of £720.

It will be seen too, that, in all cases, the same sum of £720 must be divided between wages and profits. If the value of the raw produce from the land exceed this value, it belongs to rent, whatever may be its amount. If there be no excess, there will be no rent. Whether wages or profits rise or fall, it is this sum of £720 from which they must both be provided. On the one hand, profits can never rise so high as to absorb so much of this £720 that enough will not be left to furnish the labourers with absolute necessaries; on the other hand, wages can never rise so high as to leave no portion of this sum for profits.

Thus in every case, agricultural, as well as manufacturing profits are lowered by a rise in the price of raw produce, if it be accompanied by a rise of wages. If the farmer gets no additional value for the corn which remains to him after paying rent, if the manufacturer gets no additional value for the goods which he manufactures, and if both are obliged to pay a greater value in wages, can any point be more clearly established than that profits must fall, with a rise of wages?

The farmer then, although he pays no part of his landlord's rent, that being always regulated by the price of produce, and invariably falling on the consumers, has however a very decided interest in keeping rent low, or rather in keeping the natural price of produce low. As a consumer of raw produce, and of those things into which raw produce enters as a component part, he will, in common with all other consumers, be interested in keeping the price low. But he is most materially concerned with the high price of corn as it affects wages. With every rise in the price of corn, he will have to pay out of an equal and unvarying sum of £720 an additional sum for wages to the ten men whom he is supposed constantly to employ. We have seen in treating on wages that they invariably rise with the rise in the price of raw produce. On a basis assumed for the purpose of calculation, pp. 123-4, it will be seen that if when wheat is at £4 per quarter, wages should be £24 per annum

When wheat is at   wages would be

£4 4s. 8d.   £24 14s. 0d. 4 10 0   25 10 0
4 16 0   26 8 0 5 2 10   27 8 6

Now, of the unvarying fund of £720 to be distributed between labourers and farmers,

When the price   the labourers will   the farmer will of wheat is at   receive
receive

£4 0s. 0d.   £240 0s.   £480 0s. 0d. 4 4 8   247 0
473 0   0 4 10 0   255 0   465 0   0 4 16 0
264 0   456 0   0 5 2 10   274 5
455 15   1

And supposing that the original capital of the farmer was £3,000, the profits of his stock being in the first instance £480 would be at the rate of 16 per cent. When his profits fell to £473 they would be at the rate of 15.7 per cent.

£465...... 15.5 £456...... 15.2 £445...... 14.8

But the rate of profits will fall still more, because the capital of the farmer, it must be recollected, consists in a great measure of raw produce, such as his corn and hay-ricks, his unthreshed wheat and barley, his horses and cows, which would all rise in price in consequence of the rise of produce. His absolute profits would fall from £480 to £445 15s., but if from the cause which I have

just stated, his capital should rise from £3,000 to £3,200 the rate of his profits would, when corn was at £5 2s. 10d. be under 14 per cent.

If a manufacturer had also employed £3,000 in his business, he would be obliged in consequence of the rise of wages, to increase his capital in order to be enabled to carry on the same business. If his commodities sold before for £720 they would continue to sell at the same price; but the wages of labour, which were before £240 would rise when corn was at £5 2s. 10d. to £274 5s. In the first case he would have a balance of £480 as profit on £3,000, in the second he would have a profit only of £445 15s., on an increased capital, and therefore his profits would conform to the altered rate of those of the farmer.

There are few commodities which are not more or less affected in their price by the rise of raw produce, because some raw material from the land enters into the composition of most commodities. Cotton goods, linen, and cloth, will all rise in price with the rise of wheat; but they rise on account of the greater quantity of labour expended on the raw material from which they are made, and not because more was paid by the manufacturer to the labourers whom he employed on those commodities.

In all cases, commodities rise because more labour is expended on them, and not because the labour which is expended on them is at a higher value. Articles of jewellery, of iron, of plate, and of copper, would not rise, because none of the raw produce from the surface of the earth enters into their composition.

It may be said that I have taken it for granted, that money wages would rise with a rise in the price of raw produce, but that this is by no means a necessary consequence, as the labourer may be contented with fewer enjoyments. It is true that the wages of labour may previously have been at a high level, and that they may bear some reduction. If so, the fall of profits will be checked; but it is impossible to conceive that the money price of wages should fall, or remain stationary with a gradually increasing price of necessaries; and therefore it may be taken for granted that, under ordinary circumstances, no permanent rise takes place in the price of necessaries, without occasioning, or having been preceded by a rise in wages.

The effects produced on profits would have been the same, or nearly the same, if there had been any rise in the price of those other necessaries, besides food, on which the wages of labour are expended. The necessity which the labourer would be under of paying an increased price for such necessaries, would oblige him to demand more wages; and whatever increases wages, necessarily reduces profits. But suppose the price of silks, velvets, furniture, and any other commodities, not required by the labourer, to rise in consequence of more labour being expended on them, would not that affect profits? Certainly not: for nothing can affect profits but a rise in wages; silks and velvets are not consumed by the labourer, and therefore cannot raise wages.

It is to be understood that I am speaking of profits generally. I have already remarked, that the market price of a commodity may exceed its natural or necessary price, as it may be produced in less abundance than the new demand for it requires. This, however, is but a temporary effect. The high profits on capital employed in producing that commodity, will naturally attract capital to that trade; and as soon as the requisite funds are supplied, and the quantity of the commodity is duly increased, its price will fall, and the profits of the trade will conform to the general level. A fall in the general rate of profits is by no means incompatible with a partial rise of profits in particular employments. It is through the inequality of profits, that capital is moved from one employment to another. Whilst then general profits are falling, and gradually settling at a lower level in consequence of the rise of wages, and the increasing difficulty of supplying the increasing population with necessaries, the profits of the farmer may, for an interval of some little duration, be above the former level. An extraordinary stimulus may be also given for a certain time, to a particular branch of foreign and colonial trade; but the admission of this fact by no means invalidates the theory, that profits depend on high or low wages, wages on the price of necessaries, and the price of necessaries chiefly on the price of food, because all other requisites may be increased almost without limit.

It should be recollected that prices always vary in the market, and in the first instance, through the comparative state of demand and supply. Although cloth could be furnished at 40s. per yard, and give the usual profits of stock, it may rise to 60 or 80s. from a general change of fashion, or from any other cause which should suddenly and unexpectedly increase the demand, or diminish the

supply of it. The makers of cloth will for a time have unusual profits, but capital will naturally flow to that manufacture, till the supply and demand are again at their fair level, when the price of cloth will again sink to 40s., its natural or necessary price. In the same manner, with every increased demand for corn, it may rise so high as to afford more than the general profits to the farmer. If there be plenty of fertile land, the price of corn will again fall to its former standard, after the requisite quantity of capital has been employed in producing it, and profits will be as before; but if there be not plenty of fertile land, if, to produce this additional quantity, more than the usual quantity of capital and labour be required, corn will not fall to its former level. Its natural price will be raised, and the farmer, instead of obtaining permanently larger profits, will find himself obliged to be satisfied with the diminished rate which is the inevitable consequence of the rise of wages, produced by the rise of necessaries.

The natural tendency of profits then is to fall; for in the progress of society and wealth, the additional quantity of food required is obtained by the sacrifice of more and more labour. This tendency, this gravitation as it were of profits, is happily checked at repeated intervals by the improvements in machinery, connected with the production of necessaries, as well as by discoveries in the science of agriculture which enable us to relinquish a portion of labour before required, and therefore to lower the price of the prime necessary of the labourer. The rise in the price of necessaries and in the wages of labour is however limited; for as soon as wages should be equal (as in the case formerly stated) to £720, the whole receipts of the farmer, there must be an end of accumulation; for no capital can then yield any profit whatever, and no additional labour can be demanded, and consequently population will have reached its highest point. Long indeed before this period, the very low rate of profits will have arrested all accumulation, and almost the whole produce of the country, after paying the labourers, will be the property of the owners of land and the receivers of tithes and taxes.

Thus, taking the former very imperfect basis as the grounds of my calculation, it would appear that when corn was at £20 per quarter, the whole net income of the country would belong to the landlords, for then the same quantity of labour that was originally necessary to produce 180 quarters, would be necessary to produce 36, since £20:£4::180:36. The farmer then, who produced 180 quarters, (if any such there were, for the old and new capital employed on the land would be so blended, that it could in no way be distinguished,) would sell the

180 qrs. at £20 per qr. or... £3600 the value of 144 qrs. to the landlord for rent being the difference between 36 and 180 qrs. 2880

the value of 36 qrs. to labourers ten in number 720

leaving nothing whatever for profit.

I have supposes that at this price of £20 the labourers would continue to consume three quarters each per annum or £60

And that on the other commodities they would expend... 12

72 for each labourer.

In all these calculations I have been desirous only to elucidate the principle, and it is scarcely necessary to observe, that my whole basis is assumed at random, and merely for the purpose of exemplification. The results though different in degree, would have been the same in principle, however accurately I might have set out in stating the difference in the number of labourers necessary to obtain the successive quantities of corn required by an increasing population, the quantity consumed by the labourer's family, &c. &c. My object has been to simplify the subject, and I have therefore made no allowance for the increasing price of the other necessaries, besides food, of the labourer; an increase which would be the consequence of the increased value of the raw materials from which they are made, and which would of course further increase wages, and lower profits.

I have already said, that long before this state of prices was become permanent, there would be no motive for accumulation; for no one accumulates but with a view to make his accumulation productive, and it is only when so employed that it operates on profits. Without a motive there could be no accumulation, and consequently such a state of prices never could take place.

The farmer and manufacturer can no more live without profit, than the labourer without wages. Their motive for accumulation will diminish with every diminution of profit, and will cease altogether when their profits are so low as not to afford them an adequate compensation for their trouble, and the risk which they must necessarily encounter in employing their capital productively.

