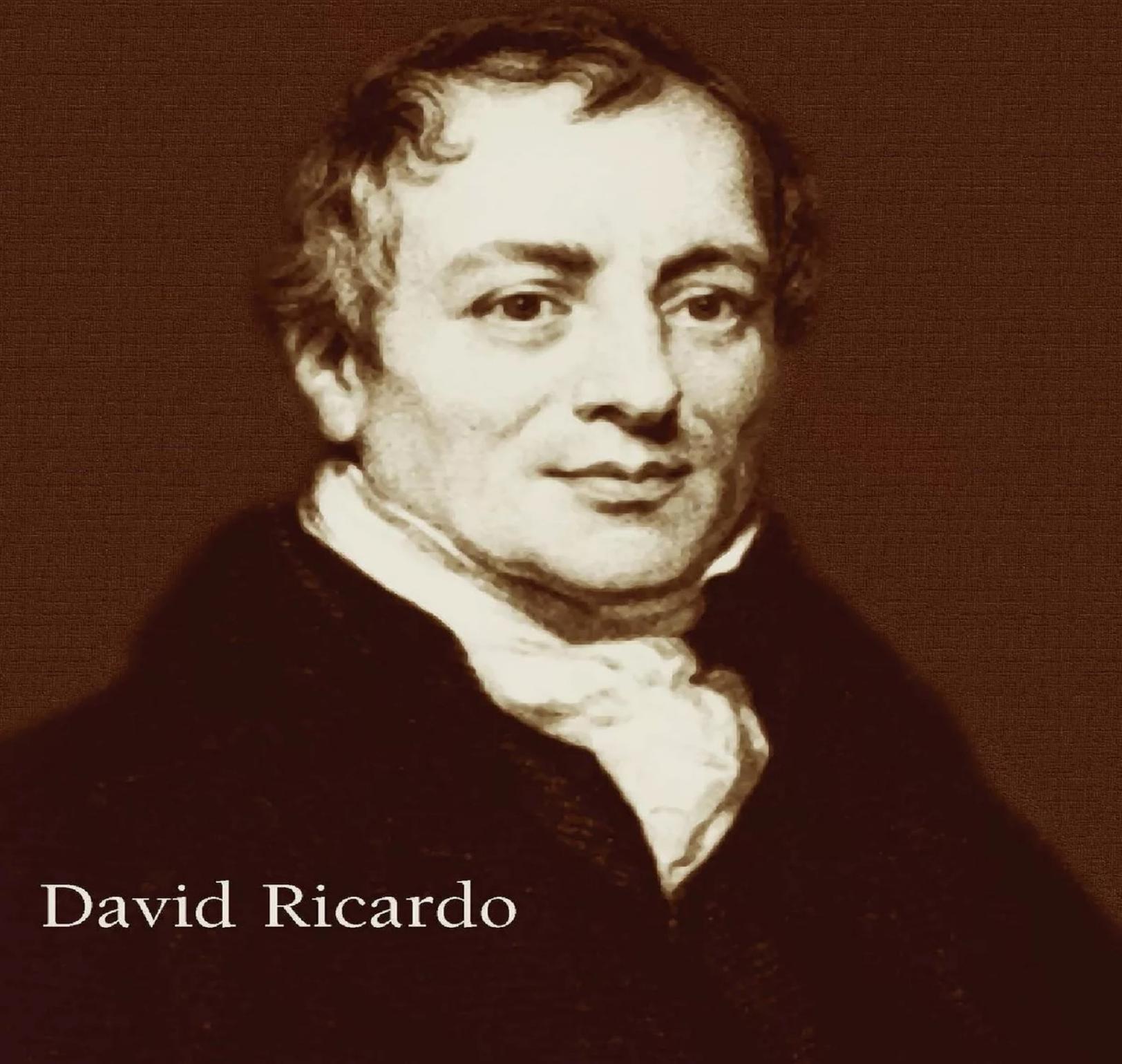


THE PRINCIPLES OF  
POLITICAL ECONOMY  
AND TAXATION



David Ricardo

THE PRINCIPLES  
OF POLITICAL  
ECONOMY  
AND TAXATION



**ON THE PRINCIPLES  
OF POLITICAL ECONOMY  
AND  
TAXATION.**

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By DAVID RICARDO, Esq.

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By DAVID RICARDO, Esq.

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# PREFACE.

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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.<sup>1</sup> 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.

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# CHAPTER I.

## ON VALUE.

**I**T 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 solely 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 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."<sup>2</sup>

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 shewing 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, a year's labour will produce much more corn than 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 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.

If any one commodity could be found, which now and at all times required precisely the same quantity of labour to produce it, that commodity would be of an unvarying value, and would be eminently useful as a standard by which the variations of other things might be measured. Of such a commodity we have no knowledge, and consequently are unable to fix on any standard of value. It is, however, of considerable use towards attaining a correct theory, to ascertain what the essential qualities of a standard are, that we may know the causes of the variation in the relative value of commodities, and that we may be enabled to calculate the degree in which they are likely to operate.

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In speaking however of labour, as being the foundation of all value, and the relative quantity of labour as 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.<sup>3</sup>

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."<sup>4</sup>

It will be seen by the extract which I have made in page 4, from the "Wealth of Nations," that though Adam Smith fully recognized the principle, that the proportion between the quantities of labour necessary for acquiring different objects, is the only circumstance which can afford any rule for our exchanging them for one another, yet he limits its application to "that early and rude state of society, which precedes both the accumulation of stock and the appropriation of land;" as if, when profits and rent were to be paid, they would have some influence on the relative value of commodities, independent of the mere quantity of labour that was necessary to their production.

Adam Smith, however, has nowhere analyzed the effects of the accumulation of capital, and the appropriation of land, on relative value. It is of importance, therefore, to determine how far the effects which are avowedly produced on the exchangeable value of commodities, by the comparative quantity of labour bestowed on their production, are modified or altered by the accumulation of capital and the payment of rent.

First, as to the accumulation of capital. 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, were 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.

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.

In every society the capital which is employed in production, is necessarily of limited durability. 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.

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.

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*l.* the other, ships of the same value.

Besides the alteration in the relative value of commodities, occasioned by more or less labour being required to produce them, they are also subject to fluctuations from a rise of wages, and consequent fall of profits, if the fixed capitals employed be either of unequal value, or of unequal duration.

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 realised 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*l.* and were calculated to last for ten years, and he employed ten men, whose annual labour cost 100*l.* and who in one day obtained by their labour twenty salmon: If the

weapons employed by the hunter were also of 100*l.* value and calculated to last ten years, and if he also employed ten men, whose annual labour cost 100*l.* 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, requiring at all times, and under all circumstances, precisely the same quantity of labour to obtain it, 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*l.* and a deer 2*l.* 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*l.* whilst deer rose to 3*l.* we might conclude that more labour was required to obtain the deer. If deer continued at the same price of 2*l.* 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 2l. 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 if profits were 10 per cent., then to replace the 100l. circulating capital with 10 per cent. profit, there must be a return of 110l. : to replace the equal portion of fixed capital, when profits are at the rate of 10 per cent. there should be annually received 16.27l. ; for, the present value of an annuity of 16.27l. for ten years, when money is at 10 per cent., is 100l. ; consequently all the game of the hunter should annually sell for 126.27l. But the capital of the fisherman being the same in quantity, and divided in the same proportion into fixed and circulating capital, and being also of the same durability, he, to obtain the same profits, must sell his goods for the same value. If wages rose 10 per cent. and consequently 10 per cent. more circulating capital were required in each trade, it would equally affect both employments. In both, 210l. instead of 200l. would be required in order to produce the former quantity of commodities; and these would sell precisely for the same money, namely 126.27l. : they would therefore be at the same relative value, and profits would be equally reduced in both trades.

The prices of the commodities would not rise, because the money in which they are valued is by the supposition of an invariable value, always requiring the same quantity of labour to produce it.

If the gold mine from which money was obtained were in the same country, in that case, after the rise of wages, 210l. might be necessary to be employed, as capital, to obtain the same quantity of metal that 200l. obtained before: for the same reason that the hunter and fisherman required 10l. in addition to their capitals, the miner would require an equal addition to his. 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*l.* 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 we could measure the variation in other commodities, we should find that the utmost limit to which they could permanently rise, was proportioned to 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.

If the fixed and circulating capitals were in different proportions, or if the fixed capital were of different durability, then the relative value of the commodities produced, would be altered in consequence of a rise of wages.

First, when the fixed and circulating capitals were in different proportions, suppose that instead of 100*l.* fixed capital and 100*l.* circulating capital, the hunter should employ 150*l.* fixed capital and 50*l.* circulating capital, and that the fisherman should on the contrary employ only 50*l.* fixed capital and 150*l.* circulating capital.

If profits be 10 per cent., the hunter must sell his goods for 79*l.* 8*s.* For,

To replace his circulating capital of 50*l.* with a profit of 10 per cent. would require a value of

5  
5  
*l.*  
.

To replace his fixed capital with 10 per cent. profit, the present value of an annuity for ten years of 24.4*l.* at 10 per cent. being 150*l.*

2  
4  
.  
4  
*l.*  
.

7  
9  
.  
4  
*l.*  
.

If profits be 10 per cent., the fisherman must sell his goods for 173*l.* 2*s.* 7*d.*

To replace his circulating capital of 150*l.* with a profit of 10 per cent. would require a value of

1  
6  
5  
*l.*  
.

To replace his fixed capital with 10 per cent. profit, one-third of the hunter'	8 . 1 3
	— — —
	1 7 3 . 1 3 <i>l</i> .

Now if wages rise, although neither of these commodities should require more labour for their production, yet their relative value will be altered. Suppose wages to rise 6 per cent., the hunter would not require more than an increase of 3*l.* to his capital, to employ the same number of men, and obtain the same quantity of game; the fisherman would require three times that sum, or 9*l.* The profits of stock would fall to 4 per cent., the hunter would be obliged to sell his game for 73*l.* 12*s.* 2*d.*

To replace his circulating capital of 53*l.* with a profit of 4 per cent.

55.12 *l.*

To replace fixed capital, annually wasted, the present

18.49

value of an annuity of 18.49*l.* for ten years, being 150*l.*

—  
£73.61  
—

The fisherman would sell his fish for 171*l.* 11*s.* 5*d.* viz.

To replace his circulating capital of 159*l.* with a profit of 4 per cent.

£165.360

To replace fixed capital annually wasted, the present value of an annuity of 6.163*l.* , for ten years at 4 per cent., being 50*l.*

6.163

—  
£171.523

Game was to fish before

as 100 to 218.

It would now be

as 100 to 233.

Thus we see, that with every rise of wages, in proportion as the capital employed in any occupation consists of circulating capital, its produce will be of greater relative value than the goods produced in another occupation, where a less proportion of circulating, and a greater proportion of fixed capital are employed.

Secondly, suppose the proportions of fixed capital to be the same; but of different degrees of durability. In proportion as fixed capital is less durable, it approaches to the nature of circulating capital. It will be consumed in a shorter time, and its value reproduced in order to preserve the capital of the manufacturer. We have just seen, that in proportion as circulating capital preponderates in a manufacture, when wages rise, the value of commodities produced in that manufacture, is relatively higher than that of commodities produced in manufactures where fixed 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.

Suppose that an engine is made, which will last for a hundred years, and that its value is 20,000*l.* . Suppose too, that this machine, without any labour whatever, could produce a certain quantity of commodities annually, and that profits were 10 per cent.: the whole value of the goods produced would be annually 2,000*l.* 2*s.* 11*d.* ; for the profit of 20,000*l.*

at 10 per cent. per annum, is at 10 per cent. per annum, is

£2,000

And an annuity of 2*s.* 11*d.* will, at the end of that period, replace a capital of 20,000*l.*

2 11

Consequently the goods must sell for

£2000 2 11

If the same amount of capital, viz. 20,000*l.* , be employed in supporting productive labour, and be annually consumed and reproduced, as it is when employed in paying wages, then to give an equal profit of 10 per cent. on 20,000*l.* the commodities produced must sell for 22,000*l.* Now suppose labour so to rise, that instead of 20,000*l.* being sufficient to pay the wages of those employed in producing the latter commodities, 20,952*l.* is required; then profits will fall to 5 per cent.: for as these commodities would sell for no more than before,

viz. £22,000

and to produce them £20,952 would be requisite,

there would remain no more

than £1,048

on a capital of 20,952*l.* If labour so rose, that 21,153*l.* were required, profits would fall to 4 per cent. and if it rose, so that 21,359*l.* was employed, profits would fall to 3 per cent.

But, as no wages would be paid by the owner of the machine, which would last 100 years, when profits fell to 5 per cent. the price of his goods must fall to 1007*l.* 13*s.* 8*d.* viz. 1000*l.* to pay his profits, and 7*l.* 13*s.* 8*d.* to

accumulate for 100 years at 5 per cent. to replace his capital of 20,000*l.* When profits fell to 4 per cent. his goods must sell for 816*l.* 3*s.* 2*d.* , and when at 3 per cent. for 632*l.* 16*s.* 7*d.* By a rise in the price of labour then, under 7 per cent., which has no effect on the prices of commodities wholly produced by labour, a fall of no less than 68 per cent. is effected on those commodities wholly produced by machinery. If the proprietor of the machine sold his goods for more than 632*l.* 16*s.* 7*d.* , he would get more than 3 per cent., the general profit of stock; and as others could furnish themselves with machines at the same price of 20,000*l.* they would be so multiplied, that he would be inevitably obliged to sink the price of his goods, till they afforded only the usual and general profits of stock.

In proportion as this machine were less durable, prices would be less affected by the fall of profit, and the rise of wages. If, for example, the machine would last only ten years, when profits were at 10 per cent.

the goods should sell for		£3254
when at	5 per cent.	2590
	4 per cent.	2465
	3 per cent.	2344

for such are the sums requisite to place his profits on a par with others, and to replace his capital at the end of ten years; or, which is the same thing, such are the annuities which 20,000*l.* would purchase for ten years at those rates. If the machine would last only three years, when profits were 10 per cent.

the price of the goods would be		£8042
at	5 per cent.	7344
	4 per cent.	7206
	3 per cent.	7070

If it would last only one year, when profits were 10 per cent.

the goods would sell for		£22,000
at	5 per cent.	21,000

4 per cent.	20,800
3 per cent.	20,600

therefore when profits fell from 10 to 3 per cent. the goods, which were produced with equal capitals, would fall

68 per cent. if the machine would last	100 years.
28 per cent. if the machine would last	10 years.
13 per cent. if the machine would last	3 years.
And little more than 6 per cent. if it would last only	1 year.

These results are of such importance to the science of political economy, yet accord so little with some of its received doctrines, which maintain that every rise in wages is necessarily transferred to the price of commodities, that it may not be superfluous to elucidate the subject still further.

A manufacturer of hats employs a hundred men at an annual expense of 50*l.* each, who produce him commodities of the value of 8000*l.* A machine calculated to last precisely a year, and to do equally well the same work as the 100 men, is offered to him for 5000*l.* , the sum, exactly, that he is expending on wages. It will be a matter of indifference to the manufacturer, whether he purchase the machine, or continue to employ the men. Now if the wages of labour rise 10 per cent. and an additional capital of 500*l.* be consequently required to enable him to employ the same labour, whilst his commodities continue to sell for 8000*l.* , he will no longer hesitate, but will at once purchase the machine, and will do the same annually, while wages continue above the original 5000*l.* But will he be able now to purchase the machine at the former price? will not its value be increased, in consequence of the rise of labour? It would be increased, if there were no stock employed in its construction, and no profits to be paid to the maker of it. If, for example, the machine were produced by 100 men working one year upon it with wages of 50*l.* each, and its price were 5000*l.* , should those wages rise to 55*l.* its price would be 5500*l.* : but this cannot be the case; less than 100 men are employed, or it could not be sold for 5000*l.* ; for out of the 5000*l.* 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 4250*l.* per

annum, and that the 750*l.* , 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*l.* , and would therefore employ 4675*l.* , instead of 4250*l.* , on which capital he would only get a profit of 325*l.* if he continued to sell his machine for 5000*l.* ; 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 his machine 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 usual profits. The manufacturer of hats, by the employment of the machine, if he sells his hats for 8000*l.* , is precisely in the same situation as before; he employs no more capital, and obtains the same profits. The competition of trade would not long allow this; for as capital would flow to the most profitable employment, he would be obliged to lower the price of hats, 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, shews itself in the reduced price of the commodity manufactured. Neither machines nor any other commodities are raised in price, but all commodities which are made by machines fall, and fall in proportion to their durability.

It appears, then, that in proportion to the quantity and the durability of the fixed capital employed in any kind of production, the relative prices of those commodities on which such capital is employed, will vary inversely as wages; they will fall as wages rise. It appears too that no commodities whatever are raised in absolute price, merely because wages rise; that they never rise unless additional labour be bestowed on them; but that all commodities in the production of which fixed capital enters, not only do not rise with a rise of wages, but absolutely fall; fall too as much as 68 per cent., with a rise of seven per cent. in wages, if fixed capital be exclusively employed, and be of the duration of 100 years.

The above statement, which asserts the compatibility of a rise of wages, with a fall of prices, has, I know, the disadvantage of novelty, and must trust to its own merits for advocates; whilst it has for its opponents, writers of distinguished and deserved reputation. It should however be carefully remembered, that in this whole argument I am supposing money to be of an invariable value; in other words, to be always the produce of the same quantity of unassisted labour. Money, however, is a variable commodity; and the rise of wages as well as of commodities, is 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 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 and labour of the country, between the three classes of landlords, capitalists, and labourers, that we are to judge 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, and neither could be said to have relatively varied. But if wages partook not of the whole of this increase; if they, 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 fallen, while profits 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 been 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	25
The landlords	25
And the	
capitalists	25
	—
	100

And if, after these commodities were doubled in quantity, of every 100

The labourers had	
only	22
The landlords	22
And the capitalists	22
	—
	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 1000*l.* to 2000*l.*, 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 more than 100 per cent., his rate of profits has fallen, and he has a proportionably less quantity of the produce of the labour of the country at his command.

If, with capital of a given value, he double the quantity of produce, its value falls one half, and then it will bear the same proportion to the capital which produced it, as it did before.

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.

It appears then that the accumulation of capital, by occasioning different proportions of fixed and circulating capital to be employed in different trades, and by giving different degrees of durability to such fixed capital, introduces a considerable modification to the rule, which is of universal application in the early states of society.

Commodities, though they continue to rise and fall, in proportion as more or less labour is necessary to their production, are also affected in their relative value by a rise or fall of profits, since equal profits may be derived from goods which sell for 2,000*l.* and from those which sell for 10,000*l.* ; and consequently the variations of those profits, independently of any increased or diminished quantity of labour required for the goods in question, must affect their prices in different proportions.

It appears too, that commodities may be lowered in value in consequence of a real rise of wages, but they never can be raised from that cause. On the other hand, they may rise from a fall of wages, as they then lose the peculiar advantages of production, which high wages afforded them.

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## CHAPTER II.