I must again observe, that the rate of profits would fall much more rapidly than I have estimated in my calculation: for the value of the produce being what I have stated it under the circumstances supposed, the value of the farmer's stock would be greatly increased from its necessarily consisting of many of the commodities which had risen in value. Before corn could rise from £4 to £12 his capital would probably be doubled in exchangeable value, and be worth £6,000 instead of £3,000. If then his profit were £180, or 6 per cent on his original capital, profits would not at that time be really at a higher rate than 3 per cent; for £6,000 at 3 per cent gives £180; and on those terms only could a new farmer with £6,000 money in his pocket enter into the farming business.

Many trades would derive some advantage, more or less, from the same source. The brewer, the distiller, the clothier, the linen manufacturer, would be partly compensated for the diminution of their profits, by the rise in the value of their stock of raw and finished materials; but a manufacturer of hardware, of jewellery, and of many other commodities, as well as those whose capitals uniformly consisted of money, would be subject to the whole fall in the rate of profits, without any compensation whatever.

We should also expect that, however the rate of the profits of stock might diminish in consequence of the accumulation of capital on the land, and the rise of wages, yet that the aggregate amount of profits would increase. Thus supposing that, with repeated accumulations of £100,000, the rate of profit should fall from 20 to 19, to 18, to 17 per cent, a constantly diminishing rate, we should expect that the whole amount of profits received by those successive owners of capital would be always progressive; that it would be greater when the capital was £200,000, than when £100,000; still greater when £300,000; and so on, increasing, though at a diminishing rate, with every increase of capital. This progression however is only true for a certain time: thus 19 per cent on £200,000 is more than 20 on £100,000; again 18 per cent on £300,000 is more than 10 per cent on £200,000; but after capital has accumulated to a large amount, and profits have fallen, the further accumulation diminishes the aggregate of profits. Thus suppose the accumulation should be £1,000,000, and the profits 7 per cent the whole amount of profits will be £70,000; now if an addition of £100,000 capital be made to the million, and profits should fall to 6 per cent, £66,000 or a diminution of £4,000 will be received by the owners of stock, although the whole amount of stock will be increased from £1,000,000 to £1,100,000.

There can, however, be no accumulation of capital, so long as stock yields any profit at all, without its yielding not only an increase of produce, but an increase of value. By employing £100,000 additional capital, no part of the former capital will be rendered less productive. The produce of the land and labour of the country must increase, and its value will be raised, not only by the value of the addition which is made to the former quantity of productions, but by the new value which is given to the whole produce of the land, by the increased difficulty of producing the last portion of it. When the accumulation of capital, however, becomes very great, notwithstanding this increased value, it will be so distributed that a less value than before will be appropriated to profits, while that which is devoted to rent and wages will be increased. Thus with successive additions of £100,000 to capital, with a fall in the rate of profits, from 20 to 19, to 18, to 17 per cent &c. the productions annually obtained will increase in quantity, and be of more than the whole additional value, which the additional capital is calculated to produce. From £20,000 it will rise to more than £39,000 and then to more than £57,000 and when the capital employed is a million, as we before supposed, if £100,000 more be added to it, and the aggregate of profits is actually lower than before, more than £6,000 will nevertheless be added to the revenue of the country, but it will be to the revenue of the landlords and labourers; they will obtain more than the additional produce, and will from their situation be enabled to encroach even on the former gains of the capitalist. Thus, suppose the price of corn to be £4 per quarter, and that therefore, as we before calculated, of every £720 remaining to the farmer after payment of his rent, £480 were retained by him, and £240 were paid to his labourers; when the price rose to £6 per quarter, he would be obliged to pay his labourers £300 and retain only £420 for profits: he would be obliged to pay them £300 to enable them to consume the same

quantity of necessaries as before, and no more. Now if the capital employed were so large as to yield a hundred thousand times £720 or £72,000,000 the aggregate of profits would be £48,000,000 when wheat was at £4 per quarter; and if by employing a larger capital, 105,000 times £720 were obtained when wheat was at £6, or £75,600,000, profits would actually fall from £48,000,000 to £44,100,000 or 105,000 times £420, and wages would rise from £24,000,000 to £31,500,000. Wages would rise because more labourers would be employed, in proportion to capital; and each labourer would receive more money wages; but the condition of the labourer, as we have already shown, would be worse, inasmuch as he would be able to command a less quantity of the produce of the country. The only real gainers would be the landlords; they would receive higher rents, first, because produce would be of a higher value, and secondly, because they would have a greatly increased proportion of that produce.

Although a greater value is produced, a greater proportion of what remains of that value, after paying rent, is consumed by the producers, and it is this, and this alone, which regulates profits. Whilst the land yields abundantly, wages may temporarily rise, and the producers may consume more than their accustomed proportion; but the stimulus which will thus be given to population, will speedily reduce the labourers to their usual consumption. But when poor lands are taken into cultivation, or when more capital and labour are expended on the old land, with a less return of produce, the effect must be permanent. A greater proportion of that part of the produce which remains to be divided, after paying rent, between the owners of stock and the labourers, will be apportioned to the latter. Each man may, and probably will, have a less absolute quantity; but as more labourers are employed in proportion to the whole produce retained by the farmer, the value of a greater proportion of the whole produce will be absorbed by wages, and consequently the value of a smaller proportion will be devoted to profits. This will necessarily be rendered permanent by the laws of nature, which have limited the productive powers of the land.

Thus we again arrive at the same conclusion which we have before attempted to establish: — that in all countries, and all times, profits depend on the quantity of labour requisite to provide necessaries for the labourers, on that land or with that capital which yields no rent. The effects then of accumulation will be different in different countries, and will depend chiefly on the fertility of the land. However extensive a country may be where the land is of a poor quality, and where the importation of food is prohibited, the most moderate accumulations of capital will be attended with great reductions in the rate of profit, and a rapid rise in rent; and on the contrary a small but fertile country, particularly if it freely permits the importation of food, may accumulate a large stock of capital without any great diminution in the rate of profits, or any great increase in the rent of land. In the Chapter on Wages, we have endeavoured to shew that the money price of commodities would not be raised by a rise of wages, either on the supposition that gold, the standard of money, was the produce of this country, or that it was imported from abroad. But if it were otherwise, if the prices of commodities were permanently raised by high wages, the proposition would not be less true, which asserts that high wages invariably affect the employers of labour, by depriving them of a portion of their real profits. Supposing the hatter, the hosier, and the shoemaker, each paid £10 more wages in the manufacture of a particular quantity of their commodities, and that the price of hats, stockings, and shoes, rose by a sum sufficient to repay the manufacturer the £10; their situation would be no better than if no such rise took place. If the hosier sold his stockings for £110 instead of £100, his profits would be precisely the same money amount as before; but as he would obtain in exchange for this equal sum, one tenth less of hats, shoes, and every other commodity, and as he could with his former amount of savings employ fewer labourers at the increased wages, and purchase fewer raw materials at the increased prices, he would be in no better situation than if his money profits had been really diminished in amount, and every thing had remained at its former price. Thus then I have endeavoured to shew, first, that a rise of wages would not raise the price of commodities, but would invariably lower profits; and secondly, that if the prices of all commodities could be raised, still the effect on profits would be the same; and that in fact the value of the medium only in which prices and profits are estimated would be lowered.

Chapter 7

On Foreign Trade

No extension of foreign trade will immediately increase the amount of value in a country, although it will very powerfully contribute to increase the mass of commodities, and therefore the sum of enjoyments. As the value of all foreign goods is measured by the quantity of the produce of our land and labour, which is given in exchange for them, we should have no greater value, if by the discovery of new markets, we obtained double the quantity of foreign goods in exchange for a given quantity of ours. If by the purchase of English goods to the amount of £1,000, a merchant can obtain a quantity of foreign goods, which he can sell in the English market for £1,200, he will obtain 20 per cent profit by such an employment of his capital; but neither his gains, nor the value of the commodities imported, will be increased or diminished by the greater or smaller quantity of foreign goods obtained. Whether, for example, he imports twenty five or fifty pipes of wine, his interest can be no way affected, if at one time the twenty-five pipes, and at another the fifty pipes, equally sell for £1,200. In either case his profit will be limited to £200, or 20 per cent on his capital; and in either case the same value will be imported into England. If the fifty pipes sold for more than £1,200, the profits of this individual merchant would exceed the general rate of profits, and capital would naturally flow into this advantageous trade, till the fall of the price of wine had brought every thing to the former level.

It has indeed been contended, that the great profits which are sometimes made by particular merchants in foreign trade, will elevate the general rate of profits in the country, and that the abstraction of capital from other employments, to partake of the new and beneficial foreign commerce, will raise prices generally, and thereby increase profits. It has been said, by high authority, that less capital being necessarily devoted to the growth of corn, to the manufacture of cloth, hats, shoes, &c. while the demand continues the same, the price of these commodities will be so increased, that the farmer, hatter, clothier, and shoemaker, will have an increase of profits, as well as the foreign merchant.

They who hold this argument agree with me, that the profits of different employments have a tendency to conform to one another; to advance and recede together. Our variance consists in this: They contend, that the equality of profits will be brought about by the general rise of profits; and I am of opinion, that the profits of the favoured trade will speedily subside to the general level.

For, first, I deny that less capital will necessarily be devoted to the growth of corn, to the manufacture of cloth, hats, shoes, &c. unless the demand for these commodities be diminished; and if so, their price will not rise. In the purchase of foreign commodities, either the same, a larger, or a less portion of the produce of the land and labour of England will be employed. If the same portion be so employed, then will the same demand exist for cloth, shoes, corn, and hats, as before, and the same portion of capital will be devoted to their production. If, in consequence of the price of foreign commodities being cheaper, a less portion of the annual produce of the land and labour of England is employed in the purchase of foreign commodities, more will remain for the purchase of other things. If there be a greater demand for hats, shoes, corn, &c. than before, which there may be, the consumers of foreign commodities having an additional portion of their revenue disposable, the capital is also disposable with which the greater value of foreign commodities was before purchased; so that with the increased demand for corn, shoes, &c. there exists also the means of procuring an increased supply, and therefore neither prices nor profits can permanently rise. If more of the produce of the land and labour of England be employed in the purchase of foreign commodities, less can be employed in the purchase of other things, and therefore fewer hats, shoes, &c. will be required. At the same time that capital is liberated from the production of shoes, hats, &c. more must be employed in manufacturing those commodities with which foreign commodities are purchased; and consequently in all cases the demand for foreign and home commodities together, as far as regards value, is limited by the revenue and capital of the country. If one increases, the other must diminish. If the quantity of wine, imported in exchange for the same quantity of English commodities, be doubled, the people of England can either consume double the quantity of wine that they did before, or the same quantity of wine and a greater quantity of English commodities. If my revenue had been £1,000, with which I purchased annually one pipe of wine for £100 and a certain quantity of English commodities for £900; when wine fell to £50 per pipe, I might lay out the £50 saved, either in the purchase of an additional pipe of wine, or in the purchase of more English commodities. If I bought more wine, and every wine-drinker did the same, the foreign trade would not be in the least disturbed; the same quantity of English commodities would be exported in exchange for wine, and we should receive double the quantity, though not double the value of wine. But if I, and others, contented ourselves with the same quantity of wine as before, fewer English commodities would be exported, and the wine-drinkers might either consume the commodities which were before exported, or any others for which they had an inclination. The capital required for their production would be supplied by the capital liberated from the foreign trade.

There are two ways in which capital may be accumulated: it may be saved either in consequence of increased revenue, or of diminished consumption. If my profits are raised from £1,000 to £1,200 while my expenditure continues the same, I accumulate annually £200 more than I did before. If I save £200 out of my expenditure, while my profits continue the same, the same effect will be produced; £200 per annum will be added to my capital. The merchant who imported wine after profits had been raised from 20 per cent to 40 per cent, instead of purchasing his English goods for £1,000 must purchase them for £857 2s. 10d., still selling the wine which he imports in return for those goods for £1,200; or, if he continued to purchase his English goods for £1,000 must raise the price of his wine to £1,400; he would thus obtain 40 instead of 20 per cent profit on his capital; but if, in consequence of the cheapness of all the commodities on which his revenue was expended, he and all other consumers could save the value of £200 out of every £1,000 they before expended, they would more effectually add to the real wealth of the country; in one case, the savings would be made in consequence of an increase of revenue, in the other, in consequence of diminished expenditure.

If, by the introduction of machinery, the generality of the commodities on which revenue was expended fell 20 per cent in value, I should be enabled to save as effectually as if my revenue had been raised 20 per cent; but in one case the rate of profits is stationary, in the other it is raised 20 per cent. - If, by the introduction of cheap foreign goods, I can save 20 per cent from my expenditure, the effect will be precisely the same as if machinery had lowered the expense of their production, but profits would not be raised.

It is not, therefore, in consequence of the extension of the market that the rate of profit is raised, although such extension may be equally efficacious in increasing the mass of commodities, and may thereby enable us to augment the funds destined for the maintenance of labour, and the materials on which labour may be employed. It is quite as important to the happiness of mankind, that our enjoyments should be increased by the better distribution of labour, by each country producing those commodities for which by its situation, its climate, and its other natural or artificial advantages, it is adapted, and by their exchanging them for the commodities of other countries, as that they should be augmented by a rise in the rate of profits.

It has been my endeavour to shew throughout this work, that the rate of profits can never be increased but by a fall in wages, and that there can be no permanent fall of wages but in consequence of a fall of the necessaries on which wages are expended. If, therefore, by the extension of foreign trade, or by improvements in machinery, the food and necessaries of the labourer can be brought to market at a reduced price, profits will rise. If, instead of growing our own corn, or manufacturing the clothing and other necessaries of the labourer, we discover a new market from which we can supply ourselves with these commodities at a cheaper price, wages will fall and profits rise; but if the commodities obtained at a cheaper rate, by the extension of foreign commerce, or by the improvement of machinery, be exclusively the commodities consumed by the rich, no alteration will take place in the rate of profits. The rate of wages would not be affected, although wine, velvets, silks, and other expensive commodities should fall 50 per cent, and consequently profits would continue unaltered.

Foreign trade, then, though highly beneficial to a country, as it increases the amount and variety of the objects on which revenue may be expended, and affords, by the abundance and cheapness of commodities, incentives to saving, and to the accumulation of capital, has no tendency to raise the profits of stock, unless the commodities imported be of that description on which the wages of labour are expended.

The remarks which have been made respecting foreign trade, apply equally to home trade. The rate of profits is never increased by a better distribution of labour, by the invention of machinery, by the establishment of roads and canals, or by any means of abridging labour either in the manufacture or in the conveyance of goods. These are causes which operate on price, and never fail to be highly beneficial to consumers; since they enable them with the same labour, or with the value of the produce of the same labour, to obtain in exchange a greater quantity of the commodity to which the improvement is applied; but they have no effect whatever on profit. On the other hand, every diminution in the wages of labour raises profits, but produces no effect on the price of commodities. One is advantageous to all classes, for all classes are consumers; the other is beneficial only to producers; they gain more, but every thing remains at its former price. In the first case they get the same as before; but every thing on which their gains are expended, is diminished in exchangeable value.

The same rule which regulates the relative value of commodities in one country, does not regulate the relative value of the commodities exchanged between two or more countries.

Under a system of perfectly free commerce, each country naturally devotes its capital and labour to such employments as are most beneficial to each. This pursuit of individual advantage is admirably connected with the universal good of the whole. By stimulating industry, by rewarding ingenuity, and by using most efficaciously the peculiar powers bestowed by nature, it distributes labour most effectively and most economically, while, by increasing the general mass of productions, it diffuses general benefit, and binds together by one common tie of interest and intercourse, the universal society of nations throughout the civilized world. It is this principle which determines that wine shall be made in France and Portugal, that corn shall be grown in America and Poland, and that hardware and other goods shall be manufactured in England.

In one and the same country, profits are, generally speaking, always on the same level; or differ only as the employment of capital may be more or less secure and agreeable. It is not so between different countries. If the profits of capital employed in Yorkshire, should exceed those of capital employed in London, capital would speedily move from London to Yorkshire, and an equality of profits would be effected; but if in consequence of the diminished rate of production in the lands of England, from the increase of capital and population, wages should rise, and profits fall, it would not follow that capital and population would necessarily move from England to Holland, or Spain, or Russia, where profits might be higher.

If Portugal had no commercial connexion with other countries, instead of employing a great part of her capital and industry in the production of wines, with which she purchases for her own use the cloth and hardware of other countries, she would be obliged to devote a part of that capital to the manufacture of those commodities, which she would thus obtain probably inferior in quality as well as quantity.

The quantity of wine which she shall give in exchange for the cloth of England, is not determined by the respective quantities of labour devoted to the production of each, as it would be, if both commodities were manufactured in England, or both in Portugal.

England may be so circumstanced, that to produce the cloth may require the labour of 100 men for one year; and if she attempted to make the wine, it might require the labour of 120 men for the same time. England would therefore find it her interest to import wine, and to purchase it by the exportation of cloth.

To produce the wine in Portugal, might require only the labour of 80 men for one year, and to produce the cloth in the same country, might require the labour of 90 men for the same time. It would therefore be advantageous for her to export wine in exchange for cloth. This exchange might even take place, notwithstanding that the commodity imported by Portugal could be produced there with less labour than in England. Though she could make the cloth with the labour of 90 men, she would import it from a country where it required the labour of 100 men to produce it, because it would be advantageous to her rather to employ her capital in the production of wine, for which she would obtain more cloth from England, than she could produce by diverting a portion of her capital from the cultivation of vines to the manufacture of cloth.

Thus England would give the produce of the labour of 100 men, for the produce of the labour of 80. Such an exchange could not take place between the individuals of the same country. The labour of 100 Englishmen cannot be given for that of 80 Englishmen, but the produce of the labour of 100 Englishmen may be given for the produce of the labour of 80 Portuguese, 60 Russians, or 120 East Indians. The difference in this respect, between a single country and many, is easily accounted for, by considering the difficulty with which capital moves from one country to another, to seek a more profitable employment, and the activity with which it invariably passes from one province to another in the same country.

It would undoubtedly be advantageous to the capitalists of England, and to the consumers in both countries, that under such circumstances, the wine and the cloth should both be made in Portugal, and therefore that the capital and labour of England employed in making cloth, should be removed to Portugal for that purpose. In that case, the relative value of these commodities would be regulated by the same principle, as if one were the produce of Yorkshire, and the other of London: and in every other case, if capital freely flowed towards those countries where it could be most profitably employed, there could be no difference in the rate of profit, and no other difference in the real or labour price of commodities, than the additional quantity of labour required to convey them to the various markets where they were to be sold.

Experience, however, shews, that the fancied or real insecurity of capital, when not under the immediate control of its owner, together with the natural disinclination which every man has to quit the country of his birth and connexions, and intrust himself with all his habits fixed, to a strange government and new laws, checks the emigration of capital. These feelings, which I should be sorry to see weakened, induce most men of property to be satisfied with a low rate of profits in their own country, rather than seek a more advantageous employment for their wealth in foreign nations.

Gold and silver having been chosen for the general medium of circulation, they are, by the competition of commerce, distributed in such proportions amongst the different countries of the world, as to accommodate themselves to the natural traffic which would take place if no such metals existed, and the trade between countries were purely a trade of barter.