### ON RENT.

**I**T 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 inquire 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, were, besides, 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 connexion with the original and indestructible powers of the land. This is a distinction of great importance, in an inquiry 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 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, it bears no price.<sup>5</sup> If all land had the same properties, if it were boundless 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 of different qualities with respect to its productive powers, 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 shewn 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 1000*l.* a tenant obtain 100 quarters of wheat from his land, and by the employment of a second capital of 1000*l.* , 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 1000*l.* , 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 1000*l.*, fifteen quarters is paid for rent, for the employment of the second 1000*l.* no rent whatever is paid. If a third 1000*l.* be employed on the same land, with a return of seventy-five quarters, rent will then be paid for the second 1000*l.* 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 1000*l.* will rise from fifteen to twenty-five quarters; while the last 1000*l.* 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 favourably 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 favourable, 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 unfavourable circumstances; meaning—by the most unfavourable circumstances, the most unfavourable 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 favoured 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.<sup>6</sup>

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.<sup>2</sup>

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 with 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 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 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 have 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	whilst the produce would be 340	100
70 and 90 = 20		90
70 and 80 = 10		80
—		70
60		—
		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	whilst the produce would be increased to 440	125
95 and 115 = 20		115

95 and 105 = 10		105
—		95
60		—
		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 and 125 = 20	whilst the produce would be still adequate to the wants of the population, for it would be 345 quarters, or	125
105 and 115 = 10		115
—		105
30		—
		345

the demand being only for 340 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 threshing 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

the largest portion of capital, that portion 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 shew, 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 whole produce, 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.<sup>B</sup>

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## CHAPTER III.

### ON THE RENT OF MINES.

**T**HE 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.

Having acknowledged the imperfections to which money made of gold and silver is liable as a measure of value, from the greater or less quantity of labour which may, under varying circumstances, be necessary for the production of those metals, we may be permitted to make the supposition that all these imperfections were removed, and that equal quantities of labour could at all times obtain, from that mine which paid no rent, equal quantities of gold. Gold would then be an invariable measure of value. 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.

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## **CHAPTER IV.**

### **ON NATURAL AND MARKET PRICE.**

**I**N 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.

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 may be permitted to 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.

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# CHAPTER V.

## ON WAGES

**L**ABOUR, 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 price 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 material, 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.

In the first case, the natural price of wages, 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 wages will again sink to their 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 wages 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 wages, 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 early 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 wages, but which we have here supposed to have no operation, as we have considered money to be uniformly of the same value, 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 misery proceeds from the inactivity of the people. To be made happier, they need only to be stimulated to exertion; with such exertion, 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.

In some countries of Europe, and many of Asia, as well as in the islands in the South Seas, the people are miserable, either from a vicious government or from habits of indolence, which make them prefer present ease and inactivity, though without security against want, to a moderate degree of exertion, with plenty of food and necessaries. By diminishing their population, no relief would be afforded, for productions would diminish in as great, or even in a greater, proportion. The remedy for the evils under which Poland and Ireland suffer, which are similar to those experienced in the South Seas, is to stimulate exertion, to create new wants, and to implant new tastes; for those countries must accumulate a much larger amount of capital, before the diminished rate of production will render the progress of capital necessarily less rapid than the progress of population. The facility with which the wants of the Irish are supplied, permits that people to pass a great part of their time in idleness: if the population were diminished, this evil would increase, because wages would rise, and therefore the labourer would be enabled, in exchange for a still less portion of his labour, to obtain all that his moderate wants require.

Give to the Irish labourer a taste for the comforts and enjoyments which habit has made essential to the English labourer, and he would be then content to devote a further portion of his time to industry, that he might be enabled to obtain them. Not only would all the food now produced be obtained, but a vast additional value in those other commodities, to the production of which the now unemployed labour of the country might be directed. 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  $1\frac{1}{2}$  per cent. They would fall still lower when it increased only at the rate of 1, or  $\frac{1}{2}$  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*l.* , or six quarters of corn when the price was 4*l.* per quarter, he would probably receive only the value of five quarters when corn rose to 5*l.* per quarter. But five quarters would cost 25*l.* ; 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*l.* per quarter, suppose the labourer's wages to be 24*l.* 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*l.* , on other things. He would receive

£24.14.		£4.4.8.		5.83 qrs.
25.10.	when wheat was at	4.10.	or the value of	5.66 qrs.
26.8.		4.16.		5.50 qrs.
27.8.6		5.2.10		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*l.* per quarter, he would expend for three quarters of corn,

at 4*l.* per qr.                    £12  
 and on other                    12  
 things

When wheat was *4l. 4s. 8d.* , three quarters, which he  
and his family consumed, would cost him £12.14

other things not altered in price 12

---

24.14

When at *4l. 10s.* , three quarters of wheat would  
cost £13.10

and other things 12

---

25.10

When at *4l. 16s.* , three qrs. of  
wheat £14.8

Other things 12

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26.8

When at *5.2.10l.* three quarters of wheat would  
cost £15.8.6.

Other things 12

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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 neat 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.<sup>9</sup>

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.

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## CHAPTER V\*.

### ON PROFITS.

**T**HE profits of stock in different employments, having been shewn 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<sup>10</sup> 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 quality 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, profits would remain the same; but if, as is absolutely certain, wages should rise with the rise of corn, then profits would necessarily fall.

If a manufacturer always sold his goods for the same money, for 1000*l.* 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*l.* than when he paid only 600*l.* 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 price 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*l.* to 25*l.* per annum. per man, the whole sum paid by each would be 250*l.* instead of 240*l.* 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*l.* for wages; and the farmer on the old land would be obliged to pay precisely the same additional sum of 25*l.* for rent; without which additional labour, corn would not have risen. One will therefore have to pay 275*l.* for wages alone, the other, for wages and rent together; each 25*l.* more than the manufacturer: for this latter 25*l.* they are compensated by the addition to the price of raw

produce, and therefore their 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*l.* to 10*l.* , the 180 quarters obtained from the best land would sell for 1800*l.* instead of 720*l.* ; 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*l.* per quarter, or 720*l.* ; 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*l.* to 4*l.* 4*s.* 8*d.* ; for 170: 180:: 4*l.* : 4*l.* 4*s.* 8*d.* 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*l.* to 4*l.* 4*s.* 8*d.* 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*l.* 10*s.* ; if 150, to 4*l.* 16*s.* , &c. &c.

But when 180 quarters were produced on the land

paying no rent, and its price was 4*l.* per quarter, it sold for

And when 170 quarters were produced on the land paying no rent, and the price rose to 4*l.* 4*s.* 8*d.* it still sold for

720

So, 160 quarters at 4*l.* 10*s.* produce

720

And 150 quarters at 4*l.* 16*s.* 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*l.* , 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*l.* 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*l.* , the whole 180 quarters belonged to the cultivator, and he sold it for 720*l.* When corn rose to 4*l.* 4*s.* 8*d.* 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*l.* : when it rose further to 4*l.* 10*s.* he paid twenty quarters, or their value, for rent, and consequently only retained 160 quarters, which yielded the same sum of 720*l.*

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*l.* , 4*l.* 10*s.* , or 5*l.* 2*s.* 10*d.* , 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*l.* 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*l.*

It will be seen too that, in all cases, the same sum of 720*l.* 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*l.* 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*l.*, 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.<sup>u</sup> 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*l.*, 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, page

106, it will be seen that if when wheat is at 4*l.* per quarter, wages should be 24*l.* per annum.

	£ s. d.		£ s. d.
When Wheat is at	4 4 8	wages would be	24 14 0
	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*l.* to be distributed between labourers and farmers,

	£ s. d.		£ s.		£ s. d.
When the price of Wheat at	4 0 0	the labourer will receive	240 0	the former will receive	480 0 0
	4 4 8		247 0		473 0 0
	4 10 8		255 0		465 0 0
	4 16 8		264 0		456 0 0
	5 2 8		274 5		445 15 <sup>12</sup>

And supposing that the original capital of the farmer was 3000*l.* , the profits of his stock being in the first instance 480*l.* , would be at the rate of 16 per cent. When his profits fell to 473*l.* , 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*l.* to 445*l.* 15*s.* ; but if from the cause which I have just stated, his capital should rise from 3000*l.* to 3200*l.* the rate of his profits would, when corn was at 5*l.* 2*s.* 10*d.* , be under 14 per cent.

If a manufacturer had also employed 3000*l.* 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*l.* , they would continue to sell at the same price; but the wages of labour, which were before 240*l.* , would rise when corn was at 5*l.* 2*s.* 10*d.* to 274*l.* 5*s.* In the first case he would have a balance of 480*l.* as profit on 3000*l.* , in the second he would have a profit only of 445*l.* 15*s.* , 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*l.* , 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*l.* 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*l.* : 4*l.* :: 180 : 36. The farmer then, who originally 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 <i>l.</i> per qr. or	£360			
		0			
	to landlord for rent, being the difference between 36 and 180 qrs.				
The value of .	144grs		36		720
		2880	grs.		
			the value of	50	to labourers
				grs.	ten in
					number
					720

leaving nothing whatever for profit.

At this price of 20 *l.* the labourers would continue to consume three quarters each per annum or £60

And on other commodities they would expend 12

—  
72 for each labourer

And therefore ten labourers would cost 720 *l.* per annum.

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 material 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*l.* to 12*l.* his capital would probably be doubled in exchangeable value, and be worth 6000*l.* instead of 3000*l.* If then his profit were 180*l.* , 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 6000*l.* at 3 per cent. gives 180*l.* ; and on those terms only could a new farmer with 6000*l.* 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 the aggregate amount of profits would increase. Thus supposing that, with repeated accumulations of 100,000*l.*, 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*l.*, than when 100,000*l.*; still greater when 300,000*l.*; 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*l.* is more than 20 on 100,000*l.*; again 18 per cent. on 300,000*l.* is more than 19 per cent. on 200,000*l.*; 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*l.*, and the profits 7 per cent. the whole amount of profits will be 70,000*l.*; now if an addition of 100,000*l.* capital be made to the million, and profits should fall to 6 per cent., 66,000*l.* or a diminution of 4000*l.* will be received by the owners of stock, although the whole amount of stock will be increased from 1,000,000*l.* to 1,100,000*l.*

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*l.* 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, which new value always goes to rent. 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*l.* 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*l.* it will rise to more than 39,000*l.* and then to more than 57,000*l.*, and when the capital employed is a million, as we before supposed, if 100,000*l.* more be

added to it, and the aggregate of profits is actually lower than before, more than 6000*l.* will nevertheless be added to the revenue of the country, but it will be to the revenue of the landlords; 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*l.* per quarter, and that therefore, as we before calculated, of every 720*l.* remaining to the farmer after payment of his rent, 480*l.* were retained by him, and 240*l.* were paid to his labourers; when the price rose to 6*l.* per quarter, he would be obliged to pay his labourers 300*l.* and retain only 420*l.* for profits. Now if the capital employed were so large as to yield a hundred thousand times 720*l.* or 72,000,000*l.* the aggregate of profits would be 48,000,000*l.* when wheat was at 4*l.* per quarter; and if by employing a larger capital, 105,000 times 720*l.* were obtained when wheat was at 6*l.* , or 75,600,000*l.* , profits would actually fall from 48,000,000*l.* to 44,100,000*l.* or 105,000 times 420*l.* , and wages would rise from 24,000,000*l.* to 31,500,000*l.* 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 shewn, 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.

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 at 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*l.* 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*l.* ; their situation would be no better than if no such rise took place. If the hosier sold his stockings for 110*l.* instead of 100*l.* , 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 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.

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## CHAPTER VI.

### ON FOREIGN TRADE.

**N**o 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 1000*l.* a merchant can obtain a quantity of foreign goods, which he can sell in the English market for 1,200*l.*, 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*l.* In either case his profit will be limited to 200*l.*, 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*l.*, 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.<sup>13</sup>

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 importation of wine, given 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 1000*l.* , with which I purchased annually one pipe of wine for 100*l.* and a certain quantity of English commodities for 900*l.* ; when wine fell to 50*l.* per pipe, I might lay out the 50*l.* 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 1000*l.* to 1200*l.* while my expenditure continues the same, I accumulate annually 200*l.* more than I did before. If I save 200*l.* out of my expenditure while my profits continue the same, the same effect will be produced; 200*l.* 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 1000*l.* , must purchase them for 857*l.* 2*s.* 10*d.* , still selling the wine which he imports in return for those goods for 1200*l.* ; or, if he continued to purchase his English goods for 1000*l.* , must raise the price of his wine to 1400*l.* ; 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*l.* out of every 1000*l.* 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 profits 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 eighty men for one year, and to produce the cloth in the same country, might require the labour of ninety 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 ninety 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.<sup>14</sup>

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, check 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*l.* per pipe, and the price of a certain quantity of cloth were 45*l.* , whilst in Portugal the price of the same quantity of wine was 45*l.* , and that of the same quantity of cloth 50*l.* ; wine would be exported from Portugal with a profit of 5*l.* , and cloth from England with a profit of the same amount.

Suppose that, after the improvement, wine falls to 45*l.* 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*l.* , 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 negociation 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*l.* , 102*l.* should be paid in Portugal, whilst cloth which cost 45*l.* would sell for 50*l.* , 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*l.* in one country, and 50*l.* in the other, would probably fall to 49*l.* or 48*l.* in Portugal, and rise to 46*l.* or 47*l.* 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.

Beside 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, 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*l.* , will purchase a bill of 100*l.* , 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*l.* will purchase the same quantity of goods in France or Spain, that a bill on Hamburgh for the same sum will do, the exchange between Hamburgh and England is at par; but if a bill on England for 130*l.* , will purchase no more than a bill on Hamburgh for 100*l.* , the exchange is 30 per cent. against England.

In England 100*l.* may purchase a bill, or the right of receiving 101*l.* in Holland, 102*l.* in France, and 105*l.* 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*l.* could not be detained in England, when it was of no more value, estimated in the money of Hamburgh, or of Holland, than 100*l.*

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

Some indeed more reasonably maintained, that 130*l.* in paper was not of equal value with 130*l.* 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*l.* of Hamburg money: in any other country a bill of 100*l.* on England, or on Hamburg, could purchase precisely the same quantity of commodities. To obtain the same things, I was lately obliged to give 130*l.* English money, when Hamburg could obtain them for 100*l.* Hamburg money. If English money was of the same value then as before, Hamburg 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 Hamburg 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 we 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.

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# CHAPTER VII.

## ON TAXES.

**T**AXES 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 shewn 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 exceed its annual consumption, it is said to increase its capital; when its annual consumption at least is not 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 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 consumption on the part of the people, the taxes will necessarily fall on capital.

In proportion as the capital of a country is diminished, its productions will be necessarily diminished; and therefore, if the same 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.

There are no taxes which have not a tendency to impede accumulation, because there are none which may not be considered as checking production, and as causing the same effects as a bad soil or climate, a diminution of skill or industry, a worse distribution of labour, or the loss of some useful machinery; and although some taxes will produce these effects in a much greater degree than others, it must be confessed that 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 1000*l.* per annum, I am required to pay 100*l.*, it will really be a tax on my income, should I be content with the expenditure of the remaining 900*l.*; but it will be a tax on capital, if I continue to spend 1000*l.*

The capital from which my income of 1000*l.* is derived may be of the value of 10,000*l.*; a tax of one per cent. on such capital would be 100*l.*; but my capital would be unaffected, if after paying this tax, I in like manner contented myself with the expenditure of 900*l.*

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 expenditure 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 1000*l.* be subject to a tax of 100*l.*, the legatee considers his legacy as only 900*l.*, and feels no particular motive to save the 100*l.* duty from his expenditure, and thus the capital of the country is diminished; but if he had really received 1000*l.* and had been required to pay 100*l.* 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." Those taxes however are easily collected; and this by many may be thought to afford some compensation for their injurious effects.

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## CHAPTER VIII.

### TAXES ON RAW PRODUCE.

**H**AVING 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		No.
land		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*l.* per quarter, the money rent of No. 1 would be 80*l.* , and that of No. 2, 40*l.*

Suppose a tax of 8*s.* per quarter to be imposed on corn; then the price would rise to 4*l.* 8*s.* ; and if the landlords obtained the same corn rent as before, the rent of No. 1 would be 88*l.* , and that of No. 2, 44*l.* 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*l.* 8*s.* , 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 <i>l.</i> 8 <i>s.</i> per qr.	£792
Deduct the value of	16.3	or 8 <i>s.</i> per qr. on 180 qrs.	72
	—		—
Net corn produce	163.7	Net money produce	£720
	—		—
No. 2, yielding	170	qrs. at 4 <i>l.</i> 8 <i>s.</i> per qr.	£748
Deduct the value of	15.4	qrs. at 4 <i>l.</i> 8 <i>s.</i> or 8 <i>s.</i> per qr. on 170 qrs.	68
	—		—
Net corn produce	154.6	Net money produce	£680
	—		—
No. 3,	160	qrs. at 4 <i>l.</i> 8 <i>s.</i>	£704
Deduct the value of	14.5	qrs. at 4 <i>l.</i> 8 <i>s.</i> or 8 <i>s.</i> 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*l.* , or the difference between 640 and 720*l.* ; and that of No. 2, 40*l.* , or the difference between 640*l.* and 680*l.* , precisely the same as before; but the corn rent will be reduced from 20 quarters on No. 1 to 18.2 quarters, and that on No. 2 from 10 to 9.1 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 portion of taxation; and, consequently, if they had to pay 8*s.* 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 8*s.* 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.

3rdly. 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 manufacture 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 is slow, and in others the interval must be very short.

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.

3dly. 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.

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 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 shew 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 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 shew 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 1000*l.* to 1200*l.* , 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*l.* would procure me as much as 1000*l.* purchased before.

Taxation under every form presents but a choice of evils; if it does not act on profit, it must act on expenditure; and provided the burden 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; 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*l.* ; 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 1000*l.* per annum, and I must pay taxes to the amount of 100*l.* , it is of little importance whether I pay it from my revenue, leaving myself only 900*l.* , or pay 100*l.* in addition for my agricultural commodities, or for my manufactured goods. If 100*l.* is my fair proportion of the expenses of the country, the virtue of taxation consists in making sure that I shall pay that 100*l.* , 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 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 imported, 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*l.* abroad, and which sold for 120*l.* here, we should cease to import them, when the value of money had so risen in England, that they would only sell for 100*l.* 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 natural price abroad, with its natural 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 20*s.* to 22*s.* 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 20*s.* per yard, unaffected first by the fall, and then by the rise in the value of money; whilst hats, which had risen from 30*s.* to 33*s.* , will again fall from 33*s.* to 30*s.* , 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 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.

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.

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## CHAPTER VIII.\*

### 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 other 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 for 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 was paid to them for the use of the land, and that which was paid for the use of the buildings, and the improvements which were made by the landlord's stock. The latter would either be called the rent of house and buildings, or in all new land taken into cultivation such buildings 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 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 profits 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.

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## CHAPTER IX.

### TITHES.

**T**ITHES are a tax on the gross produce of the land, and, like taxes on raw produce, fall wholly on the consumer. They differ from a tax on rent, inasmuch as they affect land which such a tax would not reach; and raise the price of raw produce, which that tax e of raw produce, which that tax would not alter. Lands of the worst quality, as well as of the best, pay tithes, and exactly in proportion to the quantity of produce obtained from them; tithes are therefore an equal tax.