Thus, cloth cannot be imported into Portugal, unless it sell there for more gold than it cost in the country from which it was imported; and wine cannot be imported into England, unless it will sell for more there than it cost in Portugal. If the trade were purely a trade of barter, it could only continue whilst England could make cloth so cheap as to obtain a greater quantity of wine with a given quantity of labour, by manufacturing cloth than by growing vines; and also whilst the industry of Portugal were attended by the reverse effects. Now suppose England to discover a process for making wine, so that it should become her interest rather to grow it than import it; she would naturally divert a portion of her capital from the foreign trade to the home trade; she would cease to manufacture cloth for exportation, and would grow wine for herself. The money price of these commodities would be regulated accordingly; wine would fall here while cloth continued at its former price, and in Portugal no alteration would take place in the price of either commodity. Cloth would continue for some time to be exported from this country, because its price would continue to be higher in Portugal than here; but money instead of wine would be given in exchange for it, till the accumulation of money here, and its diminution abroad, should so operate on the relative value of cloth in the two countries, that it would cease to be profitable to export it. If the improvement in making wine were of a very important description, it might become profitable for the two countries to exchange employments; for England to make all the wine, and Portugal all the cloth consumed by them; but this could be effected only by a new distribution, of the precious metals, which should raise the price of cloth in England, and lower it in Portugal. The relative price of wine would fall in England in consequence of the real advantage from the improvement of its manufacture; that is to say, its natural price would fall; the relative price of cloth would rise there from the accumulation of money.

Thus, suppose before the improvement in making wine in England, the price of wine here were £50 per pipe, and the price of a certain quantity of cloth were £45, whilst in Portugal the price of the same quantity of wine was £45, and that of the same quantity of cloth £50; wine would be exported from Portugal with a profit of £5 and cloth from England with a profit of the same amount.

Suppose that, after the improvement, wine falls to £45 in England, the cloth continuing at the same price. Every transaction in commerce is an independent transaction. Whilst a merchant can buy cloth in England for £45 and sell it with the usual profit in Portugal, he will continue to export it from England. His business is simply to purchase English cloth, and to pay for it by a bill of exchange, which he purchases with Portuguese money. It is to him of no importance what becomes of this money., he has discharged his debt by the remittance of the bill. His transaction is undoubtedly regulated by the terms on which he can obtain this bill, but they are known to him at the time; and the causes which may influence the market price of bills, or the rate of exchange, is no consideration of his.

If the markets be favourable for the exportation of wine from Portugal to England, the exporter of the wine will be a seller of a bill, which will be purchased either by the importer of the cloth, or by the person who sold him his bill; and thus without the necessity of money passing from either country, the exporters in each country will be paid for their goods. Without having any direct transaction with each other, the money paid in Portugal by the importer of cloth will be paid to the Portuguese exporter of wine; and in England by the negotiation of the same bill, the exporter of the cloth will be authorized to receive its value from the importer of wine.

But if the prices of wine were such that no wine could be exported to England, the importer of cloth would equally purchase a bill; but the price of that bill would be higher, from the knowledge which the seller of it would possess, that there was no counter bill in the market by which he could ultimately settle the transactions between the two countries; he might know that the gold or silver money which he received in exchange for his bill, must be actually exported to his correspondent in England, to enable him to pay the demand which he had authorized to be made upon him, and he might therefore charge in the price of his bill all the expenses to be incurred, together with his fair and usual profit.

If then this premium for a bill on England should be equal to the profit on importing cloth, the importation would of course cease; but if the premium on the bill were only 2 per cent, if to be enabled to pay a debt in England of £100, £102 should be paid in Portugal, whilst cloth which cost £45 would sell for £50, cloth would be imported, bills would be bought, and money would be exported, till the diminution of money in Portugal, and its accumulation in England, had produced such a state of prices as would make it no longer profitable to continue these transactions.

But the diminution of money in one country, and its increase in another, do not operate on the price of one commodity only, but on the prices of all, and therefore the price of wine and cloth will be both raised in England, and both lowered in Portugal. The price of cloth, from being £45 in one country and £50 in the other, would probably fall to £49 or £48 in Portugal, and rise to £46 or

£47 in England, and not afford a sufficient profit after paying a premium for a bill to induce any merchant to import that commodity.

It is thus that the money of each country is apportioned to it in such quantities only as may be necessary to regulate a profitable trade of barter. England exported cloth in exchange for wine, because, by so doing her industry was rendered more productive to her; she had more cloth and wine than if she had manufactured both for herself; and Portugal imported cloth and exported wine, because the industry of Portugal could be more beneficially employed for both countries in producing wine. Let there be more difficulty in England in producing cloth, or in Portugal in producing wine, or let there be more facility in England in producing wine, or in Portugal in producing cloth, and the trade must immediately cease.

No change whatever takes place in the circumstances of Portugal; but England finds that she can employ her labour more productively in the manufacture of wine, and instantly the trade of barter between the two countries changes. Not only is the exportation of wine from Portugal stopped, but a new distribution of the precious metals takes place, and her importation of cloth is also prevented.

Both countries would probably find it their interest to make their own wine and their own cloth; but this singular result would take place: in England, though wine would be cheaper, cloth would be elevated in price, more would be paid for it by the consumer; while in Portugal the consumers, both of cloth and of wine, would be able to purchase those commodities cheaper. In the country where the improvement was made, prices would be enhanced; in that where no change had taken place, but where they had been deprived of a profitable branch of foreign trade, prices would fall.

This, however, is only a seeming advantage to Portugal, for the quantity of cloth and wine together produced in that country would be diminished, while the quantity produced in England would be increased. Money would in some degree have changed its value in the two countries, it would be lowered in England and raised in Portugal. Estimated in money, the whole revenue of Portugal would be diminished; estimated in the same medium, the whole revenue of England would be increased.

Thus then it appears, that the improvement of a manufacture in any country tends to alter the distribution of the precious metals amongst the nations of the world: it tends to increase the quantity of commodities, at the same time that it raises general prices in the country where the improvement takes place.

To simplify the question, I have been supposing the trade between two countries to be confined to two commodities — to wine and cloth; but it is well known that many and various articles enter into the list of exports and imports. By the abstraction of money from one country, and the accumulation of it in another, all commodities are affected in price, and consequently encouragement is given to the exportation of many more commodities besides money, which will therefore prevent so great an effect from taking place on the value of money in the two countries as might otherwise be expected.

Besides the improvements in arts and machinery, there are various other causes which are constantly operating on the natural course of trade, and which interfere with the equilibrium, and the relative value of money. Bounties on exportation or importation, new taxes on commodities, sometimes by their direct, and at other times, by their indirect operation, disturb the natural trade of barter, and produce a consequent necessity of importing or exporting money, in order that prices may be accommodated to the natural course of commerce; and this effect is produced not only in the country where the disturbing cause takes place, but, in a greater or less degree, in every country of the commercial world.

This will in some measure account for the different value of money in different countries; it will explain to us why the prices of home commodities, and those of great bulk, though of comparatively small value, are, independently of other causes, higher in those countries where manufactures flourish. Of two countries having precisely the same population, and the same quantity of land of equal fertility in cultivation, with the same knowledge too of agriculture, the prices of raw produce will be highest in that where the greater skill, and the better machinery is used in the manufacture of exportable commodities. The rate of profits will probably differ but little; for wages, or the real reward of the labourer, may be the same in both; but those wages, as well as raw produce, will be rated higher in money in that country, into which, from the advantages attending their skill and machinery, an abundance of money is imported in exchange for their goods.

Of these two countries, if one had the advantage in the manufacture of goods of one quality, and the other in the manufacture of goods of another quality, there would be no decided influx of the precious metals into either; but if the advantage very heavily preponderated in favour of either, that effect would be inevitable.

In the former part of this work, we have assumed, for the purpose of argument, that money always continued of the same value; we are now endeavouring to shew that besides the ordinary variations in the value of money, and those which are common to the whole commercial world, there are also partial variations to which money is subject in particular countries; and in fact, that the value of money is never the same in any two countries, depending as it does on relative taxation, on manufacturing skill, on the advantages of climate, natural productions, and many other causes.

Although, however, money is subject to such perpetual variations, and consequently the prices of the commodities which are common to most countries, are also subject to considerable difference, yet no effect will be produced on the rate of profits, either from the influx or efflux of money. Capital will not be increased, because the circulating medium is augmented. If the rent paid by the farmer to his landlord, and the wages to his labourers, be 20 per cent higher in one country than another, and if at the same time the nominal value of the farmer's capital be 20 per cent more, he will receive precisely the same rate of profits, although he should sell his raw produce 20 per cent higher.

Profits, it cannot be too often repeated, depend on wages; not on nominal, but real wages; not on the number of pounds that may be annually paid to the labourer, but on the number of days' work, necessary to obtain those pounds. Wages may therefore be precisely the same in two countries; they may bear too the same proportion to rent, and to the whole produce obtained from the land, although in one of those countries the labourer should receive ten shillings per week, and in the other twelve.

In the early states of society, when manufactures have made little progress, and the produce of all countries is nearly similar, consisting of the bulky and most useful commodities, the value of money in different countries will be chiefly regulated by their distance from the mines which supply the precious metals; but as the arts and improvements of society advance, and different nations excel in particular manufactures, although distance will still enter into the calculation, the value of the precious metals will be chiefly regulated by the superiority of those manufactures.

Suppose all nations to produce corn, cattle, and coarse clothing only, and that it was by the exportation of such commodities that gold could be obtained from the countries which produced them, or from those who held them in subjection; gold would naturally be of greater exchangeable value in Poland than in England, on account of the greater expense of sending such a bulky commodity as corn the more distant voyage, and also the greater expense attending the conveying of gold to Poland.

This difference in the value of gold, or which is the same thing, this difference in the price of corn in the two countries, would exist, although the facilities of producing corn in England should far exceed those of Poland, from the greater fertility of the land, and the superiority in the skill and implements of the labourer.