If land of the last quality, or that which pays no rent, and which regulates the price of corn, yield a sufficient quantity to give the farmer the usual profits of stock, when the price of wheat is 4*l.* per quarter, the price must rise to 4*l.* 8*s.* before the same profits can be obtained after the tithes are

imposed, because for every quarter of wheat the cultivator must pay eight shillings to the church.

The only difference between tithes and taxes on raw produce, is, that one is a variable money tax, the other a fixed money tax. In a stationary state of society, where there is neither increased nor diminished facility of producing corn, they will be precisely the same in their effects; for in such a state corn will be at an invariable price, and the tax will therefore be also invariable. In either a retrograde state, or in a state in which great improvements are made in agriculture, and where consequently raw produce will fall in value comparatively with other things, tithes will be a lighter tax than a permanent money tax; for if the price of corn should fall from 4*l.* to 3*l.* , the tax would fall from eight to six shillings. In a progressive state of society, yet without any marked improvements in agriculture, the price of corn would rise, and tithes would be a heavier tax than a permanent money tax. If corn rose from 4*l.* to 5*l.* , the tithes on the same land would advance from eight to ten shillings.

Neither tithes nor a money tax will affect the money rent of landlords, but both will materially affect corn rents. We have already observed how a money tax operates on corn rents, and it is equally evident that a similar effect would be produced by tithes. If the lands, No. 1, 2, 3, respectively produced 180, 170, and 160 quarters, the rents might be on No. 1, twenty quarters, and on No. 2, ten quarters; but they would no longer preserve that proportion after the payment of tithes: for if a tenth be taken from each, the remaining produce will be 162, 153, 144, and consequently the corn rent of No. 1 will be reduced to eighteen, and that of No. 2 to nine quarters. But the price of corn would rise from 4*l.* to 4*l.* 8*s.* 10 $\frac{2}{3}$ *d.* ; for nine quarters are to 4*l.* as ten quarters to 4*l.* 8*s.* 10 $\frac{2}{3}$ *d.* , and consequently the money rent would continue unaltered; for on No. 1 it would be 80*l.* , and on No. 2, 40*l.*

The chief objection against tithes is, that they are not a permanent and fixed tax, but increase in value, in proportion as the difficulty of producing corn increases. If those difficulties should make the price of corn 4*l.* the tax is 8*s.* , if they should increase it to 5*l.* , the tax is 10*s.* , and at 6*l.* , it is 12*s.* They not only rise in value, but they increase in amount: thus, when No. 1 was cultivated, the tax was only levied on 180 quarters; when No. 2 was cultivated, it was levied on 180 + 170, or 350 quarters; and when No. 3 was cultivated, on 180 + 170 + 160 = 510 quarters. Not only is the amount of

the tax increased from 100,000 quarters, to 200,000 quarters, when the produce is increased from one to two millions of quarters; but, owing to the increased labour necessary to produce the second million, the relative value of raw produce is so advanced, that the 200,000 quarters may be, though only twice in quantity, yet in value three times that of the 100,000 quarters which were paid before.

If an equal value were raised for the church by any other means, increasing in the same manner as tithes increase, proportionably with the difficulty of cultivation, the effect would be the same. The church would be constantly obtaining an increased portion of the net produce of the land and labour of the country. In an improving state of society, the net produce of land is always diminishing in proportion to its gross produce; but it is from the net income of a country that all taxes are ultimately paid, either in a progressive or in a stationary country. A tax increasing with the gross income, and falling on the net income, must necessarily be a very burdensome, and a very intolerable tax. Tithes are a tenth of the gross, and not of the net produce of the land, and therefore as society improves in wealth, they must, though the same proportion of the gross produce, become a larger and larger portion of the net produce.

Tithes however may be considered as injurious to landlords, inasmuch as they act as a bounty on importation, by taxing the growth of home corn, while the importation of foreign corn remains unfettered. And if in order to relieve the landlords from the effects of the diminished demand for land, which such a bounty must encourage, imported corn were also taxed one tenth, and the produce paid to the state, no measure could be more fair and equitable; since whatever were paid to the state by this tax, would go to diminish the other taxes which the expenses of government make necessary: but if such a tax were devoted only to increase the fund paid to the church, it might indeed on the whole increase the general mass of production, but it would diminish the portion of that mass allotted to the productive classes.

If the trade of cloth were left perfectly free, our manufacturers might be able to sell cloth cheaper than we could import it. If a tax were laid on the home manufacturer, and not on the importer of cloth, capital might be injuriously driven from the manufacture of cloth to the manufacture of some other commodity, as it might then be imported cheaper than it could

be made at home. If imported cloth should also be taxed, cloth would again be manufactured at home. The consumer first bought cloth at home, because it was cheaper than foreign cloth; he then bought foreign cloth, because it was cheaper untaxed than home cloth taxed: he lastly bought it again at home, because it was cheaper when both home and foreign cloth were taxed. It is in the last case that he pays the greatest price for his cloth, but all his additional payment is gained by the state. In the second case, he pays more than in the first, but all he pays in addition is not received by the state, it is an increased price caused by difficulty of production, which is incurred, because the easiest means of production are taken away from us, by being fettered with a tax.

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## CHAPTER X.

### LAND-TAX.

**A** LAND-TAX, levied in proportion to the rent of land, and varying with every variation of rent, is in effect a tax on rent; and as such a tax will not apply to that land which yields no rent, nor to the produce of that capital which is employed on the land with a view to profit merely, and which never pays rent, it will not in any way affect the price of raw produce, but will fall wholly on the landlords. In no respect would such a tax differ from a tax on rent. But if a land-tax be imposed on all cultivated land, however moderate that tax may be, it will be a tax on produce, and will therefore raise the price of produce. If No. 3 be the land last cultivated, although it should pay no rent, it cannot, after the tax, be cultivated, and afford the general rate of profit, unless the price of produce rise to meet the tax. Either capital will be withheld from that employment until the price of corn shall have risen, in consequence of demand, sufficiently to afford the usual profit; or if already employed on such land, it will quit it, to seek a more advantageous employment. The tax cannot be removed to the landlord, for by the supposition he receives no rent. Such a tax may be proportioned to

the quality of the land and the abundance of its produce, and then it differs in no respect from tithes; or it may be a fixed tax per acre on all land cultivated, whatever its quality may be.

A land-tax of this latter description would be a very unequal tax, and would be contrary to one of the four maxims with regard to taxes in general, to which, according to Adam Smith, all taxes should conform. The four maxims are as follow:

1. "The subjects of every state ought to contribute towards the support of the Government, as nearly as possible in proportion to their respective abilities.
2. "The tax which each individual is bound to pay ought to be certain and not arbitrary.
3. "Every tax ought to be levied at the time, or in the manner in which it is most likely to be convenient for the contributor to pay it.
4. "Every tax ought to be so contrived as both to take out and to keep out of the pockets of the people as little as possible, over and above what it brings into the public treasury of the state."

An equal land-tax, imposed indiscriminately and without any regard to the distinction of its quality, on all land cultivated, will raise the price of corn in proportion to the tax paid by the cultivator of the land of the worst quality. Lands of different quality, with the employment of the same capital, will yield very different quantities of raw produce. If on the land which yields a thousand quarters of corn with a given capital, a tax of 100*l.* be laid, corn will rise 2*s.* per quarter to compensate the farmer for the tax. But with the same capital on land of a better quality, 2,000 quarters may be produced, which at 2*s.* a quarter advance, would give 200*l.* ; the tax, however, bearing equally on both lands will be 100*l.* on the better as well as on the inferior, and consequently the consumer of corn will be taxed, not only to pay the exigencies of the state, but also to give to the cultivator of the better land, 100*l.* per annum. during the period of his lease, and afterwards to raise the rent of the landlord to that amount. A tax of this description then would be contrary to the fourth maxim of Adam Smith, it would take out and keep out of the pockets of the people, more than what it brought into the treasury

of the state. The taille in France before the Revolution, was a tax of this description; those lands only were taxed, which were held by an ignoble tenure, the price of raw produce rose in proportion to the tax, and therefore they whose lands were not taxed, were benefited by the increase of their rent. Taxes on raw produce as well as tithes are free from this objection: they raise the price of raw produce, but they take from each quality of land a contribution in proportion to its actual produce, and not in proportion to the produce of that which is the least productive.

From the peculiar view which Adam Smith took of rent, from his not having observed that much capital is expended in every country, on the land for which no rent is paid, he concluded that all taxes on the land, whether they were laid on the land itself in the form of land-tax or tithes, or on the produce of the land, or were taken from the profits of the farmer, were all invariably paid by the landlord, and that he was in all cases the real contributor, although the tax was in general, nominally advanced by the tenant. "Taxes upon the produce of the land," he says, "are in reality taxes upon the rent; and though they may be originally advanced by the farmer, are finally paid by the landlord. When a certain portion of the produce is to be paid away for a tax, the farmer computes as well as he can, what the value of this portion is, one year with another, likely to amount to, and he makes a proportionable abatement in the rent which he agrees to pay to the landlord. There is no farmer who does not compute before hand what the church tithe, which is a land-tax of this kind, is, one year with another, likely to amount to." It is undoubtedly true, that the farmer does calculate his probable outgoings of all descriptions, when agreeing with his landlord concerning the rent of his farm; and if for the tithe paid to the church, or for the tax on the produce of the land, he were not compensated by a rise in the relative value of the produce of his farm, he would naturally deduct them from his rent. But this is precisely the question in dispute: whether he will eventually deduct them from his rent, or be compensated by a higher price of produce. For the reasons which have been already given, I cannot have the least doubt but that they would raise the price of produce, and consequently that Adam Smith has taken an incorrect view of this important question.

Dr. Smith's view of this subject is probably the reason why he has described "the tithe, and every other land-tax of this kind, under the appearance of

perfect equality, as very unequal taxes; a certain portion of the produce being in different situations, equivalent to a very different portion of the rent." I have endeavoured to shew that such taxes do not fall with unequal weight on the different classes of farmers or landlords, as they are both compensated by the rise of raw produce, and only contribute to the tax in proportion as they are consumers of raw produce. Inasmuch indeed as wages, and through wages, the rate of profits are affected, landlords, instead of contributing their full share to such a tax, are the class peculiarly exempted. It is the profits of stock, from which that portion of the tax is derived which falls on those labourers, who from the insufficiency of their funds, are incapable of paying taxes; this portion is exclusively borne by all those whose income is derived from the employment of stock, and therefore it in no degree affects landlords.

It is not to be inferred from this view of tithes, and taxes on the land and its produce, that they do not discourage cultivation. Every thing which raises the exchangeable value of commodities of any kind, which are in very general demand, tends to discourage both cultivation and production; but this is an evil inseparable from all taxation, and is not confined to the particular taxes of which we are now speaking.

This may be considered indeed as the unavoidable disadvantage attending all taxes received and expended by the state. Every new tax becomes a new charge on production, and raises natural price. A portion of the labour of the country which was before at the disposal of the contributor to the tax, is placed at the disposal of the state. This portion may become so large, that sufficient surplus produce may not be left to stimulate the exertions of those who usually augment by their savings the capital of the state. Taxation has happily never yet in any free country been carried so far as constantly from year to year to diminish its capital. Such a state of taxation could not be long endured; or if endured, it would be constantly absorbing so much of the annual produce of the country as to occasion the most extensive scene of misery, famine, and depopulation.

"A land-tax," says Adam Smith, "which like that of Great Britain, is assessed upon each district according to a certain invariable canon, though it should be equal at the time of its first establishment, necessarily becomes unequal in process of time, according to the unequal degrees of improvement or neglect in the cultivation of the different parts of the

country. In England the valuation according to which the different counties and parishes were assessed to the land-tax by the 4th. William and Mary, was very unequal, even at its first establishment. This tax, therefore, so far offends against the first of the four maxims above mentioned. It is perfectly agreeable to the other three. It is perfectly certain. The time of payment for the tax being the same as that for the rent, is as convenient as it can be to the contributor. Though the landlord is in all cases the real contributor, the tax is commonly advanced by the tenant, to whom the landlord is obliged to allow it in the payment of the rent."

If the tax be shifted by the tenant not on the landlord but on the consumer, then if it be not unequal at first, it can never become so; for the price of produce has been at once raised in proportion to the tax, and will afterwards vary no more on that account. It may offend if unequal, as I have attempted to shew that it will, against the fourth maxim above mentioned, but it will not offend against the first. It may take more out of the pockets of the people than it brings into the public treasury of the state, but it will not fall unequally on any particular class of contributors. M. Say appears to me to have mistaken the nature and effects of the English land-tax, when he says, "Many persons attribute to this fixed valuation, the great prosperity of English agriculture. That it has very much contributed to it there can be no doubt. But what should we say to a Government, which, addressing itself to a small trader, should hold this language: 'With a small capital you are carrying on a limited trade, and your direct contribution is in consequence very small. Borrow, and accumulate capital; extend your trade, so that it may procure you immense profits; yet you shall never pay a greater contribution. Moreover, when your successors shall inherit your profits, and shall have further increased them, they shall not be valued higher to them than they are to you; and your successors shall not bear a greater portion of the public burdens.'

"Without doubt this would be a great encouragement given to manufactures and trade; but would it be just? Could not their advancement be obtained at any other price? In England itself, has not manufacturing and commercial industry made even greater progress, since the same period, without being distinguished with so much partiality? A landlord by his assiduity, economy, and skill, increases his annual revenue by 5000 francs. If the state

claim of him the fifth part of his augmented income, will there not remain 4000 francs of increase to stimulate his further exertions?"

If Mr. Say's suggestion were followed, and the state were to claim the fifth part of the augmented income of the farmer, it would be a partial tax, acting on the farmer's profits, and not affecting the profits of other employments. The tax would be paid by all lands, by those which yielded scantily as well as by those which yielded abundantly; and on some lands there could be no compensation for it by deduction from rent, for no rent is paid. A partial tax on profits never falls on the trade on which it is laid, for the trader will either quit his employment, or remunerate himself for the tax. Now those who pay no rent could be recompensed only by a rise in the price of produce, and thus would M. Say's proposed tax fall on the consumer, and not either on the landlord or farmer.

If the proposed tax were increased in proportion to the increased quantity, or value, of the gross produce obtained from the land, it would differ in nothing from tithes, and would equally be transferred to the consumer. Whether then it fell on the gross or on the net produce of land, it would be equally a tax on consumption, and would only affect the landlord and farmer in the same way as other taxes on raw produce.

If no tax whatever had been laid on the land, and the same sum had been raised by any other means, agriculture would have flourished at least as well as it has done; for it is impossible that any tax on land can be an encouragement to agriculture; a moderate tax may not, and probably does not, greatly prevent, but it cannot encourage production. The English Government has held no such language as M. Say has supposed. It did not promise to exempt the agricultural class and their successors from all future taxation, and to raise the further supplies which the state might require, from the other classes of society; it said only, "in this mode we will no further burthen the land; but we retain to ourselves the most perfect liberty of making you pay, under some other form, your full quota to the future exigencies of the state."

Speaking of taxes in kind, or a tax of a certain proportion of the produce, which is precisely the same as tithes, M. Say says, "This mode of taxation appears to be the most equitable; there is however none which is less so: it totally leaves out of consideration the advances made by the producer; it is proportioned to the gross, and not to the net revenue. Two agriculturists

cultivate different kinds of raw produce: one cultivates corn on middling land, his expenses amounting annually on an average to 8000 francs; the raw produce from his lands sells for 12,000 francs; he has then a net revenue of 4000 francs.

"His neighbour has pasture or wood land, which brings in every year a like sum of 12,000 francs, but his expenses amount only to 2000 francs. He has therefore on an average a net revenue of 10,000 francs.

"A law ordains that a twelfth of the produce of all the fruits of the earth be levied in kind, whatever they may be. From the first is taken in consequence of this law, corn of the value of 1000 francs; and from the second, hay, cattle, or wood, of the same value of 1000 francs. What has happened? From the one, a quarter of his net income, 4000 francs, has been taken; from the other, whose income was 10,000 francs, a tenth only has been taken. Income is the net profit which remains after replacing the capital exactly in its former state. Has a merchant an income equal to all the sales which he makes in the course of a year? certainly not; his income only amounts to the excess of his sales above his advances, and it is on this excess only that taxes on income should fall."

M. Say's error in the above passage lies in supposing that because the value of the produce of one of these two farms, after re-instating the capital, is greater than the value of the produce of the other, on that account the net income of the cultivators will differ by the same amount. M. Say has wholly omitted the consideration of the different amount of rent, which these cultivators would have to pay. There cannot be two rates of profit in the same employment, and therefore when produce is in different proportions to capital, it is the rent which will differ, and not the profit. Upon what pretence would one man with a capital of 2000 francs, be allowed to obtain a net profit of 10,000 francs from its employment, whilst another with a capital of 8000 francs would only obtain 4000 francs? Let M. Say make a due allowance for rent; let him further allow for the effect which such a tax would have on the prices of these different kinds of raw produce, and he will then perceive that it is not an unequal tax, and further that the producers themselves will not otherwise contribute to it, than any other class of consumers.

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# CHAPTER XI.

## TAXES ON GOLD.

**T**HE rise in the price of commodities, in consequence of taxation or of difficulty of production, will in all cases ultimately ensue; but the duration of the interval, before the market price of commodities conforms to their natural price, must depend on the nature of the commodity, and on the facility with which it can be reduced in quantity. If the quantity of the commodity taxed could not be diminished, if the capital of the farmer or of the hatter for instance, could not be withdrawn to other employments, it would be of no consequence that their profits were reduced below the general level by means of a tax; unless the demand for their commodities should increase, they would never be able to elevate the market price of corn and hats up to the increased natural price. Their threats to leave their employments, and remove their capitals to more favoured trades, would be treated as an idle menace which could not be carried into effect; and consequently the price would not be raised by diminished production. Commodities however of all descriptions can be reduced in quantity, and capital can be removed from trades which are less profitable to those which are more so, but with different degrees of rapidity. In proportion as the supply of a particular commodity can be more easily reduced, the price of it will more quickly rise after the difficulty of its production has been increased by taxation, or by any other means. Corn being a commodity indispensably necessary to every one, little effect will be produced on the demand for it in consequence of a tax, and therefore the supply could not be long excessive, even if the producers had great difficulty in removing their capitals from the land; the price of corn therefore, will speedily be raised by taxation, and the farmer will be enabled to transfer the tax from himself to the consumer.

If the mines which supply us with gold were in this country, and if gold were taxed, it could not rise in relative value to other things till its quantity were reduced. This would be more particularly the case, if gold were

exclusively used for money. It is true that the least productive mines, those which paid no rent, could no longer be worked, as they could not afford the general rate of profits till the relative value of gold rose, by a sum equal to the tax. The quantity of gold, and therefore the quantity of money would be slowly reduced; it would be a little diminished in one year, a little more in another, and finally its value would be raised in proportion to the tax; but in the interval, the proprietors or holders, as they would pay the tax, would be the sufferers, and not those who used money. If out of every 1000 quarters of wheat in the country, and every 1000 produced in future, government should exact 100 quarters as a tax, the remaining 900 quarters would exchange for the same quantity of other commodities that 1000 did before; but if the same thing took place with respect to gold, if of every 1000*l.* money now in the country, or in future to be brought into it, government could exact 100*l.* as a tax, the remaining 900*l.* would purchase very little more than 900*l.* purchased before. The tax would fall upon him, whose property consisted of money, and would continue to do so till its quantity were reduced in proportion to the increased cost of its production caused by the tax.