If however Poland should be the first to improve her manufactures, if she should succeed in making a commodity which was generally desirable, including great value in little bulk, or if she should be exclusively blessed with some natural production, generally desirable, and not possessed by other countries, she would obtain an additional quantity of gold in exchange for this commodity, which would operate on the price of her corn, cattle, and coarse clothing. The disadvantage of distance would probably be more than compensated by the advantage of having an exportable commodity of great value, and money would be permanently of lower value in Poland than in England. If, on the contrary, the advantage of skill and machinery were possessed by England, another reason

would be added to that which before existed, why gold should be less valuable in England than in Poland, and why corn, cattle, and clothing, should be at a higher price in the former country.

These I believe to be the only two causes which regulate the comparative value of money in the different countries of the world; for although taxation occasions a disturbance of the equilibrium of money, it does so by depriving the country in which it is imposed of some of the advantages attending skill, industry, and climate.

It has been my endeavour carefully to distinguish between a low value of money, and a high value of corn, or any other commodity with which money may be compared. These have been generally considered as meaning the same thing; but it is evident, that when corn rises from five to ten shillings a bushel, it may be owing either to a fall in the value of money, or to a rise in the value of corn. Thus we have seen, that from the necessity of having recourse successively to land of a worse and worse quality, in order to feed an increasing population, corn must rise in relative value to other things. If therefore money continue permanently of the same value, corn will exchange for more of such money, that is to say, it will rise in price. The same rise in the price of corn will be produced by such improvement of machinery in manufactures, as shall enable us to manufacture commodities with peculiar advantages: for the influx of money will be the consequence; it will fall in value, and therefore exchange for less corn. But the effects resulting from a high price of corn when produced by the rise in the value of corn, and when caused by a fall in the value of money, are totally different. In both cases the money price of wages will rise, but if it be in consequence of the fall in the value of money, not only wages and corn, but all other commodities will rise. If the manufacturer has more to pay for wages, he will receive more for his manufactured goods, and the rate of profits will remain unaffected. But when the rise in the price of corn is the effect of the difficulty of production, profits will fall; for the manufacturer will be obliged to pay more wages, and will not be enabled to remunerate himself by raising the price of his manufactured commodity.

Any improvement in the facility of working the mines, by which the precious metals may be produced with a less quantity of labour, will sink the value of money generally. It will then exchange for fewer commodities in all countries; but when any particular country excels in manufactures, so as to occasion an influx of money towards it, the value of money will be lower, and the prices of corn and labour will be relatively higher in that country, than in any other.

This higher value of money will not be indicated by the exchange; bills may continue to be negotiated at par, although the prices of corn and labour should be 10, 20, or 30 per cent higher in one country than another. Under the circumstances supposed, such a difference of prices is the natural order of things, and the exchange can only be at par, when a sufficient quantity of money is introduced into the country excelling in manufactures, so as to raise the price of its corn and labour. If foreign countries should prohibit the exportation of money, and could successfully enforce obedience to such a law, they might indeed prevent the rise in the prices of the corn and labour of the manufacturing country; for such rise can only take place after the influx of the precious metals, supposing paper money not to be used; but they could not prevent the exchange from being very unfavourable to them. If England were the manufacturing country, and it were possible to prevent the importation of money, the exchange with France, Holland, and Spain, might be 5, 10, or 20 per cent against those countries.

Whenever the current of money is forcibly stopped, and when money is prevented from settling at its just level, there are no limits to the possible variations of the exchange. The effects are similar to those which follow, when a paper money, not exchangeable for specie at the will of the holder, is forced into circulation. Such a currency is necessarily confined to the country where it is issued: it cannot, when too abundant, diffuse itself generally amongst other countries. The level of circulation is destroyed, and the exchange will inevitably be unfavourable to the country where it is excessive in quantity: just so would be the effects of a metallic circulation, if by forcible means, by laws which could not be evaded, money should be detained in a country, when the stream of trade gave it an impetus towards other countries.

When each country has precisely the quantity of money which it ought to have, money will not indeed be of the same value in each, for with respect to many commodities it may differ, 5, 10, or even 20 per cent, but the exchange will be

at par. One hundred pounds in England, or the silver which is in £100, will purchase a bill of £100, or an equal quantity of silver in France, Spain, or Holland.

In speaking of the exchange and the comparative value of money in different countries, we must not in the least refer to the value of money estimated in commodities, in either country. The exchange is never ascertained by estimating the comparative value of money in corn, cloth, or any commodity whatever, but by estimating the value of the currency of one country, in the currency of another.

It may also be ascertained by comparing it with some standard common to both countries. If a bill on England for £100 will purchase the same quantity of goods in France or Spain, that a bill on Hambourgh for the same sum will do, the exchange between Hambourgh and England is at par; but if a bill on England for £130, will purchase no more than a bill on Hambourgh for £100, the exchange is 30 per cent against England.

In England £100 may purchase a bill, or the right of receiving £101 in Holland, £102 in France, and £105 in Spain. The exchange with England is, in that case, said to be 1 per cent against Holland, 2 per cent against France, and 5 per cent against Spain. It indicates that the level of currency is higher than it should be in those countries, and the comparative value of their currencies, and that of England, would be immediately restored to par, by abstracting from theirs, or by adding to that of England.

Those who maintained that our currency was depreciated during the last ten years, when the exchange varied from 20 to 30 per cent against this country, have never contended, as they have been accused of doing, that money could not be more valuable in one country than another, as compared with various commodities; but they did contend, that £130 could not be detained in England, unless it was depreciated, when it was of no more value, estimated in the money of Hambourgh, or of Holland, than the bullion in £100.

By sending £130 good English pounds sterling to Hambourgh, even at an expense of £5, I should be possessed there of £125; what then could make me consent to give £130 for a bill which would give me £100 in Hambugh, but that my pounds were not good pounds sterling? — they were deteriorated, were degraded in intrinsic value below the pounds sterling of Hambugh, and if actually sent there, at an expense of £5, would sell only for £100. With metallic pounds sterling, it is not denied that my £130 would procure me £125 in Hambugh, but with paper pounds sterling I can only obtain £100; and yet it was maintained that £130 in paper, was of equal value with £130 in silver or gold.

Some indeed more reasonably maintained, that £130 in paper was not of equal value with £130 in metallic money; but they said that it was the metallic money which had changed its value, and not the paper money. They wished to confine the meaning of the word depreciation to an actual fall of value, and not to a comparative difference between the value of money, and the standard by which by law it is regulated. One hundred pounds of English money was formerly of equal value with, and could purchase £100 of Hambugh money,. in any other country a bill of £100 on England, or on Hambugh, could purchase precisely the same quantity of commodities. To obtain the same things, I was lately obliged to give £130 English money, when Hambugh could obtain them for £100 Hambugh money. If English money was of the same value then as before, Hambugh money must have risen in value. But where is the proof of this? How is it to be ascertained whether English money has fallen, or Hambugh money has risen? there is no standard by which this can be determined. It is a plea which admits of no proof, and can neither be positively affirmed, nor positively contradicted. The nations of the world must have been early convinced, that there was no standard of value in nature, to which they might unerringly refer, and therefore chose a medium, which on the whole appeared to them less variable than any other commodity.

To this standard we must conform till the law is changed, and till some other commodity is discovered, by the use of which we shall obtain a more perfect standard, than that which we have established. While gold is exclusively the standard in this country, money will be depreciated, when a pound sterling is not of equal value with 5 dwts. and 3 grs. of standard gold, and that, whether gold rises or falls in general value.

Chapter 8

On Taxes

Taxes are a portion of the produce of the land and labour of a country, placed at the disposal of the government; and are always ultimately paid, either from the capital, or from the revenue of the country.

We have already shown how the capital of a country is either fixed or circulating, according as it is of a more or of a less durable nature. It is difficult to define strictly, where the distinction between circulating and fixed capital begins; for there are almost infinite degrees in the durability of capital. The food of a country is consumed and reproduced at least once in every year; the clothing of the labourer is probably not consumed and reproduced in less than two years; whilst his house and furniture are calculated to endure for a period of ten or twenty years.

When the annual productions of a country more than replace its annual consumption, it is said to increase its capital; when its annual consumption is not at least replaced by its annual production, it is said to diminish its capital. Capital may therefore be increased by an increased production, or by a diminished unproductive consumption.

If the consumption of the government, when increased by the levy of additional taxes, be met either by an increased production, or by a diminished consumption on the part of the people, the taxes will fall upon revenue, and the national capital will remain unimpaired; but if there be no increased production or diminished unproductive consumption on the part of the people, the taxes will necessarily fall on capital, that is to say, they will impair the fund allotted to productive consumption.

In proportion as the capital of a country is diminished, its productions will be necessarily diminished; and, therefore, if the same unproductive expenditure on the part of the people and of the government continue, with a constantly diminishing annual reproduction, the resources of the people and the state will fall away with increasing rapidity, and distress and ruin will follow.

Notwithstanding the immense expenditure of the English government during the last twenty years, there can be little doubt but that the increased production on the part of the people has more than compensated for it. The national capital has not merely been unimpaired, it has been greatly increased, and the annual revenue of the people, even after the payment of their taxes, is probably greater at the present time than at any former period of our history.

For the proof of this we might refer to the increase of population — to the extension of agriculture — to the increase of shipping and manufactures — to the building of docks — to the opening of numerous canals, as well as to many other expensive undertakings; all denoting an increase both of capital and of annual production.