This perhaps would be more particularly the case with respect to a metal used for money, than any other commodity, because the demand for money is not for a definite quantity, as is the demand for clothes, or for food. The demand for money is regulated entirely by its value, and its value by its quantity. If gold were of double the value, half the quantity would perform the same functions in circulation, and if it were of half the value, double the quantity would be required. If the market value of corn be increased one tenth by taxation, or by difficulty of production, it is doubtful, whether any effect whatever would be produced on the quantity consumed, because every man's want is for a definite quantity, and, therefore, if he has the means of purchasing, he will continue to consume as before; but for money, the demand is exactly proportioned to its value. No man could consume twice the quantity of corn, which is usually necessary for his support, but every man purchasing and selling only the same quantity of goods, may be obliged to employ twice, thrice, or any number of times the same quantity of money.

The argument which I have just been using, applies only to those states of society in which the precious metals are used for money, and where paper

credit is not established. The metal gold like all other commodities has its value in the market ultimately regulated by the comparative facility or difficulty of producing it; and although from its durable nature, and from the difficulty of reducing its quantity, it does not readily bend to variations in its market value, yet that difficulty is much increased from the circumstance of its being used as money. If the quantity of gold in the market for the purpose of commerce only, were 10,000 ounces, and the consumption in our manufactures were 2000 ounces annually, it might be raised one fourth, or 25 per cent. in its value, in one year, by withholding the annual supply; but if in consequence of its being used as money, the quantity employed were 100,000 ounces, it would not be raised one fourth in value in less than ten years. As money made of paper may be readily reduced in quantity, its value, though its standard were gold, would be increased as rapidly as that of the metal itself would be increased if it had no connexion whatever with money.

If gold were the produce of one country only, and it were used universally for money, a very considerable tax might be imposed on it, which would not fall on any country, except in proportion as they used it in manufactures, and for utensils; upon that portion which was used for money, though a large tax might be received, nobody would pay it. This is a quality peculiar to money. All other commodities of which there exists a limited quantity, and which cannot be increased by competition, are dependant for their value, on the tastes, the caprice, and the power of purchasers; but money is a commodity which no country has any wish or necessity to increase: no more advantage results from using twenty millions, than from using ten millions of currency. A country might have a monopoly of silk, or of wine, and yet the prices of silks and wine might fall, because from caprice or fashion, or taste, cloth and brandy might be preferred, and substituted; the same effect might in a degree take place with gold, as far as its use is confined to manufactures: but while money is the general medium of exchange, the demand for it is never a matter of choice, but always of necessity; you must take it in exchange for your goods, and therefore there are no limits to the quantity which may be forced on you by foreign trade, if it fall in value; and no reduction to which you must not submit, if it rise. You may indeed substitute paper money, but by this you do not, and cannot lessen the quantity of money; it is only by the rise of the price of commodities, that you can prevent them from being exported from a

country where they are purchased with little money, to a country where they can be sold for more, and this rise can only be effected by an importation of metallic money from abroad, or by the creation or addition of paper money at home. If then the King of Spain, supposing him to be in exclusive possession of the mines, and gold alone to be used for money, were to lay a considerable tax on gold, he would very much raise its natural value; and as its market value in Europe is ultimately regulated by its natural value in Spanish America, more commodities would be given by Europe for a given quantity of gold. But the same quantity of gold would not be produced in America, as its value would only be increased in proportion to the diminution of quantity consequent on its increased cost of production. No more goods then would be obtained in America, in exchange for all their gold exported, than before; and it may be asked, where then would be the benefit to Spain and her colonies? The benefit would be this, that if less gold were produced, less capital would be employed in producing it; the same value of goods from Europe would be imported by the employment of the smaller capital, that was before obtained by the employment of the larger; and therefore all the productions obtained by the employment of the capital withdrawn from the mines, would be a benefit which Spain would derive from the imposition of the tax, and which she could not obtain in such abundance, or with such certainty, by possessing the monopoly of any other commodity whatever. From such a tax, as far as money was concerned, the nations of Europe would suffer no injury whatever; they would have the same quantity of goods, and consequently the same means of enjoyment as before, but these goods would be circulated with a less quantity of money.

If in consequence of the tax, only one tenth of the present quantity of gold were obtained from the mines, that tenth would be of equal value with the ten tenths now produced. But the King of Spain is not exclusively in possession of the mines of the precious metals; and if he were, his advantage from their possession, and the power of taxation, would be very much reduced by the limitation of demand and consumption in Europe, in consequence of the universal substitution, in a greater or less degree, of paper money. The agreement of the market and natural prices of all commodities, depends at all times on the facility with which the supply can be increased or diminished. In the case of gold, houses, and labour, as well as many other things, this effect cannot, under some circumstances, be

speedily produced. But it is different with those commodities which are consumed and reproduced from year to year, such as hats, shoes, corn, and cloth; they may be reduced if necessary, and the interval cannot be long before the supply is contracted in proportion to the increased charge of producing them.

A tax on raw produce from the surface of the earth, will, as we have seen, fall on the consumer, and will in no way affect rent; unless, by diminishing the funds for the maintenance of labour, it lowers wages, reduces the population, and diminishes the demand for corn. But a tax on the produce of gold mines must, by enhancing the value of that metal, necessarily reduce the demand for it, and must therefore necessarily displace capital from the employment to which it was applied. Notwithstanding then, that Spain would derive all the benefits which I have stated from a tax on gold, the proprietors of mines from which capital was withdrawn would lose all their rent. This would be a loss to individuals, but not a national loss; rent being not a creation, but merely a transfer of wealth: the King of Spain, and the proprietors of the mines which continued to be worked, would together receive not only all that the liberated capital produced, but all that the other proprietors lost.

Suppose the mines of the 1st, 2nd, and 3rd quality to be worked, and to produce respectively 100, 80, and 70 pounds weight of gold, and therefore the rent of No. 1 to be thirty pounds, and that of No. 2 ten pounds. Suppose now the tax to be seventy pounds of gold per annum on each mine worked; and consequently that No. 1 alone could be profitably worked; it is evident that all rent would immediately disappear. Before the imposition of the tax, out of the 100 pounds produced on No. 1, a rent was paid of thirty pounds, and the worker of the mine retained seventy, a sum equal to the produce of the least productive mine. The value then of what remains to the capitalist of the mine No. 1 must be the same as before, or he would not obtain the common profits of stock; and consequently, after paying seventy out of his 100 pounds for tax, the value of the remaining thirty must be as great as seventy were before, and therefore the value of the whole hundred as great as 233 pounds before. Its value might be higher, but it could not be lower, or even this mine would cease to be worked. Being a monopolised commodity, it could exceed its natural value, and then it would pay a rent equal to that excess; but no funds would be employed in the mine, if it were

below this value. In return for one third of the labour and capital employed in the mines, Spain would obtain as much gold as would exchange for the same, or very nearly the same, quantity of commodities as before. She would be richer by the produce of the two thirds liberated from the mines. If the value of the 100 pounds of gold should be equal to that of the 250 pounds extracted before; the king of Spain's portion, his seventy pounds, would be equal to 175 at the former value: a small part of the king's tax only would fall on his own subjects, the greater part being obtained by the better distribution of capital.

The account of Spain would stand thus:

*Formerly produced :*

Gold 250 pounds, of the value of (suppose).	10,000	yards of cloth.
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*Now produced:*

By the two capitalists who quitted the mines, the value of 140 pounds of gold, or	5,000	yards of cloth.
By the capitalist who works the mine, No. 1, thirty pounds of gold increased in value, as 1 to 2½, and therefore now of the value of	3,000	yards of cloth.
Tax to the king seventy pounds, now of the value of	7,000	yards of cloth.
	—	
	15,600	
	—	

Of the 7000 received by the king, the people of Spain would contribute only 1400, and 5600 would be pure gain, effected by the liberated capital.

If the tax, instead of being a fixed sum per mine worked, were a certain portion of its produce, the quantity would not be reduced in consequence. If a half, a fourth, or a third of each mine were taken for the tax, it would nevertheless be the interest of the proprietors to make their mines yield as abundantly as before; but if the quantity were not reduced, but only a part of it transferred from the proprietor to the king, its value would not rise; the tax would fall on the people of the colonies, and no advantage would be gained. A tax of this kind would have the effect that Adam Smith supposes taxes on raw produce would have on the rent of land—it would fall entirely on the rent of the mine. If pushed a little further, the tax would not only absorb the whole rent, but would deprive the worker of the mine of the common profits of stock, and he would consequently withdraw his capital from the production of gold. If still further extended, the rent of still better mines would be absorbed, and capital would be further withdrawn; and thus

the quantity would be continually reduced, and its value raised, and the same effects would take place as we have already pointed out; a part of the tax would be paid by the people of the Spanish colonies, and the other part would be a new creation of produce, by increasing the power of the instrument used as a medium of exchange. Taxes on gold are of two kinds, one on the actual quantity of gold in circulation, the other on the quantity that is annually produced from the mines. Both have a tendency to reduce the quantity, and to raise the value of gold; but by neither will its value be raised till the quantity is reduced, and therefore such taxes will fall for a time, until the supply is diminished, on the proprietors of money, but ultimately they will be paid by the owner of the mine in the reduction of rent, and by the purchasers of that portion of gold, which is used as a commodity contributing to the enjoyments of mankind, and not set apart exclusively for a circulating medium.

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## CHAPTER XII.

### TAXES ON HOUSES.

**T**HERE are also of other products outside the gold that can not be quickly reduced in quantity; any tax on which will therefore fall to the owner, if the price increase were to decrease demand.

The house taxes are of this description; although imposed on the occupant, they will frequently fall through a reduction in the owner's rent. The products of the earth are consumed and reproduced from year to year, just like many other products; as they can therefore be brought quickly to the level of demand, they cannot exceed their natural price for a long time. But as a tax on the houses can be considered in the light of an additional rent paid by the tenant, its tendency will be to decrease the demand for homes with the same annual rent, without decreasing their supply. The rent will therefore decrease, and part of the tax will be paid indirectly by the owner.

"The rent for a house," says Adam Smith, "can be divided into two parts, one of which may very well be called the rent for the building, the other is commonly called the rent for the land. The rent for the building is the interest or the profit. In order to put the trade of builder on the same level as the other trades, it is necessary that this rent is initially sufficient to pay the same interest that it would have obtained for its capital, if it had lent on good security, and secondly, to keep the house in constant condition, or what amounts to the same, to replace in a certain period of time the capital which had been employed to build it. "If, in proportion to the interest of the money, the trade of the builder offers at all times a profit much higher than this one, it will soon draw as much capital from other trades, as will bring it back to its level. If he at any time offers much less than that, other trades will soon draw as much capital as they will again increase this profit. Whatever part of the total rent of a house exceeds what is sufficient to allow this reasonable profit, goes naturally to the rent of the ground; and when the owner of the land and the owner of the building are two different people, he is in most cases fully paid on the first. In country houses, away from any large city, where the choice of land is plentiful, the ground rent is

hardly anything, or no more than what the space on which the house is located would pay s 'he was employed in agriculture. In country villas, in the district of a big city, it is sometimes much higher, and the particular convenience, or the beauty of the situation, is often very well paid for it. Land rents are generally the highest in the capital, and in parts of the capital, where demand for houses is greatest, for whatever reason, whether for trade and business, for pleasure and society, or for the simple vanity and fashion. "A tax on the rent of the houses can be chargeable to the occupant, owner on the ground, or on the owner of the building. In ordinary cases, it can be assumed that the entire tax would be paid both immediately and definitively by the occupier.

If the tax were moderate and the circumstances of the country as they were fixed or progressive, the occupant of a house would have little reason to be satisfied with a worse description. But if the tax was high, or if any other circumstances were to decrease the demand for houses, the owner's income would fall, because the occupant would be partially offset by the tax by a reduction in the rent. It is, however, difficult to say in what proportions this part of the tax, which was saved by the occupier by a fall in rent, would fall on the rent of the building and the rent of the land. It is likely that both would initially be affected; but as the houses are, albeit slowly, but certainly perishable, and as we would no longer build them, until the builder's profits are restored to the general level, the construction rent, after a certain time, would be restored to its natural price. Since the builder only receives rent for the duration of the building, he could pays no part of the tax, in the most dire circumstances, for a longer period.

Paying this tax would therefore ultimately be the responsibility of the occupier and the landowner, but "how much of that final payment would be split between them," says Adam Smith, "may not be very easy to be determined. Division would likely be very different under different circumstances, and a tax of this type could, depending on these different circumstances, affect both the inhabitant of the house and the owner of the land very unevenly. "<sup>15</sup>

Adam Smith considers ground rents as subjects particularly suited to taxation. "Ground rents and ordinary rental of land," he says, "are a kind of income that the owner benefits in many cases, without any attention or attention on his part. Although a part of this income must be taken from him

in order to cover the expenses of the State, no discouragement will be given to any kind of industry. the land and the labor of society, the real wealth and income of the great body of the people, could be the same after such a tax as before. Land rents and ordinary land rents are therefore perhaps the kinds of income that can best bear the imposition of a special tax. "It must be admitted that the effects of these taxes would be as Adam Smith described, but it would surely be very unfair to tax exclusively the income of a particular class of a community. The burdens of the state should be borne by all in proportion to their means: this is one of the four maxims mentioned by Adam Smith who should govern all taxes Rent often belongs to those who, after many years of hard work, have made their money and spent it their fortunes in the purchase of land, and it would certainly be a violation of this principle which should never be held sacred, the security of property, to subject it to unequal taxation. It is to be deplored that the stamp duty, with which the transfer of the land ownership is charged, materially hinders the transport of it between these hands, where it would probably be made the most productive. And if it is the case ed, that the land, considered as a subject suitable for exclusive taxation, would not only be reduced in price, to compensate for the risk of this taxation, but in proportion to the indefinite nature and the uncertain value of the risk, would become a suitable subject for speculation, participating more in the nature of the game, than in a sober trade, it will seem likely that the hands in which the earth would then be most apt to fall would be the hands of those who possess more qualities of the player, than qualities of the sober owner, who is likely to use his land to the greatest advantage.

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## CHAPTER XIII.

### PROFIT TAXES.

**T**HE T-AXES on these products, which are generally referred to as luxury goods, are the responsibility of those who use them only. A wine tax is paid by the wine consumer. A tax on pleasure horses, or on trainers, is paid by those who themselves provide these pleasures, and in the exact proportion that they provide them. But taxes on basic necessities do not

affect consumers of basic necessities, in proportion to the quantity that can be consumed by them, but often in a much higher proportion. A corn tax, we have observed, not only affects a manufacturer in the proportion that he and his family can consume corn, but it changes the rate of profit from stocks and therefore also affects his income. Anything that increases labor wages lowers the profits of the stock; so every tax on any commodity consumed by the worker tends to lower the rate of profit.

A tax on hats will increase the price of hats; a tax on shoes, the price of shoes; if this were not the case, the tax would ultimately be paid by the manufacturer; his profits would be reduced below the general level and he would quit his trade. A partial tax on profits will increase the price of the product on which it falls: a tax, for example, on the profits of the hatter, would increase the price of hats; for if his profits were taxed, and not those of any other trade, his profits, unless he increased the price of his hats, would be lower than the general rate of profits, and he would quit his job for another.

Similarly, a tax on the farmer's profits would increase the price of corn; a tax on the clothier's profits, the price of the fabric; and if a tax proportional to profits was imposed on all trades, each product would increase in price. But if the mine, which provided us with the level of our money, was in this country, and the profits of the miner were also taxed, the price of not the merchandise would increase, each man would give an equal proportion of his income, and everything would be as before.

If money is not taxed, and therefore allowed to keep its value, while everything else is taxed and is valued, the hatter, the farmer and the clothier, each employing the same capital and obtaining the same profits, pay the same amount of tax. If the tax is 100 *l.*, hats, fabric and corn will be increased by 100 *l.* each. If the hatter wins by his hats 1100 *l.*, instead of 1000 *l.*, he will pay 100 *l.* to the government for the tax; and therefore will still have 1000 *l.* to dispose of goods for its own consumption. But as the fabric, corn and all the other products will increase in price for the same cause, he will not get more for his 1000 *l.* than before for 910 *l.*, and thus will it contribute by its expenses reduced to the requirements of the State; he will have, by the payment of the tax, made part of the products of the land and labor of the country at the disposal of the government, instead of using this part himself. If instead of spending his 1000 *l.*, he adds it to

his capital, he will find in the rise in wages, and in the increase in the cost of raw materials and machinery, only his economy of 1000 *l.* does not represent more than a saving of 910 *l.* stood before.

If the money is taxed or if, for any other reason, its value is changed and all the products remain precisely at the same price as before, the profits of the manufacturer and the farmer will also be the same as before, they will continue to be 1000 *l.* ; and as they will each have to pay 100 *l.* in government, they will keep only 900 *l.* , which will give them less control over the products of the land and labor of the country, whether they spend them on productive or unproductive labor. Precisely what they lose, the government will gain. In the first case, the contributor to the tax would be, for 1000 *l.* , have as many goods as they had for 910 *l.* ; in the second, it would only be for 900 *l.* This is due to the difference in the amount of the tax; in the first case, it is only the eleventh of his income, in the second, it is a tenth; the money in the two cases being of a different value.