Still, however, it is certain that but for taxation this increase of capital would have been much greater. There are no taxes which have not a tendency to lessen the power to accumulate. All taxes must either fall on capital or revenue. If they encroach on capital, they must proportionably diminish that fund by whose extent the extent of the productive industry of the country must always be regulated; and if they fall on revenue, they must either lessen accumulation, or force the contributors to save the amount of the tax, by making a corresponding diminution of their former unproductive consumption of the necessaries and luxuries of life. Some taxes will produce these effects in a much greater degree than others; but the great evil of taxation is to be found, not so much in any selection of its objects, as in the general amount of its effects taken collectively.

Taxes are not necessarily taxes on capital, because they are laid on capital; nor on income, because they are laid on income. If from my income of £1,000 per annum, I am required to pay £100, it will really be a tax on my income, should I be content with the expenditure of the remaining £900,. but it will be a tax on capital, if I continue to spend £1,000.

The capital from which my income of £1,000 is derived, may be of the value of £10,000; a tax of one per cent on such capital would be £100; but my capital would be unaffected, if after paying this tax, I in like manner contented myself with the expenditure of £900.

The desire which every man has to keep his station in life, and to maintain his wealth at the height which it has once attained, occasions most taxes, whether laid on capital or on income, to be paid from income; and therefore as taxation proceeds, or as government increases its expenditure, the annual enjoyments of the people must be diminished, unless they are enabled proportionally to increase their capitals and income. It should be the policy of governments to encourage a disposition to do this in the people, and never to lay such taxes as will inevitably fall on capital; since by so doing, they impair the funds for the maintenance of labour, and thereby diminish the future production of the country.

In England this policy has been neglected, in taxing the probates of wills, in the legacy duty, and in all taxes affecting the transference of property from the dead to the living. If a legacy of £1,000 be subject to a tax of £100, the legatee considers his legacy as only £900 and feels no particular motive to save the £100 duty from his expenditure, and thus the capital of the country is diminished; but if he had really received £1,000, and had been required to pay £100 as a tax on income, on wine, on horses, or on servants, he would probably have diminished, or rather not increased his expenditure by that sum, and the capital of the country would have been unimpaired.

'Taxes upon the transference of property from the dead to the living,' says Adam Smith, 'fall finally, as well as immediately, upon the persons to whom the property is transferred. Taxes on the sale of land fall altogether upon the seller. The seller is almost always under the necessity of selling, and must, therefore, take such a price as he can get. The buyer is scarce ever under the necessity of buying, and will, therefore, only give such a price as he likes. He considers what the land will cost him in tax and price together. The more he is obliged to pay in the way of tax, the less he will be disposed to give in the way of price. Such taxes, therefore, fall almost always upon a necessitous person, and must, therefore, be very cruel and oppressive.' 'Stamp duties, and duties upon the registration of bonds and contracts for borrowed money, fall altogether upon the borrower, and in fact are always paid by him. Duties of the same kind upon law proceedings fall upon the suitors. They reduce to both the capital value of the subject in dispute. The more it costs to acquire any property, the less must be the neat value of it when acquired. All taxes upon the transference of property of every kind, so far as they diminish the capital value of that property, tend to diminish the funds destined for the maintenance of labour. They are all more or less unthrifty taxes, that increase the revenue of the sovereign, which seldom maintains any but unproductive labourers, at the expense of the capital of the people, which maintains none but productive.'

But this is not the only objection to taxes on the transference of property; they prevent the national capital from being distributed in the way most beneficial to the community. For the general prosperity, there cannot be too much facility given to the conveyance and exchange of all kinds of property, as it is by such means that capital of every species is likely to find its way into the hands of those, who will best employ it in increasing the productions of the country. 'Why', asks M. Say, 'does an individual wish to sell his land? It is because he has another employment in view in which his funds will be more productive. Why does another wish to purchase this same land? It is to employ a capital which brings him in too little, which was unemployed, or the use of which he thinks susceptible of improvement. This exchange will increase the general income, since it increases the income of these parties. But if the charges are so exorbitant as to prevent the exchange, they are an obstacle to this increase of the general income.' These taxes, however, are easily collected; and this by many may be thought to afford some compensation for their injurious effects.

Chapter 9

Taxes on Raw Produce

Having in a former part of this work established, I hope satisfactorily, the principle, that the price of corn is regulated by the cost of its production on that land exclusively, or rather with that capital exclusively, which pays no rent, it will follow that whatever may increase the cost of production will increase the price; whatever may reduce it, will lower the price. The necessity of cultivating poorer land, or of obtaining a less return with a given additional capital on land already in cultivation, will inevitably raise the exchangeable value of raw produce. The discovery of machinery, which will enable the cultivator to obtain his corn at a less cost of production, will necessarily lower its exchangeable value. Any tax which may be imposed on the cultivator, whether in the shape of land-tax, tithes, or a tax on the produce when obtained, will increase the cost of production, and will therefore raise the price of raw produce.

If the price of raw produce did not rise so as to compensate the cultivator for the tax, he would naturally quit a trade where his profits were reduced below the general level of profits; this would occasion a diminution of supply, until the unabated demand should have produced such a rise in the price of raw produce, as to make the cultivation of it equally profitable with the investment of capital in any other trade.

A rise of price is the only means by which he could pay the tax, and continue to derive the usual and general profits from this employment of his capital. He could not deduct the tax from his rent, and oblige his landlord to pay it, for he pays no rent. He would not deduct it from his profits, for there is no reason why he should continue in an employment which yields small profits, when all other employments are yielding greater. There can then be no question, but that he will have the power of raising the price of raw produce by a sum equal to the tax.

A tax on raw produce would not be paid by the landlord; it would not be paid by the farmer; but it would be paid, in an increased price, by the consumer.

Rent, it should be remembered, is the difference between the produce obtained by equal portions of labour and capital employed on land of the same or different qualities. It should be remembered too, that the money rent of land, and the corn rent of land, do not vary in the same proportion.

In the case of a tax on raw produce, of a land-tax, or tithes, the corn rent of land will vary, while the money rent will remain as before.

If, as we have before supposed, the land in cultivation were of three qualities, and that with an equal amount of capital,

180 qrs. of corn were obtained from land No. 1, 170 … from … 2, 160 … from … 3,

the rent of No. 1 would be 20 quarters, the difference between that of No. 3 and No. 1; and of No. 2, 10 quarters, the difference between that of No. 3 and No. 2; while No. 3 would pay no rent whatever.

Now if the price of corn were £4 per quarter, the money rent of No. 1 would be £80, and that of No. 2, £40.

Suppose a tax of 8s. per quarter to be imposed on corn; then the price would rise to £4 8s.; and if the landlords obtained the same corn rent as before, the rent of No. 1 would be £88 and that of No. 2, £44. But they would not obtain the same corn rent; the tax would fall heavier on No. 1 than on No. 2, and on No. 2 than on No. 3, because it would be levied on a greater quantity of corn. It is the difficulty of production on No. 3 which regulates price; and corn rises to £4 8s., that the profits of the capital employed on No. 3 may be on a level with the general profits of stock.

The produce and tax on the three qualities of land will be as follows:

No. 1 yielding 180 qrs. at £4 8s. per qr. … £792 Deduct the value of 16.3 or 8s. per qr. on 180 qrs. 72

Net corn produce 163.7 Net money produce £720

No. 2 yielding 170 qrs. at £4 8s. per qr. … £748 Deduct the value of 15.4 qrs at £4 8s. or 8s. per qr. on 170 qr. 68

Net corn produce 154.6 Net money produce £680

No. 3 yielding 160 qrs. at £4 8s. … £704 Deduct the value of 14.5 qrs. at £4 8s. or 8s. per qr. on 160 64

Net corn produce 145.5 Net money produce £640

The money rent of No. 1 would continue to be £80, or the difference between £640 and £720; and that of No. 2, £40, or the difference between £640 and £680, precisely the same as before; but the corn rent will be reduced from 20 quarters on No. 1, to 18.2 quarters, the difference between 145.5 and 163.7 quarters, and that on No. 2 from 10 to 9.1 quarters, the difference between 145.5 and 154.6 quarters.

A tax on corn, then, would fall on the consumers of corn, and would raise its value as compared with all other commodities, in a degree proportioned to the tax. In proportion as raw produce entered into the composition of other commodities, would their value also be raised, unless the tax were countervailed by other causes. They would in fact be indirectly taxed, and their value would rise in proportion to the tax.

A tax, however, on raw produce, and on the necessaries of the labourer, would have another effect — it would raise wages. From the effect of the principle of population on the increase of mankind, wages of the lowest kind never continue much above that rate which nature and habit demand for the support of the labourers. This class is never able to bear any considerable proportion of taxation; and, consequently, if they had to pay 8s. per quarter in addition for wheat and in some smaller proportion for other necessaries, they would not be able to subsist on the same wages as before, and to keep up the race of labourers. Wages would inevitably and necessarily rise; and in proportion as they rose, profits would fall. Government would receive a tax of 8s. per quarter on all the corn consumed in the country, a part of which would be paid directly by the consumers of corn; the other part would be paid indirectly by those who employed labour, and would affect profits in the same manner as if wages had been raised from the increased demand for labour compared with the supply, or from an increasing difficulty of obtaining the food and necessaries required by the labourer.

In as far as the tax might affect consumers, it would be an equal tax, but in as far as it would affect profits, it would be a partial tax; for it would neither operate on the landlord nor on the stockholder, since they would continue to receive, the one the same money rent, the other the same money dividends as before. A tax on the produce of the land then would operate as follows:

1st. It would raise the price of raw produce by a sum equal to the tax, and would therefore fall on each consumer in proportion to his consumption.

2dly. It would raise the wages of labour, and lower profits.

It may then be objected against such a tax,

1st. That by raising the wages of labour, and lowering profits, it is an unequal tax, as it affects the income of the farmer, trader, and manufacturer, and leaves untaxed the income of the landlord, stockholder, and others enjoying fixed incomes.

2dly. That there would be a considerable interval between the rise in the price of corn and the rise of wages, during which much distress would be experienced by the labourer.