But although, if money is not taxed and does not change in value, all products will increase in price, they will not increase in the same proportion; they will not bear the same relative value to each other after the tax as before the tax. In the first part of this work, we discussed the effects of the division of capital into fixed and circulating capital, or rather into durable and perishable capital, on the prices of raw materials. We have shown that two manufacturers could use precisely the same amount of capital and make exactly the same amount of profit, but that they would sell their products for very different sums of money, depending on whether the capital they employed was rapid, or slowly, consumed and reproduced. One could sell his goods for 4000 *l.* , the other for 10,000 *l.* , and they could both use 10,000 *l.* of capital, and get 20 percent. profit, or 2000 *l.* The capital of one could consist for example in 2000 *l.* circulating capital, to be reproduced, and 8000 *l.* fixed, in buildings and machinery; the capital of the other, on the contrary, could be 8000 *l.* of circulation, and only 2000 *l.* fixed capital in machinery and buildings. Now, if each of these people were to be taxed at 10 percent. on its income, i.e. 200 *l.* , one, for his company to bring him the general rate of profit, must carry his goods of 10,000 *l.* at 10,200 *l.* ; the other would also be obliged to raise the price of his goods by 4000 *l.* at 4200 *l.* Before the tax, the products sold by one of these manufacturers

were  $2\frac{1}{2}$  times more precious than the products of the other; after the tax, they will be 2.42 times more precious: the single type will have increased by 2%; the remaining 5 percent: therefore, an income tax, while the value of money would remain unchanged, would change relative prices and the value of goods. This is true, if the tax instead of being imposed on profits was imposed on the goods themselves: provided that they are taxed in proportion to the value of the capital employed for their production, they would also increase, whatever their value, and they would therefore not keep the same proportion as before. A commodity, which went from ten to eleven thousand pounds, would not have the same relationship as before, to another which went from 2 to 3000 *l.* If, in these circumstances, the value of money increased, whatever the cause, it would not affect commodity prices in the same proportion. The same cause that would lower the price of one from 10,200 *l.* at 10,000 *l.* or less than 2 percent., would lower the price of the other by 4200 *l.* at 4000 *l.* or  $4\frac{3}{4}$  percent. If they decreased in a different proportion, the benefits would not be equal; to make them equal, when the price of the first commodity was 10,000 *l.* , the price of the second should be 4000 *l.* ; and when the price of the first was 10,200 *l.* , the price for the other should be 4200 *l.*

Taking this fact into account will lead to an understanding of a very important principle, which, I believe, has never been announced. That's it; that in a country where no taxation remains, the change in the value of money resulting from scarcity or abundance will operate in an equal proportion on the prices of all products; only if a commodity of 1000 *l.* rise in value to 1200 *l.* , or fall to 800 *l.* , a commodity of 10,000 *l.* the value will increase to 12,000 *l.* or fall to 8000 *l.* ; but in a country where prices are artificially raised by taxation, the abundance of money from an influx, or the export and scarcity that results of foreign demand, will not operate in the same proportion on the prices of all products; some will increase or decrease by 5, 6 or 12 percent., others by 3, 4 or 7 percent. If a country were not taxed and the value of money fell, its abundance in each market would have similar effects on each. If meat increased by 20%, bread, beer, shoes, labor and all products would also increase by 20%; they must do so to ensure the same rate of profit for each trade. But this is no longer true when one of these products is taxed; if in this case they all increased in proportion to the fall in the value of money, the profits would be made unequal; in the case of taxed commodities, profits would be

increased above the general level and capital would be withdrawn from one job to another, until a balance of profits was restored, which could not be the case only after a modification of the relative prices.

Will this principle not account for the various effects, which have been observed, have been produced on the prices of raw materials, from the modified value of money during the Bank-restriction? It was objected to those who maintained that the currency was at that time depreciated, from the excessive abundance of paper circulation, that, if this were the case, all the goods should have increased in the same proportion; but it was found that many had varied considerably more than others, and it was inferred that the rise in prices was due to something affecting the value of goods and not to any alteration in the value of money . However, it appears, as we have just seen, that in a country where raw materials are taxed, they will not all vary in price in the same proportion, either as a result of an increase or a decrease in value. currency.

If the profits of all trades were taxed, except the profits of the farmer, all goods would increase in monetary value, with the exception of raw products. The farmer would have the same income from corn as before and would also sell his corn at the same price; but since he would be obliged to pay an additional price for all the goods, except the wheat which he consumes, it would be for him a tax on expenses. He would not be relieved either of this tax by an alteration in the value of money, since an alteration in the value of silver could cause all the products taxed to sink at their old price, but the untaxed would fall below its old level; and therefore, although the farmer would buy his products at the same price as before, he would have less money to buy them.

The owner too would be in precisely the same situation, he would have the same wheat and the same silver rent as before, if all the goods went up in price, and the money remained at the same value; and he would have the same wheat, but a lower silver rent, if all the goods remained at the same price: so that in both cases, although his income was not directly taxed, he would indirectly contribute to the money collected .

But suppose that the farmer's profits are also taxed, he would then be in the same situation as the other traders; his gross proceeds would increase, so that he would have the same monetary income, after paying the tax, but he would pay an additional price for all basic products he consumed, including raw products.

Its owner would however be located differently, he would benefit from the tax on the profits of his tenant, because he would be compensated for the additional price at which he would buy his manufactured products, if they increased in price; and it would have the same monetary income, if as a result of an increase in the value of money, the goods sold at their former price. A tax on the farmer's profits is not a tax commensurate with the gross product of the land, but with its net product, after the payment of rent, wages and all other charges. Since the cultivators of the different types of land, no. 1, 2 and 3, use precisely the same capital, they will obtain precisely the same benefits, regardless of the quantity of raw product, which one can obtain more than the other. . ; and therefore they will all be taxed in the same way. Suppose that the gross product of the land of quality n ° 1 is 180 qrs., That of n ° 2, 170 qrs. And of n ° 3, 160, and each one is taxed 10 quarters, the difference between the product of n ° 1, n ° 2, and No. 3, after paying the tax, will be the same as before; because if number 1 is reduced to 170, number 2 to 160 and number 3 to 150 qrs; the difference between 3 and 1 will be as before, 20 qrs .; and from n ° 3 and n ° 2, 10 qrs. If, after the tax, the prices of corn and all other commodities were to remain the same as before, the monetary rent as well as the corn rent would remain unchanged; but if the price of corn and all other commodities were to increase as a consequence of the tax, the monetary rent would also increase in the same proportion. If the price of corn was 4 *l.* per quarter, the rent for No. 1 would have been 80 *l.* , and that of n ° 2, 40 *l.* ; but if the corn has increased by ten percent., or to 4 *l.* 8 *sec.* , the rent would also increase by ten percent., for twenty quarters of the corn was then worth 88 *l.* and ten quarters 44 *l.* ; so that in any case, the owner will not be affected by such a tax. A tax on inventory profits always leaves the corn rent unchanged, and therefore the monetary rent varies with the price of corn; but a tax on raw products, or tithes, never leaves the corn rent unchanged, but generally leaves the money rent the same as before. In another part of this work, I observed that, if a property tax of the same amount of money, was imposed on all types of land under cultivation

without taking into account the difference in fertility, its functioning would be very uneven, since it would be a benefit for the owner of the most fertile land. This would increase the price of corn in proportion to the burden borne by the farmer of the worst lands; but this additional price being obtained for the greatest quantity of products produced by the

best lands, the farmers of these lands would profit during their leases, and then, the advantage would return to the owner in the form of an increase in rent. The effect of an equal tax on the farmer's profits is precisely the same; it increases the rent of the owners' money, if the money retains the same value; but as the profits of all other trades are taxed, as well as those of the farmer, and consequently the prices of all goods, as well as of corn, are increased, the owner loses as much by the increase in the price in money goods and corn on which his rent is spent, because he earns by the increase in his rent. If the money went up in value, and everything, after tax on the profits of the shares, fell back to their old prices, the rent would also be the same as before. The owner would receive the same cash rent and get all the commodities how it was spent at its old price; so that in all circumstances he would continue not to be taxed.

A tax on the profits of the shares would also affect the shareholder if all the products increased in proportion to the tax; but if, by the alteration of the value of money, all the goods were to fall back to their old price, the shareholder would pay nothing for the tax; he would buy all his products at the same price, but still receive the same monetary dividend.

If it were agreed that by taxing the profits of a single manufacturer, the price of its goods would increase, to put it on an equal footing with all other manufacturers; and that by taxing the profits of two manufacturers, the prices of two descriptions of goods must increase, I do not see how one can dispute that by taxing the profits of all the manufacturers, the prices of all the goods would increase, provided that the mine that provided us with the money, were taxed in the country. But since money, or the monetary norm, is a commodity imported from abroad, the prices of all commodities could not get up; because such an effect cannot occur without an additional amount of money, which cannot be obtained in exchange for expensive goods, as indicated on page 108. If however such an increase could take place, it could not be permanent, as this would have a powerful influence on foreign trade. In exchange for imported goods, these expensive goods could not be exported, so we should continue to buy for some time, although we have stopped selling; and should export silver, or bullion, until the relative prices of commodities are almost the same as before. It seems to me absolutely certain that a well-regulated profit tax would ultimately bring domestic and foreign products to the same price they were charged before the tax was imposed.

Since taxes on raw products, tithing, taxes on wages and the necessities of the worker, by raising wages and decreasing profits, they will all benefit, but not equally, from the same effects.

The discovery of machinery, which significantly improves home manufacturing, tends to increase the relative value of silver, and therefore to encourage its importation. Any taxation, any increased obstacles, either to the manufacturer or to the producer of goods, tend on the contrary to lower the relative value of money, and therefore to encourage its export.

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## CHAPTER XIV.

### SALARY TAXES.

**T**HE TAXES on wages will increase wages, and therefore decrease the rate of profit of actions. We have already seen that a commodity tax will raise their prices and be followed by higher wages. The only difference between a tax on basic necessities and a tax on wages is that the former will necessarily be accompanied by an increase in the price of necessities, but not the latter; towards a tax on wages, therefore, neither the shareholder, nor the owner, nor any other class, but the employers of labor will not contribute. A payroll tax is entirely a profit tax, a necessities tax is partly a profit tax and partly a tax on wealthy consumers. The ultimate effects that will result from these taxes are then exactly the same as those that result from a direct income tax.

"The wages of the lower classes of workers", says Adam Smith, "I have endeavored to show in the first book, are everywhere necessarily regulated by two different circumstances: the demand for labor and the ordinary or average price of provisions. labor demand, depending on whether it is increasing, stationary or declining, or requiring a growing, stationary or declining population, regulates the subsistence of the worker and determines how liberal it must be, moderate The *ordinary or average price* of provisions determines the amount of money that must be paid to the worker to allow him, from one year to the next, to buy this liberal subsistence, moderate or scarce. demand for labor, and the price of

provisions therefore remains the same, a direct tax on labor wages can only have the effect of raising them a little higher than the tax. "

Mr. Buchanan presented two objections to the proposal, as presented here by Dr. Smith. First, he denies that money labor wages are governed by the price of provisions; and second, he denies that a tax on labor wages would raise the price of labor. On the first point, Mr. Buchanan's argument is as follows, page 59: " Labor wages, it has already been pointed out, do not consist in money, but in what money buys, namely provisions and other necessities; and the allocation of the worker outside the ordinary stock will always be proportional to the supply. Where food is *cheap and abundant* , its share will be all the greater; and where it will be *scarce and dear ones* , it will be less. His salary will always give him his fair share, and they cannot give him more. It is an opinion indeed, adopted by Dr. Smith and most of the other writers, than the prize money of labor is regulated by the money price of supplies, and when supplies go up in price wages increase proportionally, but it is clear that the price of labor is not necessarily related to the price of food, because it entirely depends on the supply of workers compared to the of order. price of provisions is some indication of a deficient supply, and arises in the natural course of things, in order to delay consumption. A smaller amount of food, shared among the same number of consumers, will obviously leave a smaller share for everyone, and the worker must bear his share of the common need. To spread this burden evenly and to prevent the worker from consuming his subsistence as freely as before, the price increases. But it seems that wages must increase with him, so that he can still use the same amount of a rarer commodity; and thus nature is represented as counterbalancing its own objectives: first, to increase the price of food, to decrease consumption, and then, to increase wages to give the worker the same offer as before. "

In Mr. Buchanan's argument, it seems to me that there is a great mixture of truth and error. Because a high price of provisions is sometimes caused by a deficient offer, Mr. Buchanan assumes it as a certain indication of a deficient offer. He attributes to a single cause, that which may arise from several. It is undoubtedly true that, in the case of a deficient offer, a small This quantity will be shared between the same number of consumers and a smaller share will go to each. To spread this deprivation equally and to prevent the worker from consuming his subsistence as freely as before, the price increases. It must therefore be conceded to Mr. Buchanan that any

increase in the price of provisions, occasioned by a deficient supply, will not necessarily increase wages in money for work; because consumption must be delayed; which can only be done by reducing the purchasing power of consumers. But, because the price of provisions is increased by a deficient supply, we are by no means guaranteed to conclude, as Mr. Buchanan seems to do, that there may not be an abundant supply, with a high price; not a high price for money only, but for all other things.

The natural price of raw materials, which always ultimately governs their market price, depends on the ease of production; but the quantity produced is not proportional to this installation. Although the land, which is now under cultivation, is far less than the land cultivated three centuries ago, and therefore the difficulty of production is increased, who may have the slightest doubt, but that the quantity produced now far exceeds the quantity then produced? Not only is a high price compatible with an increased offer, but it rarely fails to accompany it. If therefore, because of taxation or the difficulty of production, the price of provisions increases and the quantity is not diminished, the wages in money of labor will increase; for, as M. Buchanan rightly pointed out, "The wages of labor do not consist in money, but in what money buys, namely provisions and other necessities; and the allocation of the worker on the stock common, will always be proportional to the provision. "

Regarding the second point, if a tax on labor wages would raise the price of labor, Mr. Buchanan says: "After the worker has received fair remuneration for his work, how can he appeal against his employer, for what he is then obliged to pay in taxes? There is no law or principle in human affairs to justify such a conclusion. After the worker has received his wages, he is in his keep, and he must, to the extent of his means, bear the burden of all the abuses to which he may later be exposed: because he clearly has no way of forcing those to reimburse him, who have already paid him the fair price for his work. "Mr. Buchanan quoted with great approval the following able passage from Mr. Malthus' work on population, which seems to me to completely answer his objection." The price of labor, when left to find its natural level, is the most important political barometer, expressing the relationship between supply and demand, between the quantity to be consumed and the number of consumers; and, taken on average, regardless of accidental circumstances, it also clearly expresses the desires of society in matters of population, that is to say whatever the

number of children at marriage necessary to maintain the population exactly. At present, the price of labor will be just sufficient to support this number, or be above or below, depending on the state of the real funds, for the maintenance of labor, which it is stationary, progressive or retrograde. But instead of considering it from this perspective, we view it as something we can raise or lower at leisure, something that depends primarily on His Majesty's justices of the peace. When an increase in the price of provisions already expresses that the demand is too great for supply, in order to put the worker in the same state as before, we increase the price of labor, that is to say that we are increasing demand and we are therefore very surprised that the price of provisions continues to rise. In this we act in much the same way, as if, when the quicksilver in the common windshield stood against the *storm*, we had to lift it by forced pressure so that it was settled fairly, then be greatly surprised that it continues to rain. "

"The price of labor will clearly express the desires of society in matters of population;" it will just be enough to provide for the needs of the population, which at that time required the state of funds for the maintenance of workers. If the worker's salary was previously sufficient only to provide the required population, he will, after tax, be insufficient for this offer, because he does not have the same funds to spend on his family. The workforce will therefore increase, as demand continues, and it is only by increasing the price, that supply is not controlled.

Nothing is more common than seeing hats or malt going up when taxed; they increase because the required supply would not be assured if they did not increase: thus with labor, when wages are imposed, its price increases, because, otherwise, the required population would not be maintained. Mr. Buchanan does not authorize all that is alleged, when he says that "if he (the worker) were effectively reduced to a simple allowance of necessity, he would not then undergo any more abatement of his wages, because he could not the conditions continue his race? " Suppose that the circumstances of the country are such, that the lowest workers are not only called to continue their race, but to increase it; their wages would have been regulated accordingly. Can they multiply if a tax takes part of their salary and reduces them to the bare minimum?

There is no doubt that a taxed good will not increase in proportion to the tax, if demand decreases and the quantity cannot be reduced. If metallic money were in general use, its value would not be increased for a long time

by a tax, in proportion to the amount of the tax, because at a higher price, demand would be decreased and the quantity would not be decreased. ; and undoubtedly the same cause frequently influences labor wages, the number of workers cannot be increased or decreased rapidly in proportion to the increase or decrease in the fund which must employ them; but in the assumed case, there is no necessary decrease in the demand for labor, and if it decreases, the demand does not decrease in proportion to the tax. Mr. Buchanan forgets that the funds raised by the tax are used by the government to keep workers, unproductive, but still workers. If labor does not increase when wages are taxed, there would be a sharp increase in competition for labor, since the owners of capital, who would have nothing to pay for such a tax, would have the same funds to involve work; while the government that collected the tax would have a        funds for the same purpose. The government and the people thus become competitors, and the consequence of their competition is an increase in the price of labor. Only the same number of men will be employed, but they will be employed at additional wages.

If the tax had been immediately imposed on the people, their manpower maintenance fund would have been reduced just as the government fund for this purpose would have been increased; and therefore there would have been no increase in wages; because although there would be the same demand, there would not be the same competition. If, at the time of collection of the tax, the government immediately exported the product in the form of a subsidy to a foreign state, and if therefore these funds were devoted to the maintenance of foreigners, and not of English workers, such as soldiers , sailors, etc. & vs .; then, indeed, there would be a decrease in the demand for labor, and wages might not increase even if they were taxed; but the same would happen if the tax had been imposed on consumer products, on profits from inventories, or        in another way, the same amount had been collected to provide this subsidy: less labor could be employed at home. In one case, wages cannot go up, in the other they must go down. But suppose that the amount of a tax on wages is, after being levied on the workers, paid free of charge to their employers, that would increase their monetary funds for the maintenance of the workforce, but that n 'would increase neither goods nor labor. This would therefore increase competition between employers of labor, and the tax would ultimately be collected without loss for either the master or the worker. The captain

would pay a higher price for the work; The addition received by the worker would be paid to the government in the form of taxes and returned to the masters. It should not be forgotten, however, that tax revenue is often spent unnecessarily and that by decreasing capital, it tends to decrease the real fund for maintaining the workforce; and therefore decrease real demand. Taxes then, generally, insofar as they affect the real capital of the country, reduce the demand for labor, and therefore it is a probable, but not necessary, nor particular consequence of a tax on wages, that if wages increased, they would not increase by an amount precisely equal to the tax.

Adam Smith, as we have seen, fully admitted that the effect of a payroll tax would increase wages by at least the tax, and would ultimately, if not immediately, paid by the labor employer. So far, we fully agree; but we differ essentially in our views on the subsequent operation of such a tax.

"A direct tax on labor wages, therefore," says Adam Smith, "although the worker may perhaps pay it with his own hand, could not properly be even advanced by him; at least if the demand and the average price of provisions stayed the same after the tax as before. In all these cases, not only the tax, but something more than the tax, would in fact be advanced by the person who would use it immediately different cases are the responsibility of different people. The increase that such a tax could the wages of the manufacturing workforce would be advanced by the master manufacturer, *who would have the right and the obligation to charge him a profit on the price of his goods* . The increase which such a tax could cause in field work would be advanced by the farmer who, to maintain the same number of workers as before, would be obliged to employ more capital. In order to recover this larger capital, *as well as the ordinary profits of the stock* , it would have to keep a greater part, or what amounts to the same thing, the price of a greater part of the product of the land, and by Consequently, he should pay less rent to the owner. In this case, the final payment of this salary increase would fall to the owner, *as well as the additional profits of the farmer who had advanced it* . In all cases, a direct tax on labor wages must, in the long term, lead both to a greater reduction in land rent and a greater increase in the price of manufactured products than what would have resulted from the correct valuation. from an amount equal to the product of the tax, partly on the rental of the land and partly on consumer goods. " Flight. iii. p. 337. In this passage, it is stated that the additional wages paid by farmers will ultimately fall on the owners, who

will receive reduced rent; but that the additional wages paid by manufacturers will cause the price of manufactured goods to rise, and therefore fall on the consumers of these products.

Suppose now that a society is made up of owners, manufacturers, farmers and workers. The workers, it is agreed, would be paid for the tax; - but by whom? - who would pay the part which would not fall on the owners? - manufacturers could not pay any part of it; for if the price of their goods increased in proportion to the additional wages they paid, they would be in a better position after before the tax. If the cloth-maker, the hatter, the shoemaker, etc., should each be able to increase the price of their goods by 10%, - assuming 10%. to reward them completely for the extra wages they paid, if, as Adam Smith says, "they would have the right and the obligation to charge the extra wages *with a profit* on the price of their goods", they could each consume as much as before each other's property, and therefore they would pay nothing for the tax. If the clothier paid more for his hats and his shoes, he would receive more for his fabric, and if the hatter paid more for his fabric and his shoes, he would receive more for his hats. All the manufactured products would then be bought by them with as many advantages as before, and insofar as the corn would not be increased in price when they had an additional sum to foresee at the time of its purchase, they would benefit from it and would not be harmed by such a tax.

If then neither the workers nor the manufacturers would contribute to such a tax; in order for farmers to also be compensated by a fall in rent, the owners alone must not only bear their full weight, but they must also contribute to the increase in the earnings of industrialists. To do this, however, they would have to consume all of the country's manufactured goods, since the additional price charged on the whole mass is little more than the tax initially imposed on workers in manufactured goods.

Now it will not be disputed that the cloth-maker, the hatter and all the other manufacturers, are consumers of reciprocal goods; It will not be disputed that workers of all kinds consume soap, clothing, shoes, candles and various other products: it is therefore impossible that the burden of these taxes should weigh solely on the owners.

But if workers do not pay part of the tax, and yet the prices of manufactured goods rise, wages must rise, not only to compensate for them, but for the increase in the price of manufactured goods, which, to the extent

that this affects agricultural work, will be a new cause of lower rents; and, to the extent that it affects manufacturing labor, a further rise in the price of goods. This rise in the price of goods will again operate on wages, and the action and reaction, first of wages on goods, then of goods on wages, will be extended without any attributable limit. The arguments on which this theory is based lead to conclusions so absurd that one can immediately see that the principle is totally untenable.

All the effects which occur on the profits of stocks and labor wages, by an increase in rents and an increase in necessities, in the natural progress of society, and the increasing difficulty of production, will be produced by an increase in wages due to taxation; and therefore the benefits of the worker, as well as those of his employers, will be reduced by the tax; and not by this particular tax, but by any other that should raise an equal amount.

Adam Smith's error proceeds in the first place from the assumption that all the taxes paid by the farmer must necessarily fall on the owner, in the form of a deduction from the rent. On this subject, I have explained the most, and I hope that it has been shown, to the satisfaction of the reader, that since a lot of capital is used on land which does not pay rent, and since it is the result obtained by this capital which regulates the price of gross products, no deduction can be made from the rent; and therefore, either no remuneration will be paid to the farmer for a tax on wages, or, if it is made, it will have to be paid by an addition to the price of the raw products.

If taxes put unequal pressure on the farmer, he will be able to raise the price of produce, to put himself at the level of those who exercise other trades; but a tax on wages, which would affect it no more than it would affect any other trade, could not be abolished or offset by a high price for raw products; for the same reason which should encourage him to increase the price of corn, namely to be remunerated for the tax, would encourage the clothier to increase the price of the fabric, the shoemaker, the hatter and the upholsterer to increase the price of shoes, hats and furniture.

If they could all increase the price of their goods, in order to be remunerated, with a profit, for the tax; as they are all consumers of each other's products, it is obvious that the tax can never be paid; who would be the contributors if all were compensated?

I therefore hope that I have succeeded in showing that any tax which has the effect of increasing wages will be paid by a reduction in profits, and

therefore that a tax on wages is in fact a tax on profits.

This principle of the division of the profit labor and capital between wages and profits, which I have tried to establish, seems to me so certain that, except in the immediate effects, I think it matters little whether the profits of actions or the wages of labor are taxed. By taxing the profits of stocks, you would likely change the rate of increase in labor force funds, and wages would be disproportionate to the state of this fund, being too high. By taxing wages, the reward paid to the worker would also be disproportionate to the state of this fund, because it is too low. In one case by a fall, and in the other by an increase in monetary wages, the natural balance between profits and wages would be restored. A tax on wages then does not fall on the owner, but it falls on the profits of the stock: it does not "give right and does not oblige the master builder to charge him a profit on the prices of his goods", because he will not be able to increase their price, and therefore he must himself in full and without compensation pay such a tax. <sup>16</sup>

If the effect of payroll taxes is as I have described them, they do not deserve the censorship done to them by Dr. Smith. He observes such taxes: "These taxes, as well as other taxes of the same kind, by increasing the price of labor, would have ruined most of Holland's factories. Similar taxes, although not so heavy, take place in the Milanese, in the States of Genoa, in the Duchy of Modena, in the Duchies of Parma, Placentia and Guastalla, and in the ecclesiastical States. A French author of a certain note, proposed to reform the finances of his country, by replacing in the room of the other taxes, this most ruinous of all the taxes. "There is nothing so absurd," says Cicero, "which has not sometimes been asserted by some philosophers." "And in another place, he says:" the taxes on necessities, by increasing the wages of labor, necessarily tend to increase the price of all manufactured products, and therefore to decrease the extent of their sale and consumption. "They would not deserve this censorship; even if Dr. Smith's principle was correct that these taxes would increase the prices of manufactured goods; for such an effect could only be temporary and would not expose us to any disadvantage in our foreign trade. cause increased the price of some manufactured products, it would prevent or control their export; but if the same cause generally operated on all, the effect would be purely nominal, and would not interfere with their relative value, and would

in no way diminish the stimulation of barter trade, which all trade, both foreign and domestic, is really.

I have already tried to show that when a cause increases the price of all products in general, the effects are almost similar to a fall in the value of money. If money decreases in value, all products increase in price; and if the effect is limited to one country, it will affect its foreign trade in the same way as a high commodity price caused by general taxation; therefore, by examining the effects of low monetary value limited to one country, we also examine the effects of a high commodity price limited to one country. Indeed, Adam Smith was fully aware of the resemblance between these two cases and always argued that the low value of money, or, as he calls it, money in Spain, due to the ban on its export, was very prejudicial to the factories and the foreign trade of Spain. "But this deterioration in the value of money, which is the result either of the particular situation or of the political institutions of a particular country, takes place only in this country, is a question of very great importance which, far from trying to make anybody really richer, tends to make each body really poorer. The increase in the silver price of all products, which in this case is unique to this county, tends to discourage more or less every type of industry that is carried on in and to enable foreign nations, by supplying almost all kinds of goods for a lesser amount of money than its own workers cannot afford, not to undersell them only abroad, but even in the domestic market." Vol. II. Page 278.

One, and I think that the only drawback of a low value for money in a country, coming from a forced abundance, has been skillfully explained by Dr. Smith. If the trade in gold and silver were free, "gold and silver which go abroad would not go abroad for nothing, but would yield an equal value of goods from one sort or another. Not all of these goods would be luxury goods and expenses, to be consumed by inactive people, who produce nothing in exchange for their consumption. As the wealth and real incomes of inactive people would not be increased by this extraordinary export of gold and silver, their consumption would not be either. These goods would be, probably the greatest part, and certainly a part of them, made up of materials, tools and provisions for the employment and maintenance of workers, who would profitably reproduce full value. Part of the dead stock of the company would thus be transformed into active stock and moving more industry than before."

By not allowing free trade in precious metals when commodity prices rise, either through taxation or through the influx of precious metals, you are preventing part of society's dead stock from turning into active stock - prevent you from using a larger amount of industry. But that is the whole amount of evil; an evil never felt by countries where the export of silver is either authorized or complicated.

Trade between countries is at par, when they have precisely the quantity of money which, in the current situation, should be necessary to ensure the circulation of their goods. If the trade in precious metals were perfectly free and silver could be exported without any expense, trade could not be otherwise in all countries than at par. If the trade in precious metals was perfectly free, if they were generally used in circulation, even with transport costs, the exchange could never in any of them deviate more from the par than by these expenses. These principles, I believe, are no longer in dispute. If a country used paper money not exchangeable for cash, and therefore not regulated by a fixed standard, the exchanges in this country could deviate as much from the par that its currency could be multiplied beyond the quantity which would have been awarded by the general trade, if the trade in silver had been free, and if the precious metals had been used, either for silver, or for the standard of silver.

If, by general operations of commerce, 10 million pounds sterling, of known weight and fineness of ingots, were to be the portion of England, and 10 million pounds in paper were substituted, no effect would be produced on exchange; but if, by the abuse of the power to issue paper money, 11 million pounds were to be used in circulation, the exchange would be 9 per cent. against England; if 12 million people were employed, the exchange would be 16%; and if 20 million, the exchange would be 50 percent. against England. To produce this effect, however, it is not necessary to use paper money: any cause which keeps in circulation a greater quantity of books than it would have circulated, if trade had been free, and the precious metals of a known weight and fineness had been used, either for money or for the monetary norm, would produce exactly the same effects. Suppose that by cutting money, each book does not contain the amount of gold or silver it should contain by law, more of these books could be used in circulation than if they didn't were not cut. If one tenth of each book was removed, 11 million of those books could be used instead of 10; if two tenths were removed, 12 million could be used; and if half were

removed, 20 million might not be deemed unnecessary. If the latter amount were used instead of 10 million, each product in England would be increased to double its old price, and the exchange would be 50 percent. against England, but this would not cause any disturbance in foreign trade, nor would it discourage the production of a single commodity. If, for example, the tissue has grown England from 20 *l.* at 40 *l.* per piece, we must export it as freely as before the rise, for a compensation of 50%. would be made to the foreign buyer in exchange; so that with 20 *l.* of his money, he could buy an invoice which would enable him to pay a debt of 40 *l.* In England. In the same way if he exported a commodity which cost 20 *l.* at home, and which sold in England for 40 *l.* he would only receive 20 *l.* , for 40 *l.* in England would only buy an invoice for 20 *l.* on a foreign country. The same effects would arise from whatever cause, 20 million could be forced to perform traffic activities in England, if only 10 million were needed. If a law as absurd as the ban on the export of precious metals could be applied and if this ban resulted in the forced circulation of 11 million instead of 10, the exchange would be 9%. against England; if 12 million, 16%; and if 20 million, 50%. against England. But no discouragement would be given to the factories of England; if the original products were sold at a high price in England, so would the foreign products; and if they were high or low would be of little importance to the foreign exporter and importer, when, on the one hand, it would be obliged to grant compensation in exchange when its products were sold at a high rate, and received the same compensation when he was forced to buy English products at a high price. The only inconvenience which could then happen to a country of keeping by prohibitive laws a greater quantity of gold and silver in circulation than it would remain otherwise, would be the loss which it would suffer from employing part of its capital unproductively, instead of using it productively. In the form of money, this capital produces no profit; in the form of materials, machines and food, against which they could be exchanged, it would be productive of income and would add to the wealth and resources of the state. So I hope I have satisfactorily proven that a relatively low price of precious metals, due to taxation, or in other words, a generally high price of commodities, would not be a disadvantage for a state, as part of the the metals would be exported, which, by increasing their value, lower raw material prices again. And furthermore, if they were not

exported, if, by prohibitive laws, they could be kept in a country, the effect on trade would offset the effect of high prices. If then the taxes on necessities and wages did not raise the prices of all the products on which labor was spent, they could not be condemned on such grounds; and, moreover, even if the opinion that they would have such an effect was justified, they would not be prejudicial in this respect.

It is undoubtedly true that "taxes on luxury goods do not tend to increase the price of other products, except that of taxed products". but it is not true that taxes on necessities, by increasing the wages of labor, necessarily tend to increase the price of all manufactured products. "It is true that" luxury taxes are ultimately paid by consumers of the taxed products, without any retribution. They fall indifferently on all kinds of income, labor wages, profits from stocks and rental of land; "but it is not true", that taxes on necessities *to the extent that they affect the working poor* , are finally paid partly by the owners in the reduction of the rent of their grounds and partly by the rich consumers, owners or others, in the advanced price of the manufactured products; "because *to the extent that these taxes affect the working poor* , they will be almost entirely paid for by the fall in profits from stocks, only a small part being paid by the workers themselves in decreasing the demand for labor, than the taxation of all kinds tends to produce.

It was from Dr. Smith's misconception of the effect of these taxes that he was led to the conclusion that "the middle and upper ranks of people, if they understood their own interests, should always oppose all taxes on necessities. " life, as well as all direct taxes on labor wages. " This conclusion follows from his reasoning," that the final payment for both is entirely up to themselves, and always at considerable extra cost. They weigh most heavily on the owners, who always pay double; in that of the owners, by the reduction of their rent, and in that of the rich consumers, by the increase in their expenses. The observation of Sir Matthew Decker, that certain taxes are in the price of certain goods, sometimes repeated and accumulated four or five times, it is perfectly just as regards the taxes on the necessities of life. In the price of leather, for example, you have to pay, not only the tax on the leather of your own shoes, but part of that on the shoemaker and the tanner. You must also pay the tax on the salt, soap and candles that these workers consume when they are employed in your

service, as well as the tax on the leather, that the salt, soap and candlestick consumes, while he is employed in their service. "

However, since Dr. Smith does not claim that the tanner, the salt maker, the soap maker and the candle maker will each benefit from the tax on leather, salt, soap and candles ; and since it is certain that the government will not receive more than the tax imposed, it is impossible to imagine that the public could pay more to anyone. The rich consumers can pay and, in fact, will pay the poor, but they will not pay more than the total amount tax; and it is not in the nature of things that "the tax must be repeated and accumulated four or five times".

A taxation system may be defective; more can be collected from the people than what is found in state coffers, in part, because of its effect on prices, can eventually be received by those who benefit from the particular mode in which taxes are imposed. These taxes are pernicious and should not be encouraged; for it can be established as a principle that, when taxes function properly, they conform to the first of Dr. Smith's maxims and raise the people as little as possible beyond what enters the public treasury of the state. Say says: "Others offer financing plans and suggest ways to fill the sovereign's coffers at no cost to his subjects. But unless a financing plan is in the nature of a business venture , it cannot give more to the government than it takes, either from individuals or from the government itself, in another form. Something cannot be done out of thin air with a wand . to be disguised, whatever forms we may constrain to a value, whatever metamorphosis we may subject it to, we can only have value by creating it or taking it from others. The best of all financing plans is to spend little, and the best of all taxes is the lowest. "

Dr. Smith consistently argues, and I think rightly, that the working classes cannot contribute materially to the burdens of the state. A tax on necessities or on wages will therefore be transferred from the poor to the rich: if then, the sense of Dr. Smith is, "that certain taxes are in the price of certain goods sometimes repeated, and accumulated four or five times," in the sole purpose of achieving this goal, namely the transfer of tax from the poor to the wealthy, they cannot be condemned on this account.

Suppose that the fair share of the taxes of a wealthy consumer is 100 *l.* , and that he would pay it directly, if the tax were imposed on income, wine or any other luxury, he would not suffer any prejudice if, by the imposition of necessities, he were to be called only for the payment of 25 *l.* , with

regard to his own consumption of basic necessities and that of his family, but should be required to repeat this tax three times, paying an additional price for other products in order to compensate workers or their employers for the tax which they were called to advance. Even in this case, the reasoning is not conclusive: because if there is no more paid than what is required by the government; how important can it be for the wealthy consumer, whether he pays the tax directly, paying a higher price for a luxury item, or indirectly, paying a higher price for basic necessities and other goods that he consumes? If the people do not pay more than what the government receives, the wealthy consumer will only pay their fair share; if more is paid, Adam Smith should have indicated by whom it is received.

Mr. Say does not seem to me to have systematically adhered to the obvious principle, which I quoted from his good work; because on the next page, speaking of taxation, he says: "When it is pushed too far, it produces this lamentable effect, it deprives the contributor of part of its wealth, without enriching the State. This is what we can understand if we consider that the consumption power of each man, whether productive or not, is limited by his income. He cannot then be deprived of part of his income, without being obliged to proportionately reduce his consumption. Hence a decrease in the demand for these goods, which it no longer consumes, and in particular those on which the tax is imposed. This decrease in demand results in a decrease in production, and therefore in taxable goods. The contributor will then lose part of his enjoyment; the producer, part of his profits; and the treasury, part of its revenue. "

Mr. Say cites the salt tax in France, before the revolution; which, he says, has halved salt production. However, if less salt was consumed, less capital was used to produce it; and therefore, although the producer would get less profit from the production of salt, he would get more from the production of other things. If a tax, however heavy it may be, falls on income and not on capital, it does not decrease demand, it only modifies its nature. It allows the government to consume as many products of the land and the workforce of the country as before by individuals who contribute to the tax. If my income is 1000 *l.* per year, and I am called for 100 *l.* per year for a tax, I can only demand nine-tenths of the quantity of goods I have consumed before, but I allow the government to demand the other tenth. If the taxed goods are corn, my demand for corn does not have to decrease, as I might

prefer to pay 100 *l.* per year more for my corn, and for the same amount decrease in my demand for wine, furniture or any other luxury. [17](#)

Less capital will therefore be used in the- the trade in wine or furnishings, but more will be used in the manufacture of these products, on which the taxes levied by the government will be spent.

Mr. Say says that Mr. Turgot, by halving *the market rights* on fish ( *entry and market fees on the tide* ) in Paris, has not reduced the quantity of their products, and that as a result, consumption of fish must have doubled. He deduces from this that the profits of the fisherman and those who engage in trade must also have doubled and that the incomes of the country must have increased, by the total amount of these profits increased; and by stimulating accumulation, it had to increase the resources of the state. [18](#)

Without questioning the policy that dictated this change in the tax, I can doubt that it has greatly stimulated accumulation. If the profits of the fisherman and others engaged in the trade were doubled as a result of the consumption of more fish, the capital and labor must have been taken from other occupations to engage them in that particular trade. But in these professions, capital and labor were productive of profits, which had to be abandoned when they were withdrawn. The country's capacity to accumulate has only been increased by the difference between the profits obtained in the enterprise in which the capital has been newly engaged and those obtained in that from which it has been withdrawn.

Whether taxes are levied on income or on capital, they reduce the taxable income of the State. If I stop spending 100 *l.* on wine, because by paying a tax of this amount, I allowed the government to spend 100 *l.* instead of spending them myself, a hundred pounds of property is necessarily withdrawn from the list of taxable persons basic products. If the income of individuals in a country is 10 million, they will have at least 10 million taxable goods. If by taxing a million, a million were transferred to the government, their revenues would remain nominally 10 million, but they would remain with only nine million taxable products. There are no circumstances in which taxation does not interfere with the enjoyments of those on whom taxes ultimately fall, and no means by which these

enjoyments can be extended again, but the accumulation of new revenues

Taxation can never be applied in the same way, that it operates in the same proportion on the value of all products and all the same to keep them at the same relative value. It frequently operates very differently from the intention of the legislator, by its indirect effects. We have already seen that the effect of a direct tax on maize and raw products is, if money is also produced in the country, to increase the price of all products, as the raw products enter in their composition, and therefore destroy the natural relationship that previously existed between them. Another indirect effect is that it raises wages and lowers the rate of profit; and we have also seen, in another part of this work, that the effect of a rise in wages and a fall in profits is to lower the silver price of the goods which are produced to a higher degree by the use of fixed capital.

The fact that a taxed good can no longer be exported so profitably is so well understood that a disadvantage is frequently accorded to its export and that a duty is imposed on its import. If these disadvantages and rights are established precisely, not only on the products themselves, but on everything that they may indirectly affect, there will indeed be no disturbance in the value of precious metals. Since we could export a product as easily after being taxed as before and no special facility would be granted for imports, precious metals would not enter the list of exportable products any more than before. .