3dly. That raising wages and lowering profits is a discouragement to accumulation, and acts in the same way as a natural poverty of soil.

4thly. That by raising the price of raw produce, the prices of all commodities into which raw produce enters, would be raised, and that therefore we should not meet the foreign manufacturer on equal terms in the general market.

With respect to the first objection, that by raising the wages of labour and lowering profits it acts unequally, as it affects the income of the farmer, trader, and manufacturer, and leaves untaxed the income of the landlord, stockholder, and others enjoying fixed incomes, — it may be answered, that if the operation of the tax be unequal, it is for the legislature to make it equal, by taxing directly the rent of land, and the dividends from stock. By so doing, all the objects of an income tax would be obtained, without the inconvenience of having recourse to the obnoxious measure of prying into every man's concerns, and arming commissioners with powers repugnant to the habits and feelings of a free country.

With respect to the second objection, that there would be a considerable interval between the rise of the price of corn and the rise of wages, during which much distress would be experienced by the lower classes, — I answer, that under different circumstances, wages follow the price of raw produce with very different degrees of celerity; that in some cases no effect whatever is produced on wages by a rise of corn; in others, the rise of wages precedes the rise in the price of corn; again, in some the effect on wages is slow, and in others rapid.

Those who maintain that it is the price of necessaries which regulates the price of labour, always allowing for the particular state of progression in which the society may be, seem to have conceded too readily, that a rise or fall in the price of necessaries will be very slowly succeeded by a rise or fall of wages. A high price of provisions may arise from very different causes, and may accordingly produce very different effects. It may arise from

1st. A deficient supply.

2nd. From a gradually increasing demand, which may be ultimately attended with an increased cost of production.

3rdly. From a fall in the value of money.

4thly. From taxes on necessaries.

These four causes have not been sufficiently distinguished and separated by those who have inquired into the influence of a high price of necessaries on wages. We will examine them severally.

A bad harvest will produce a high price of provisions, and the high price is the only means by which the consumption is compelled to conform to the state of the supply. If all the purchasers of corn were rich, the price might rise to any degree, but the result would remain unaltered; the price would at last be so high, that the least rich would be obliged to forego the use of a part of the quantity which they usually consumed, as by diminished consumption alone the demand could be brought down to the limits of the supply. Under such

circumstances no policy can be more absurd, than that of forcibly regulating money wages by the price of food, as is frequently done, by misapplication of the poor laws. Such a measure affords no real relief to the labourer, because its effect is to raise still higher the price of corn, and at last he must be obliged to limit his consumption in proportion to the limited supply. In the natural course of affairs a deficient supply from bad seasons, without any pernicious and unwise interference, would not be followed by a rise of wages. The raising of wages is merely nominal to those who receive them; it increases the competition in the corn market, and its ultimate effect is to raise the profits of the growers and dealers in corn. The wages of labour are really regulated by the proportion between the supply and demand of necessaries, and the supply and demand of labour; and money is merely the medium, or measure, in which wages are expressed. In this case then the distress of the labourer is unavoidable, and no legislation can afford a remedy, except by the importation of additional food, or by adopting the most useful substitutes.

When a high price of corn is the effect of an increasing demand, it is always preceded by an increase of wages, for demand cannot increase, without an increase of means in the people to pay for that which they desire. An accumulation of capital naturally produces an increased competition among the employers of labour, and a consequent rise in its price. The increased wages are not always immediately expended on food, but are first made to contribute to the other enjoyments of the labourer. His improved condition however induces, and enables him to marry, and then the demand for food for the support of his family naturally supersedes that of those other enjoyments on which his wages were temporarily expended. Corn rises then because the demand for it increases, because there are those in the society who have improved means of paying for it; and the profits of the farmer will be raised above the general level of profits, till the requisite quantity of capital has been employed on its production. Whether, after this has taken place, corn shall again fall to its former price, or shall continue permanently higher, will depend on the quality of the land from which the increased quantity of corn has been supplied. If it be obtained from land of the same fertility, as that which was last in cultivation, and with no greater cost of labour, the price will fall to its former state; if from poorer land, it will continue permanently higher. The high wages in the first instance proceeded from an increase in the demand for labour...

inasmuch as it encouraged marriage, and supported children, it produced the effect of increasing the supply of labour. But when the supply is obtained, wages will again fall to their former price, if corn has fallen to its former price: to a higher than the former price, if the increased supply of corn has been produced from land of an inferior quality. A high price is by no means incompatible with an abundant supply: the price is permanently high, not because the quantity is deficient, but because there has been an increased cost in producing it. It generally happens indeed, that when a stimulus has been given to population, an effect is produced beyond what the case requires; the population may be, and generally is so much increased as, notwithstanding the increased demand for labour, to bear a greater proportion to the funds for maintaining labourers than before the increase of capital. In this case a re-action will take place, wages will be below their natural level, and will continue so, till the usual proportion between the supply and demand has been restored. In this case then, the rise in the price of corn is preceded by a rise of wages, and therefore entails no distress on the labourer.

A fall in the value of money, in consequence of an influx of the precious metals from the mines, or from the abuse of the privileges of banking, is another cause for the rise of the price of food; but it will make no alteration in the quantity produced. It leaves undisturbed too the number of labourers, as well as the demand for them; for there will be neither an increase nor a diminution of capital. The quantity of necessaries to be allotted to the labourer, depends on the comparative demand and supply of necessaries, with the comparative demand and supply of labour; money being only the medium in which the quantity is expressed; and as neither of these is altered, the real reward of the labourer will not alter. Money wages will rise, but they will only enable him to furnish himself with the same quantity of necessaries as before. Those who dispute this principle, are bound to show why an increase of money should not have the same effect in raising the price of labour, the quantity of which has not been increased, as they acknowledge it would have on the price of shoes, of hats, and of corn, if the quantity of those commodities were not increased. The relative market value of hats and shoes is regulated by the demand and supply of hats, compared with the demand and supply of shoes, and money is but the medium in which their value is expressed. If shoes be doubled in price, hats will also be doubled in price, and they will retain the same comparative

value. So if corn and all the necessaries of the labourer be doubled in price, labour will be doubled in price also, and while there is no interruption to the usual demand and supply of necessaries and of labour, there can be no reason why they should not preserve their relative value.

Neither a fall in the value of money, nor a tax on raw produce, though each will raise the price, will necessarily interfere with the quantity of raw produce; or with the number of people, who are both able to purchase, and willing to consume it. It is very easy to perceive why, when the capital of a country increases irregularly, wages should rise, whilst the price of corn remains stationary, or rises in a less proportion; and why, when the capital of a country diminishes, wages should fall whilst corn remains stationary, or falls in a much less proportion, and this too for a considerable time; the reason is, because labour is a commodity which cannot be increased and diminished at pleasure. If there are too few hats in the market for the demand, the price will rise, but only for a short time; for in the course of one year, by employing more capital in that trade, any reasonable addition may be made to the quantity of hats, and therefore their market price cannot long very much exceed their natural price; but it is not so with men; you cannot increase their number in one or two years when there is an increase of capital, nor can you rapidly diminish their number when capital is in a retrograde state; and, therefore, the number of hands increasing or diminishing slowly, whilst the funds for the maintenance of labour increase or diminish rapidly, there must be a considerable interval before the price of labour is exactly regulated by the price of corn and necessaries; but in the case of a fall in the value of money, or of a tax on corn, there is not necessarily any excess in the supply of labour, nor any abatement of demand, and therefore there can be no reason why the labourer should sustain a real diminution of wages.

A tax on corn does not necessarily diminish the quantity of corn, it only raises its money price; it does not necessarily diminish the demand compared with the supply of labour; why then should it diminish the portion paid to the labourer? Suppose it true that it did diminish the quantity given to the labourer, in other words, that it did not raise his money wages in the same proportion as the tax raised the price of the corn which he consumed; would not the supply of corn exceed the demand? would it not fall in price? and would not the labourer thus obtain his usual portion? In such case, indeed, capital would be withdrawn from agriculture; for if the price were not increased by the whole amount of the tax, agricultural profits would be lower than the general level of profits, and capital would seek a more advantageous employment. In regard then to a tax on raw produce, which is the point under discussion, it appears to me that no interval which could bear oppressively on the labourer, would elapse between the rise in the price of raw produce, and the rise in the wages of the labourer; and that therefore no other inconvenience would be suffered by this class, than that which they would suffer from any other mode of taxation, namely, the risk that the tax might infringe on the funds destined for the maintenance of labour, and might therefore check or abate the demand for it.

With respect to the third objection against taxes on raw produce, namely, that the raising wages, and lowering profits, is a discouragement to accumulation, and acts in the same way as a natural poverty of soil; I have endeavoured to show in another part of this work that savings may be as effectually made from expenditure as from production, from a reduction in the value of commodities, as from a rise in the rate of profits. By increasing my profits from £1,000 to £1,200, whilst prices continue the same, my power of increasing my capital by savings is increased, but it is not increased so much as it would be if my profits continued as before, whilst commodities were so lowered in price, that £800 would procure me as much as £1,000 purchased before.

Now the sum required by the tax must be raised, and the question simply is, whether the same amount shall be taken from individuals by diminishing their profits, or by raising the prices of the commodities on which their profits will be expended. Taxation under every form presents but a choice of evils; if it do not act on profit, or other sources of income, it must act on expenditure; and provided the burthen be equally borne, and do not repress reproduction, it is indifferent on which it is laid. Taxes on production, or on the profits of stock, whether applied immediately to profits, or indirectly, by taxing the land or its produce, have this advantage over other taxes, that provided all other income be taxed, no class of the community can escape them, and each contributes according to his means.

From taxes on expenditure a miser may escape; he may have an income of £10,000 per annum, and expend only £300; but from taxes on profits, whether direct or indirect, he cannot escape; he will contribute to them either by giving up a part or the value of a part of his produce; or by the advanced prices of the necessaries essential to production, he will be unable to continue to accumulate at the same rate. He may, indeed, have an income of the same value, but he will not have the same command of labour, nor of an equal quantity of materials on which such labour can be exercised.

If a country is insulated from all others, having no commerce with any of its neighbours, it can in no way shift any portion of its taxes from itself. A portion of the produce of its land and labour will be devoted to the service of the State; and I cannot but think that, unless it presses unequally on that class which accumulates and saves, it will be of little importance whether the taxes be levied on profits, on agricultural, or on manufactured commodities. If my revenue be £1,000 per annum, and I must pay taxes to the amount of £100, it is of little importance whether I pay it from my revenue, leaving myself only £900, or pay £100 in addition for my agricultural commodities, or for my manufactured goods. If £100 is my fair proportion of the expenses of the country, the virtue of taxation consists in making sure that I shall pay that £100, neither more nor less; and that cannot be effected in any manner so securely as by taxes on wages, profits, or raw produce.

The fourth and last objection which remains to be noticed is: That by raising the price of raw produce, the prices of all commodities into which raw produce enters, will be raised, and that, therefore, we shall not meet the foreign manufacturer on equal terms in the general market.

In the first place, corn and all home commodities could not be materially raised in price without an influx of the precious metals; for the same quantity of money could not circulate the same quantity of commodities, at high as at low prices, and the precious metals never could be purchased with dear commodities. When more gold is required, it must be obtained by giving more, and not fewer commodities in exchange for it. Neither could the want of money be supplied by paper, for it is not paper that regulates the value of gold as a commodity, but gold that regulates the value of paper. Unless then the value of gold could be lowered, no paper could be added to the circulation without being depreciated. And that the value of gold could not be lowered, appears clear, when we consider that the value of gold as a commodity must be regulated by the quantity of goods which must be given to foreigners in exchange for it. When gold is cheap, commodities are dear, and when, gold is dear, commodities are cheap, and fall in price. Now as no cause is shewn why foreigners should sell their gold cheaper than usual, it does not appear probable that there would be any influx of gold. Without such an influx there can be no increase of quantity, no fall in its value, no rise in the general price of goods.

The probable effect of a tax on raw produce, would be to raise the price of raw produce, and of all commodities in which raw produce entered, but not in any degree proportioned to the tax; while other commodities in which no raw produce entered, such as articles made of the metals and the earths, would fall in price: so that the same quantity of money as before would be adequate to the whole circulation.

A tax which should have the effect of raising the price of all home productions, would not discourage exportation, except during a very limited time. If they were raised in price at home, they could not indeed immediately be profitably exported, because they would be subject to a burthen here from which abroad they were free. The tax would produce the same effect as an alteration in the value of money, which was not general and common to all countries, but confined to a single one. If England were that country, she might not be able to sell, but she would be able to buy, because importable commodities would not be raised in price. Under these circumstances nothing but money could be exported in return for foreign commodities, but this is a trade which could not long continue; a nation cannot be exhausted of its money, for after a certain quantity has left it, the value of the remainder will rise, and such a price of commodities will be the consequence, that they will again be capable of being profitably exported. When money had risen, therefore, we should no longer export it in return for goods, but we should export those manufactures which had first been raised in price, by the rise in the price of the raw produce from which they were made, and then again lowered by the exportation of money.

But it may be objected 'that when money so rose in value, it would rise with respect to foreign as well as home commodities, and therefore that all encouragement to import foreign goods would cease. Thus, suppose we imported goods which cost £100 abroad, and which sold for £120 here, we should cease to import them, when the value of money had so risen in England, that they would only sell for £100 here: this, however, could never happen. The motive which determines us to import a commodity, is the discovery of its relative cheapness abroad: it is the comparison of its price abroad with its price at home. If a country exports hats, and imports cloth, it does so because it can obtain more cloth by making hats, and exchanging them for cloth, than if it made the cloth itself. If the rise of raw produce occasions any increased cost of production in making hats, it would occasion also an increased cost in making cloth. If, therefore, both commodities were made at home, they would both rise. One, however, being a commodity which we import, would not rise, neither would it fall, when the value of money rose; for by not falling, it would regain its natural relation to the exported commodity. The rise of raw produce makes a hat rise from 30 to 33 shillings, or 10 per cent; the same cause if we manufactured cloth, would make it rise from 20s. to 22s. per yard. This rise does not destroy the relation between cloth and hats; a hat was, and continues to be, worth one yard and a half of cloth. But if we import cloth, its price will continue uniformly at 20s. per yard, unaffected first by the fall, and then by the rise in the value of, money; whilst hats, which had risen from 30s. to 33s., will again fall from 33s. to 30s., at which point the relation between cloth and hats will be restored.

To simplify the consideration of this subject, I have been supposing that a rise in the value of raw materials would affect, in an equal proportion, all home commodities; that if the effect on one were to raise it 10 per cent, it would raise all 10 per cent; but as the value of commodities is very differently made up of raw material and labour; as some commodities, for instance, all those made from the metals, would be unaffected by the rise of raw produce from the surface of the earth, it is evident that there would be the greatest variety in the effects produced on the value of commodities, by a tax on raw produce. As far as this effect was produced, it would stimulate or retard the exportation of particular commodities, and would undoubtedly be attended with the same inconvenience that attends the taxing of commodities; it would destroy the natural relation between the value of each. Thus the natural price of a hat, instead of being the same as a yard and a half of cloth, might only be of the value of a yard and a quarter, or it might be of the value of a yard and three quarters, and therefore rather a different direction might be given to foreign trade. All these inconveniences would probably not interfere with the value of the exports and imports; they would only prevent the very best distribution of the capital of the whole world, which is never so well regulated, as when every commodity is freely allowed to settle at its natural price, unfettered by artificial restraints.

Although then the rise in the price of most of our own commodities, would for a time check exportation generally, and might permanently prevent the exportation of a few commodities, it could not materially interfere with foreign trade, and would not place us under any comparative disadvantage as far as regarded competition in foreign markets.

Chapter 10

Taxes on Rent

A tax on rent would affect rent only; it would fall wholly on landlords, and could not be shifted to any class of consumers. The landlord could not raise his rent, because he would leave unaltered the difference between the produce obtained from the least productive land in cultivation, and that obtained from land of every quality. Three sorts of land, No. 1, 2, and 3, are in cultivation, and yield respectively with the same labour, 180, 170, and 160 quarters of wheat; but No. 3 pays no rent, and is therefore untaxed: the rent then of No. 2 cannot be made to exceed the value of ten, nor No. 1, of twenty quarters. Such a tax could not raise the price of raw produce, because as the cultivator of No. 3 pays neither rent nor tax, he would in no way be enabled to raise the price of the commodity produced. A tax on rent would not discourage the cultivation of fresh land, for such land pays no rent, and would be untaxed. If No. 4 were taken into cultivation, and yielded 150 quarters, no tax would be paid for such land; but it would create a rent of ten quarters on No. 3, which would then commence paying the tax.

A tax on rent, as rent is constituted, would discourage cultivation, because it would be a tax on the profits of the landlord. The term rent of land, as I have elsewhere observed, is applied to the whole amount of the value paid by the farmer to his landlord, a part only of which is strictly rent. The buildings and fixtures, and other expenses paid for by the landlord, form strictly a part of the stock of the farm, and must have been furnished by the tenant, if not provided by the landlord. Rent is the sum paid to the landlord for the use of the land, and for the use of the land only. The further sum that is paid to him under the name of rent, is for the use of the buildings, &c., and is really the profits of the landlord's stock. In taxing rent, as no distinction would be made between that part paid for the use of the land, and that paid for the use of the landlord's stock, a portion of the tax would fall on the landlord's profits, and would, therefore, discourage cultivation, unless the price of raw produce rose. On that land, for the use of which no rent was paid, a compensation under that name might be given to the landlord for the use of his buildings. These buildings would not be erected, nor would raw produce be grown on such land, till the price at which it sold would not only pay for all the usual outgoings, but also this additional one of the tax. This part of the tax does not fall on the landlord, nor on the farmer, but on the consumer of raw produce.

There can be little doubt but that if a tax were laid on rent, landlords would soon find a way to discriminate between that which is paid to them for the use of the land, and that which is paid for the use of the buildings, and the improvements which are made by the landlord's stock. The latter would either be called the rent of house and buildings, or on all new land taken into cultivation, such buildings would be erected, and improvements would be made by the tenant, and not by the landlord. The landlord's capital might indeed be really employed for that purpose; it might be nominally expended by the tenant,

the landlord furnishing him with the means, either in the shape of a loan, or in the purchase of an annuity for the duration of the lease. Whether distinguished or not, there is a real difference between the nature of the compensations which the landlord receives for these different objects; and it is quite certain, that a tax on the real rent of land falls wholly on the landlord, but that a tax on that remuneration which the landlord receives for the use of his stock expended on the farm, falls, in a progressive country, on the consumer of raw produce. If a tax were laid on rent, and no means of separating the remuneration now paid by the tenant to the landlord under the name of rent were adopted, the tax, as far as it regarded the rent on the buildings and other fixtures, would never fall for any length of time on the landlord, but on the consumer. The capital expended on these buildings, &c., must afford the usual profit of stock; but it would cease to afford this profit on the land last cultivated, if the expenses of those buildings, &c., did not fall on the tenant; and if they did, the tenant would then cease to make his usual profits of stock, unless he could charge them on the consumer.

As with many poets, **T. S. Eliot** had a day job. In the twenties, his was writing reports on foreign currency movements for Lloyds Bank. The editor for *Harvard College Class of 1910 Quindecennial Report* managed to mangle this state of affairs, and added *Literature and Export Trade* to his corpus. We include this text in our series in respect of such editorial malfeasance.

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