Of all the products, none is perhaps as taxable as those which, either by nature or art, are produced with special installation. As far as foreign countries are concerned, these products can be classified under the head of those who are not regulated in their price by the quantity of labor granted, but rather by the whim, the tastes and the power of the buyers. If England had more productive tin mines than the other countries, or if, from machines or fuels of superior quality, she had special facilities for the manufacture of cotton products, the prices of tin and cotton products would still be regulated in England by the comparative amount of labor and capital necessary for their production, and competition from our merchants would make them very inexpensive to foreign consumers. Our advantage in the production of these products could be so decided, that they could probably bear a very high additional price on the foreign market, without very significantly reducing their consumption. This price which they could

never reach, while competition was free at home, by any other means than by an export tax. This tax would fall entirely to foreign consumers, and part of the expenses of the government of England would be defrayed by a tax on land and other labor.        countries. The tea tax, which is currently paid by the English people and used to cover the expenses of the English government, could, if it were imposed in China, on the export of tea, be diverted towards payment of expenses. of the government of China.

Luxury taxes have a certain advantage over necessities taxes. They are generally paid on income and therefore do not diminish the productive capital of the country. If the wine has increased much in price because of the taxation, it is probable that a man would prefer to give up the pleasures of the wine, than to make important encroachments on his capital, to be able to buy it. They are so identified by the price that the contributor is barely aware that he is paying a tax. But they also have their drawbacks. First, they never reach capital, and on some extraordinary occasions, it may be appropriate that even capital contributes to public demands; and second, there is no certainty as to the amount of tax, as it may not achieve equal income. A man anxious to save will exempt himself from a tax on wine, by giving up its use. Income        of the country may be intact, yet the state may not be able to levy a tax shilling.

Whatever habit makes it delicious, it will be reluctantly abandoned and will continue to be consumed despite a very heavy tax; but this reluctance has its limits, and experience shows every day that an increase in the nominal amount of the tax often decreases products. A man will continue to drink the same amount of wine, although the price of each bottle should be increased by three shillings, which would give up the use of wine instead of paying four. Another will just pay four, but refuse to pay five shillings. The same can be said of other luxury taxes: many would pay a tax of 5 *l.* for the pleasure of a horse who would not pay 10 *l.* or 20 *l.* It is not because they cannot pay more that they give up the use of wine and horses, but because they will not pay more. Every man has a certain standard in his mind by which he values the value of his pleasures, but this standard is as diverse as the human character. A country        whose financial situation has become extremely artificial, by the malicious policy of accumulating a large national debt, and consequently of enormous taxation, is particularly exposed to the disadvantages of this method of raising taxes. After visiting with a fee the whole round of luxury; after laying

horses, cars, wine, servants and all the other pleasures of the rich, under contribution; a minister is prepared to conclude that the country has reached maximum taxation, because by increasing the rate, it cannot increase the amount of any of these taxes. But in this conclusion, he will not always be right, because it is very possible that such a country could carry a very large addition to its charges without undermining the integrity of its capital.

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## CHAPTER XV.

### TAXES ON PRODUCTS OTHER THAN THE RAW PRODUCT.

**W**HILE the same principle that a tax on corn would increase the price of corn, a tax on any other product would increase the price of that commodity. If the commodity did not increase by an amount equal to the tax, it would not bring the same profit to the producer as he had before, and he would withdraw his capital for another use.

The taxation of all goods, whether essential or luxury, will cause, while the money remains at an unchanged value, an increase in their prices by an amount at least equal to the tax. <sup>19</sup> A tax on manufactured goods- workers would have the same effect on wages as a corn tax, which differs from other necessities only by being the first and most important on the list; and this would produce exactly the same effects on the profits of stocks and foreign trade. But a luxury tax would only have an effect on increasing their price. It would be entirely the responsibility of the consumer and could neither raise wages nor reduce profits.

The taxes levied on a country for the purpose of sustaining war or for ordinary government expenses, and which are mainly devoted to the support of unproductive workers, are levied on the productive industry of the country; and any savings that can be made from these expenses will generally be added to income, if not to the capital of contributors. When, for the expenses of a yearlong war, twenty millions are raised by means of a loan, it is the twenty millions which are withdrawn from the productive capital of the nation. The million a year, raised by taxes to pay the interest

on this loan, is simply transferred from those who pay it to those who receive it, from the contributor to the tax to the national creditor. The real expense is the twenty million, not the interest that has to be paid for it. [20](#)

Whether- whether interest is paid or not, the country will be neither richer nor poorer. The government could have immediately demanded the twenty million in the form of taxes; in which case it would not have been necessary to raise annual taxes to the tune of one million. However, that would not have changed the nature of the transaction. An individual instead of being asked to pay 100 *l.* per year, could have been forced to pay 2000 *l.* once and for all. He could also have agreed its convenience rather to borrow this 2000 *l.*, and pay 100 *l.* per year for the interest of the lender, only to save the largest sum of his own funds. In one case, it is a private transaction between A and B, in the other, the government guarantees B the payment of interest to be paid also by A. If the transaction had been of a private nature, no public register would be bound, and it would be a matter of relative indifference to the country whether A faithfully performed his contract with B, or unfairly withheld the 100 *l.* per year in its possession. The country would have a general interest in the faithful execution of a contract, but as regards the national wealth, it would have no other interest than to know if A or B would make these 100 *l.* more productive, but on this issue he would have neither the right nor the ability to decide. It could be possible that if A kept it for his own use, he could waste it unprofitable, and if he was paid to B, he could add it to his capital and use it productively. And the reverse would also be possible, B could waste it and A could use it productively. For wealth only, it can be equal or

it is more desirable that A pays it or not; but claims of justice and good faith, a greater utility, must not be obliged to yield to those of a lesser; and consequently, if the State were called upon to intervene, the courts of law would oblige A to perform its contract. Debt guaranteed by the nation is no different from the above transaction. Justice and good faith demand that interest on the national debt continue to be paid and that those who have advanced their capital for general profit not be obliged to give up their fair claims, for reasons of expediency.

But regardless of this consideration, it is by no means certain that political utility would gain anything by the sacrifice of political integrity; it

in no way follows that the part exempt from the payment of interest on the national debt would use it more productively than those to whom it is incontestably due. By canceling the national debt, a man's income could drop from 1000 *l.* at 1500 *l.* , but that of another man would be lowered by 1500 *l.* at 1000 *l.* The income of these two men now stands at 2500 *l.* , then they would no longer be. If the government were to raise taxes, there would be precisely the same taxable capital and the same income in either case. It is therefore not by the payment of interest on the national debt that a country is in distress, nor by the exemption from payment that it can be alleviated. It is only by saving income and reducing expenditure that national capital can be increased; and neither income would be increased, nor expenditure would be reduced by the annihilation of the national debt. It is through the abundant spending of government and individuals and through loans that a country is impoverished; therefore, all measures designed to promote the public and private economy will alleviate public distress; but it is an error and an illusion, to suppose that a real national difficulty can be lifted, by moving it from the shoulders of a class of the community, which should rightly bear it, to the shoulders of another class , which, on all principles of equity should not bear more than their share. From what I said, it should not be inferred that I consider the borrowing system to be the best calculation to cover extraordinary state expenses. It is a system which tends to make us less economical - to blind us to our real situation. If the expenses of a war were 40 million per year, and the share that a man should contribute to this annual expenditure was 100 *l.* , he would endeavor, being immediately called for his part, to quickly save the 100 *l.* of his income. By the loan system, he is called to pay only the interest of these 100 *l.* or 5 *l.* per year, and considers that it does enough by saving these 5 *l.* of his expenses, then deludes himself with the conviction that he is as rich as before. The whole nation, by reasoning and acting in this way, saves only the interest of 40 million, or two million; and thus, not only to lose all the interests or profits which 40 million capital, employed in a productive way, would procure, but also 38 million, the difference between their savings and their expenditure. If, as I have already observed, each man had to make his own loan and contribute fully to the requirements of the State, at the end of the war, the taxation would cease and we would immediately become in a natural state of prices. . Out of from his private funds, A might have to pay B

interest on the money he had borrowed from him during the war, to enable him to pay his spending quota; but with that, the nation would have no worries. A country which has accumulated a large debt is placed in a most artificial situation; and although the amount of taxes, and the increase in the price of labor, cannot, and I do not think, place it under any other disadvantage compared to foreign countries, with the exception of the inevitable to pay these taxes, yet it becomes the interest of each contributor to remove his shoulder from the burden and move this payment from himself to another; and the temptation to withdraw, as well as its capital, to another country, where it will be exempt from such burdens, finally becomes irresistible and overcomes the natural reluctance that each man feels to leave the place of his birth and the scene of his beginning associations. A country which became involved in the difficulties of frequenting this artificial system would act wisely by redeeming them, at the price of any portion of its property which might be necessary to repay its debt. What is wise in an individual is wise also in a nation. A man who has 10,000 *l.*, paying him an income of 500 *l.*, for which he must pay 100 *l.* per year towards the interest on the debt, is really only worth 8000 *l.*, and would be just as rich, if he continued to pay 100 *l.* per year, or at the same time, and for one time, sacrificed 2000 *l.* But where, one wonders, would be the buyer of the property that he must sell to obtain these 2000 *l.*? The answer is simple: the national creditor, who must receive these 2000 *l.*, will want an investment for its money, and will be ready either to lend it to the landowner or to the manufacturer, or to buy from them part of the property which they must have. To this end, the shareholders themselves would greatly contribute to this. Such a project has often been recommended, but we fear, I fear, neither enough wisdom nor enough virtue to adopt it. It must be admitted, however, that during peace our incessant efforts must aim at repaying the part of the debt contracted during the war; and that no temptation to relieve, no desire to escape the present, and I hope temporary distress, should prompt us to relax in our attention to this great object. No shipwreck

The fund can be effective in reducing debt if it does not come from the excess of government revenues over government spending. It is unfortunate that the sinking fund in this country is only in name; because there is no excess of revenue over expenditure. It should by economy, make what it is supposed to be, a really effective fund for the payment of the debt. If, at the outbreak

of a future war, we have not reduced our debt considerably, one of the two things must happen, or all the expenses of this war must be defrayed by taxes raised from year to year. year, the end of this war, if not before, submits to a national bankruptcy; no not that we will not be able to withstand significant additions to the debt; it would be difficult to limit the powers of a great nation; but there are certainly limits to the price which, in the form of perpetual taxation, individuals will submit to pay for the privilege of living simply in their country of origin.

When a product is at a monopoly price, it is at the highest price at which consumers are willing to buy it. Com the products are only at a monopoly price when, by any possible device, their quantity can be increased; and when therefore, competition is entirely on one side - between buyers. The monopoly price of one period can be much lower or higher than the monopoly price of another, because competition among buyers must depend on their wealth, tastes and whims. These particular wines, which are produced in very limited quantities, and these works of art, which by their excellence or their rarity, have acquired a fanciful value, will be exchanged for a quantity very different from the product of ordinary labor, according to society. is rich or poor, because it has an abundance or a rarity of these products, or as it can be in a coarse or polished state. The tradable value of a commodity at a monopoly price is therefore not regulated by the cost of production.

Raw products are not at a monopoly price, since the market price of barley and wheat is as much regulated by their cost of production as the market price of fabric and flax. The only difference is that this portion capital employed in agriculture regulates the price of corn, that is, the part that does not pay rent; that, in the production of manufactured products, each portion of capital is employed with the same results; and since no portion pays rent, each portion is also a price regulator: corn and other raw products can also be increased in quantity, using more capital on the land, and therefore they are not at a price monopoly. There is competition between sellers and between buyers. This is not the case in the production of these rare wines and these precious specimens of art of which we have spoken; their quantity cannot be increased and their price is limited only by the extent of the power and the will of the buyers. The rent of these vineyards can be increased beyond any moderately transferable limit,

because no other land being able to produce such wines, none can be put in competition with them.

Maize and the raw products of a country may indeed for a time sell at a monopoly price; but they can only do this permanently when no capital can be used profitably on the land and therefore their production cannot be increased. At that time, each portion of cultivated land and each portion of capital employed on the land will yield rent, differing in effect in proportion to the difference in yield. At that time, too, any tax that may be imposed on the farmer will fall on the rent, not the consumer. He cannot increase the price of his corn because, by hypothesis, it is already at the highest price at which buyers will buy it or will be able to buy it. He will not be satisfied with a lower rate of profit than other capitalists, and therefore his only alternative will be to obtain a reduction in rent or to quit his job.

Mr. Buchanan considers maize and raw products as a monopoly price because they bring in a rent: all products which bring in a rent, he supposes that they must be made at a monopoly price; and from there he deduces that all taxes on the raw products would fall on the owner and not on the consumer. "The price of corn," he says, "who always affording a rent, being in no way influenced by the costs of its production, these costs must be paid on the rent; and when they go up or down, the consequence is therefore not a higher or lower price, but a higher or lower rent. From this point of view, all taxes on servants, horses or agricultural implements are in reality property taxes; the burden on the farmer for the duration of his lease, and on the owner, when the lease comes to be renewed. Likewise, all of these improved farming tools that save farmer's expense, such as threshing and harvesting machines, all of which gives him easier access to the market, like good roads, canals and bridges, although they reduce the initial cost of corn, do not lower its market price. Everything saved by these improvements therefore belongs to the owner as part of his rent. "

It is obvious that if we cede to Mr. Buchanan the basis on which his argument is based, namely that the price of corn always brings in rent, all the consequences for which he struggles naturally follow. The taxes on the farmer would not then fall on the consumer but on the rent; and all the improvements in the breeding would increase the rent: but I hope to have sufficiently specified that until a country is cultivated in all its parts, and to the highest degree, there is always a portion of capital employed on the land which gives no return. rent, and that it is this portion of capital, the result of

which, as in the factories, is divided between profits and wages, which regulates the price of wheat. The price of corn then, which does not allow a rent, being influenced by the costs of its production, these costs cannot be paid on the rent. The consequence of the increase in these expenses is therefore a higher price and not a lower rent. <sup>21</sup>

It is remarkable that Adam Smith and Mr. Buchanan, who fully agree that the taxes on raw materials, a property tax and the tithe, all fall on land rent, not on consumers of raw products, should nonetheless admit that taxes on malt would fall on the beer consumer, and not on the owner's rent. Adam Smith's argument is so capable of stating the view that I take on the malt tax and all other taxes on raw products that I cannot help but offer to the reader's attention.

"The rent and profits of barley land must always be almost equal to that of other equally fertile and equally well-cultivated land. If they were less, part of the barley land would soon be used for other purposes. ; and if they were, more, more land would soon be devoted to the cultivation of barley. When the ordinary price of a particular product is what one can call a monopoly price, a tax on that -necessarily reduces the rent and profit <sup>22</sup> of the land that drives it. A tax on the products of these precious vineyards, whose wine is so far below effective demand, that its price is always higher than the natural proportion of that of other equally fertile and equally well-cultivated land, would necessarily reduce the rent and enjoy <sup>22</sup> of these vineyards. The price of wines being already the highest that one can obtain for the quantity commonly put on the market, it could not be raised higher without decreasing this quantity; and the quantity could not be diminished without an even greater loss, because the land could not be transformed into any other product of equal value. The total weight of the tax would therefore weigh on rent and profit; - <sup>23</sup> correctly on the *rental* of the vineyard. "" But the regular price of barley was never a monopoly price; and the rent and profit of barley land has never been higher than its natural proportion compared to that of other equally fertile and cultivated land. The various taxes that have been imposed on malt, beer and beer *have*

*never lowered the price of barley* ;-            never reduced rent and profit<sup>24</sup>  
barley land. The price of malt for the brewer has steadily increased in proportion to the taxes imposed on it; and these taxes, as well as the various duties on beer and beer, have constantly increased the price or, what amounts to the same thing, reduces the quality of these products for the consumer. The final payment for these taxes fell constantly on the consumer, not the producer. "In this passage, Mr. Buchanan points out:" A duty on malt could never reduce the price of barley because, unless it is possible to make as much barley by malting it as by selling it unmalted, the required quantity would not be placed on the market. It is therefore clear that the price of malt must increase in proportion to the tax imposed on it, since demand could not otherwise be satisfied. The price of barley, however, is just as much a monopoly price as that of sugar; they both report rent, and the market price of the two has also lost all relevance to the original cost. "

It therefore appears that Mr. Buchanan is of the opinion that a malt tax would increase the price of malt, but that a barley tax from which malt is made would not increase the price of malt. 'barley; and therefore, if malt is taxed, the tax will be paid by the consumer; if the barley is taxed, it will be paid by the owner, because he will receive a reduced rent. According to Mr. Buchanan then, barley is at a monopoly price, at the highest price that buyers are willing to give it; but barley malt is not at a monopoly price, and therefore may be increased in proportion to the taxes which may be imposed on it. Mr. Buchanan's opinion on the effects of a malt tax seems to me to be in direct contradiction to his opinion of a similar tax, a tax on bread. "A tax on bread will ultimately be paid, not by raising prices, but by reducing rent." <sup>24</sup> If a malt tax increases the price of beer, a bread tax must increase the price of bread. -

Mr. Say's following argument is well-founded on the same point of view as that of Mr. Buchanan: "The quantity of wine or corn that a parcel of land will produce will remain more or less the same, whatever the tax which it is charged. The tax can withdraw some half, or even three-quarters of its net product, or its rent please, and yet the land would be cultivated for half or

the quarter not absorbed by the tax. ie the part of the owner, would be just the reason will be seen if we consider that in the case supposed, the quantity of products of the earth, and sent to the market, however, will remain the same. on the other hand, the grounds on which the demand for the product is based also continues the same.

"However, if the quantity of products delivered and the quantity requested necessarily continue in the same way, notwithstanding the establishment or increase of the tax, the price of these products will not vary; and if the price does not vary, the consumer not pay the smallest part of this tax.

"Will it be said that the farmer, the one who provides the labor and the capital, will bear, jointly with the owner, the burden of this tax? Certainly not; because the circumstance or the tax did not decrease the number of farms to be rented, nor increased the number of farmers. As in this case also the supply and demand remain the same, the rents of the farms must also remain the same. The example of the salt manufacturer, which cannot make pay to consumers that part of the tax, and that of the owner who cannot reimburse himself in the least, proves the error of those who maintain, unlike economists, that all taxes ultimately weigh on the consumer. "- Flight. ii. p. 338.

If the tax "took away half, even three-quarters of the net product from the land", and the price of the products did not increase, how could these farmers get the usual profits from stocks that paid very low rents, having this quality of land requiring a much greater share of work to obtain a given result, than land of more fertile quality? If the entire rent was paid, they some profits lower than those of other trades, and therefore would not continue to cultivate their land, unless they can increase the price of its products. If the tax fell on farmers, there would be fewer farmers willing to rent farms; if it fell on the owner, many farms would not be rented at all, because they would have no rent. But from what fund would they pay the tax that produces corn without paying rent? It is quite clear that the tax must fall on the consumer. How would such land, as Mr. Say describes in the next passage, pay a tax of half or three-quarters of its products?

"We see in Scotland poor land thus cultivated by the owner, and which could not be cultivated by anyone else. Thus, we also see in the interior provinces of the United States vast and fertile lands, whose income alone would not suffice. These lands are nevertheless cultivated, but it must be by

the owner himself, or, in other terms, that he must add to the rent, which is little or not at all, the profits of his capital and his industry, to allow him to live in skill. It is well known that the land, although cultivated, brings no income to the owner when no farmer is willing to pay rent for it: which is proof that this land will only give the benefits of capital and industry necessary for its cultivation. "- *Say* , Vol. Ii. P. 127.

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## CHAPTER XVI.

### POOR RATES.

**W**E have seen that taxes on gross revenues and profits of the farmer, will fall on the consumer of raw materials; because unless he has the power to remunerate himself by a price increase, the tax would reduce his profits below the general level of profits and push him to withdraw his capital for another trade. We have also seen that he could not, by deducting it from his rent, transfer the tax to his owner; because this farmer who does not pay rent would, like the farmer of better land, be subject to tax, whether it is levied on raw products or on the farmer's profits. I have also tried to show that if a tax was general and affected all profits, whether manufacturing or agricultural, it did not operate either on the price of raw goods or products, but would be immediately, as well as ultimately, paid by producers. It was noted that a tax on the rent would fall solely on the owner and could in no case be imposed on the tenant.

The poverty rate is a tax which is part of the nature of all these taxes and which, under different circumstances, falls on the consumer of raw products and goods, on the profits from stocks and on the rental of land. It is a tax which weighs particularly on the profits of the farmer and can therefore be considered as affecting the price of raw products. Depending on its degree of equality in manufacturing and agricultural profits, it will be a general tax on profits from stocks and will not lead to any alteration in the price of raw and manufactured products. In proportion to the farmer's inability to pay himself, by increasing the price of raw products, for the part of the tax which particularly affects him, it will be a tax on the rent, and will be paid

by the owner. To know then the functioning of the poor rate at a given time, it is necessary to check if at that time it affects the profit of the farmer and the manufacturer to an equal or an unequal degree; and also if the circumstances are such as to give the farmer the power to increase the price of raw products.

The poor rates are supposed to be collected from the farmer in proportion to his rent; and therefore, the farmer who paid very little or no rent should pay little or no tax. If this were the case, the low rates, to the extent that they are paid by the farm class, would be entirely the responsibility of the owner and could not be passed on to the consumer of raw products. But I believe it is not true; the low rate is not levied according to the rent that a farmer actually pays to his owner; it is proportional to the annual value of its land, whether this annual value is given to it by the capital of the owner or the tenant.

If two farmers rented land of two different qualities in the same parish, the one paying rent of 100 *l.* per year for 50 acres of the most fertile land, and the other the same amount of 100 *l.* per 1,000 acres of less fertile land they would pay the same amount of poor rate, if none of them has attempted to improve the terrain; but if the farmer of the poor lands, supposing a very long lease, were to be brought at great cost to improve the productive capacities of his lands, by smoking, draining, fencing, etc., he would contribute to the poor rates, not in proportion to the rent actually paid to the owner, but at the actual annual value of the land. The rate may be equal to or greater than the rent; but whether this is the case or not, no part of this rate would be paid by the owner. It would have been previously calculated by the tenant; and if the price of the product was not sufficient to compensate it for all its expenses, as well as this supplement for the bad prices, its improvements would not have been undertaken. It is then obvious that the tax in this case is paid by the consumer; for if there had been no rate, the same improvements would have been made, and the usual and general rate of profit would have been obtained on the stock employed, with a lower price of wheat.

It also wouldn't make the slightest difference in this question, if the owner had these improvements himself, and had consequently increased his rent by 100 *l.* at 500 *l.*; the price would also be billed to the consumer; for if he were to spend a large sum of money on his land, it would depend on the rent, or what is called rent, which he would receive as

remuneration; and this would again depend on the price of maize, or other raw products, high enough not only to cover this additional rent, but also the rate at which the land would be subject. But if at the same time all the manufacturing capital contributed to the low rates, in the same proportion as the capital spent by the farmer or the owner to improve the land, then it would no longer be a partial tax on the profits of the farmer or from the owner. capital, but a tax on the capital of all producers; it could therefore no longer be transferred either to the consumer of raw products or to the owner. The profit of the farmer would not feel the effect of the rate any more than that of the manufacturer; and the first could not, any more than the second, plead it as a reason for an increase in the price of his merchandise. It is not the absolute, but the relative decline in profits, which avoids the capital of being employed in a particular trade: it is the difference in profit which sends capital from one job to another.

It must however be recognized that, in the current state of poor rates, a much larger amount falls to the farmer than to the manufacturer, in proportion to their respective profits; the farmer being evaluated according to the actual productions he obtains, the manufacturer only according to the value of the buildings in which he works, regardless of the value of the machinery, labor or stock that he can use. From this circumstance, it follows that the farmer can increase the price of his products by all this difference. Because, since the tax drops unevenly, and in particular on its profits, there would be less reason to devote its capital to the land, than to use it in another trade, unless the price of the raw products is increased. If on the contrary the rate had dropped with a greater weight on the manufacturer than on the farmer, he could have increased the price of his goods by the amount of the difference, for the same reason why the farmer, in similar circumstances, could increase the price of raw products. In a society therefore, which extends its agriculture, when the low rates fall with a particular weight on the ground, they will be paid partly by the employers of capital in reduction of the profits of stocks, and partly by the consumer of raw products in its price increased. In such a state of affairs, the tax may, in certain circumstances, even be advantageous rather than detrimental to the owners; because if the tax paid by the cultivator of the worst lands is higher in proportion to the quantity of products obtained, than that paid by the farmers of the most fertile lands, the rise in the price of corn, which will extend to all corn, will largely compensate the latter for

the tax. This benefit will remain with them for the duration of their lease, but it will then be transferred to their owners. This would then be the effect of low rates in a changing society; but in a stationary country, or in a retrograde country, to the extent that capital could not be withdrawn from the earth, if another rate was levied for the support of the poor, the part of it which fell on the agriculture would be paid, during the current lease, by farmers, but upon the expiration of these leases, it would fall almost entirely to the owners. The farmer, who during his old lease, had spent his capital to improve his land, if he was still in his hands, would be assessed for this new tax according to the new value that the land had acquired by his improvement, and this the amount he would be obliged to pay during his lease, although his profits could thus be reduced below the general rate of profits; for the capital which he has spent can thus be incorporated into the land, that he cannot be withdrawn from it. If indeed he, or his owner, (if he had been spent by him) was able to withdraw this capital, and thus reduce the annual value of the land, the rate would drop proportionately, and as the product would be at the same time decreased, its price would increase; he would be compensated for the tax by invoicing it to the consumer and no part would fall on the rent; but this is impossible, at least with regard to a certain proportion of the capital, and consequently, in this proportion, the tax will be paid by the farmers during their leases and by the owners at their expiration. This additional tax, to the extent that it has decreased unevenly on manufacturers, would in such circumstances be added to the price of their products; for there can be no reason why their profits should be reduced below the general rate of profits, when their capital could be easily transferred to agriculture. <sup>25</sup>

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## CHAPTER XVII.

### ON SUFFERING DEVELOPMENTS IN TRADE CHANNELS.

**A** LARGE manufacturing country is particularly exposed to temporary reversals and unforeseen events, produced by the loss of capital from one job to another. The demands for agricultural products are uniform, they are

not influenced by fashion, prejudice or whim. To maintain life, food is necessary and the demand for food must continue at all ages and in all countries. It's different with factories; the demand for a particular manufactured product is subject not only to the needs, but to the tastes and whims of the buyers. A new tax can also destroy the comparative advantage that a country previously had in manufacturing a particular product.

merchandise; or the effects of the war can increase freight and insurance on its means of transport, so that it can no longer compete with the national production of the country to which it was previously exported. In all these cases, those engaged in the manufacture of these products will experience considerable distress and no doubt losses; and this will be felt not only at the time of the change, but during the whole interval during which they withdraw their capitals and the work which they can order from one job to another.

Distress will not be felt in this country of origin of such difficulties either, but in the countries to which its goods were previously exported. No country can import long if it does not export either, or cannot export long without also importing. If a circumstance should arise which would definitively prevent a country from importing the usual quantity of foreign products, this would necessarily reduce the manufacture of some of these products which were usually exported; and although the total value of the country's productions probably little modified, because the same capital will be used, but they will not be equally abundant and cheap; and considerable distress will be felt by the change of job. If by using 10,000 *l.* in the manufacture of cotton products for export, we imported 3000 pairs of silk stockings worth 2000 *l.* each year . and, by the interruption of foreign trade, we should be obliged to withdraw this capital from the manufacture of cotton and to use it ourselves in the manufacture of stockings, we should still obtain stockings of a value of 2000 *l.* provided that no part of the capital has been destroyed; but instead of having 3000 pairs, we could only have 2500 pairs. In removing the capital from cotton in the storage trade, much distress could be experienced, but it would not significantly harm the value of national property, though that it can decrease the quantity of our annual productions.

The beginning of war after a long peace, or peace after a long war, generally produces considerable distress in commerce. It changes to a large

extent the nature of the the jobs to which the respective capitals of the countries were previously devoted; and during the interval in which they settle in the situations which the new circumstances have made the most advantageous, a large part of the fixed capital is unemployed, perhaps completely lost, and the workers are without full employment. The duration of this distress will be more or less long depending on the strength of this repugnance, that most men feel abandoning the use of their capital to which they have been accustomed for a long time. It is often also prolonged by the restrictions and prohibitions which give rise to the absurd jealousies which prevail between the different States of the Commercial Commonwealth.

The distress which results from a repulsion from commerce is often confused with that which accompanies a decrease in national capital and a state of retrograde society; and it would perhaps be difficult to indicate the marks making it possible to distinguish them with precision.

However, when such distress immediately accompanies the transition from war to peace, our knowledge of the existence of such a cause will reasonably lead to believe that the funds for the maintenance of the workforce have been diverted rather from their usual channel than materially weakened, and that after temporary suffering, the nation will once again progress in prosperity. It should not be forgotten either that the retrograde condition is always a natural state of society. The youthful man grows into adulthood, then decays and dies; but it is not the progress of the nations. When they have arrived at a state of the greatest vigor, their new advance can indeed be stopped, but their natural tendency is to continue for centuries, to keep their wealth and their population unscathed.

In the rich and powerful countries where large capitals are invested in machines, the repulsion of trade will be more proven than in the poor countries where there is proportionally a much smaller amount of fixed capital and a much larger amount of circulating capital. , and where therefore more work is done by the work of men. It is not so difficult to withdraw a circulating fixed capital from any employment in which he can be hired. It is often impossible to divert machines that may have been erected for one production, for the purposes of another; but the worker's clothing, food and housing in one job may be used to support the worker in another, or the same worker may receive the same food, the same clothes and the same accommodation while their job is changed. But this is an evil to which a rich nation must submit; and it would be no more reasonable to

complain, than it would be for a wealthy merchant to complain that his ship was exposed to the dangers of the sea, while the house of his poor neighbor was sheltered of all these dangers.

Such contingencies, although to a lesser degree, even agriculture is not exempt. War, which, in a trading country, interrupts state trade, frequently prevents the export of wheat from countries where it can be produced inexpensively to other countries less favorably situated. In such circumstances, an unusual amount of capital is attracted to agriculture and the country which before comes independent of foreign aid. At the end of the war, the import barriers were removed, and a destructive competition for the farmer began, from which he could not withdraw, without sacrificing a large part of his capital. The best policy of the state would be to impose a tax, the amount of which decreases from time to time, on the importation of foreign corn, for a limited number of years, in order to allow the home grower to withdraw his gradually capital of the earth. In so doing, the country might not make the most advantageous distribution of its capital, but the temporary tax to which it was subject would be to the advantage of a particular category, the distribution of capital of which was very useful in obtaining a when the import was stopped. If such efforts in times of emergency were followed by a risk of ruin at the end of the difficulty, capital would avoid such employment. In addition to the usual benefits of the stock, farmers would expect to be compensated for the risk they incurred of a sudden influx of corn, and therefore the price to the consumer, in the seasons when he most needed supplies, would be increased not only by the higher cost of growing corn at home, but also by the assurance that he would have to pay, in the price, for the particular risk to which this use of capital was exposed. Despite this, it would be more productive of wealth for the country, whatever capital sacrifice it might make, to allow the importation of cheap corn, it might be desirable to charge it a duty for a few years .

In examining the question of rent, we found that with each increase in the supply of corn and with the consequent fall in its price, capital would be withdrawn from the poorest lands; and better described land, which would then pay no rent, would become the standard by which the natural price of corn would be regulated. At 4 *l.* per district, lower quality land, designated by No. 6, could be cultivated; at 3 *l.* 10 *s.* # 5; at 3 *l.* # 4, and so on. If corn, as a result of permanent abundance, fell to 3 *l.* 10 *s.* the

capital employed at No. 6 would cease to be employed; because it was only when the corn was 4 *liters*. that she could obtain general profits, even without paying rent: she would therefore be withdrawn to manufacture the goods with which all the corn grown on No. 6 would be bought and imported. In this job, it would necessarily be more productive for its owner, or it would not be withdrawn from the other; for if he could obtain more corn by cultivating it on land for which he did not pay rent, than by manufacturing a commodity with which he bought it, its price could not be less than 4 *l*.

It has been said, however, that capital cannot be withdrawn from the earth; that it takes the form of non-recoverable expenses, such as manuring, fencing, draining, etc., necessarily inseparable from the land. This is to some extent true; but this capital which is made up of cattle, sheep, hay and corn, carts, etc. can be removed; and it always becomes a matter of calculation whether these will continue to be used on the land, despite the low price of corn, or if they are to be sold and their value transferred to another use.

Suppose, however, that the fact is as indicated and that no part of the capital can be withdrawn; the farmer would continue to grow corn, and precisely the same amount too, regardless of the price he could sell; for it could not be in his interest to produce less, and if he did not use his capital thus, he would obtain no return. The corn could not be imported because it would sell it for less than 3 *l*. 10 *s*. rather than not selling it at all, and assuming that the importer could not sell it at that price. Although farmers, who cultivated land of this quality, would no doubt be harmed by the drop in the tradable value of the goods they produced, - how would the country be affected? We should have exactly the same amount of each commodity produced, but the raw products and corn would be sold at a much cheaper price. The capital of a country is made up of its goods, and as these would be the same as before, reproduction would continue at the same rate. This low price of corn would offer only the usual profits of the shares in the ground, n ° 5, which would then pay no rent, and the rent of all the best lands would fall: the wages would also fall and the profits would increase.

However low the price of corn may be, it could fall; if capital could not be withdrawn from the land and demand did not increase, no imports would take place; for the same amount as before would be produced at home. Although there would be a different division of products, and some

classes would benefit from it and others would be hurt, the aggregate of production would be precisely the same, and the nation collectively would be neither richer nor poorer.

But there is this advantage which always results from a relatively low price of maize, - that the division of real production is more likely to increase the fund for the maintenance of the labor force, insofar as more will be assigned, under the name of profit, to the productive class, less, under the name of annuity, to the unproductive class.

It's true, even if capital cannot be withdrawn from the land, and must be used there or not at all: but if a large part of the capital could be withdrawn, as it obviously could, it would be withdrawn only when it would bring more to the owner in being removed than being suffered from staying where it was; it will only be removed when it can be used elsewhere more productively for both the owner and the public. He agrees to sink the part of his capital which cannot be separated from the earth, because with this part which he can take away, he can obtain a greater value and a greater quantity of raw products than by not sinking this part of the capital. Capital city. His case is exactly like that of a man who erected machines in his factory at great cost, machines which are subsequently improved so much by more modern inventions, that the goods which he produced are very valuable. . It would be entirely a matter of calculation with him if he were to abandon the old machine, and erect the most perfect, *lose all the value of the old* , or continue to take advantage of its relatively weak powers. Who, in such circumstances, would he urge him to give up using the best machines, as this would deteriorate or destroy the value of the old ones? However, this is the argument of those who would like us to ban the importation of corn, because it will deteriorate or destroy this part of the farmer's capital that is forever embedded in the land. They do not see that the end of all trade is to increase production, and that by increasing production, although you may cause partial loss, you increase general happiness. To be consistent, they should strive to stop all improvements in agriculture and manufacturing, as well as all machine inventions; for if these contribute to general abundance, and therefore to general happiness , they never fail, at the time of their introduction, to deteriorate or destroy part of the existing capital of farmers and industrialists.

Agriculture, like all other trades, and in particular in a trading country, is the subject of a reaction which, in the opposite direction, succeeds the

action of a strong recovery. So when the war interrupts the importation of maize, its high price which results from it, attracts capital to the land, thanks to the significant profits which such employment gives it; this will likely result in more capital to be used and more raw products to market than demanded by the country. In such a case, the price of maize will fall due to an overabundance and great agricultural distress will be produced, until the average supply is brought back to a level corresponding to the average demand.

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## CHAPTER XVIII.

### VALUE AND RICH, THEIR DISTINCTIVE PROPERTIES.

"**A** MAN is rich or poor," says Adam Smith, "according to the degree to which he can afford to enjoy the necessities, amenities, and entertainment of human life."

Value then essentially differs from wealth, because value does not depend on abundance, but on the difficulty or ease of production. The work of a million men in factories will always produce the same value, but will not always produce the same wealth. By the invention of machinery, by the improvement of skills, by a better division of labor, or by the discovery of new markets, where more profitable exchanges can be made, a million men can produce double, or be able the quantity of wealth, of "necessities, conveniences and entertainment", in one state of the society, which they could produce in another, but they will not add anything of this fact to the value; for each thing rises or falls in value, in proportion to the ease or difficulty of producing it, that is to say in proportion to the quantity of labor employed for its production. Suppose that with a given capital, the work of a certain number of men produces 1000 pairs of stockings, and that by inventions in machines, the same number of men can produce 2000 pairs, or that they can continue to produce 1000 pairs, and produce in addition to 500 hats; then the value of the pair of socks 2000; or the 1000 pairs of stockings and 500 hats, will be neither more nor less than that of the 1000 pairs of stockings before the introduction of the machines; because they will be the

product of the same amount of work. But the value of the general mass of the goods will nevertheless be reduced; for although the value of the increased quantity produced as a result of the improvement is exactly the same as the value of the lesser quantity produced, in the absence of improvement, an effect is also produced on the part of the goods not yet consumed, which were manufactured before the improvement; the value of these goods will be reduced, to the extent that they must fall to the level, quantity for quantity, of the goods produced under all the advantages of improvement: and society, notwithstanding the increase in the quantity of its goods, notwithstanding its increase in wealth and its increased means of enjoyment have less value. By constantly increasing the ease of production, we constantly decrease the value of some of the products before production, although by the same means we add not only to national wealth, but also to the power of future production. Many errors in political economy are due to errors on this subject, to consider an increase in wealth and an increase in value, to mean the same thing, and from unfounded notions as to what constitutes a standard measure of value. A man sees money as a standard of value, and a nation he says gets richer or poorer as his goods of all kinds can exchange for more or less money. Others represent money as a very convenient means of bartering, but not as an appropriate measure to estimate the value of other things: the real measure of value according to them is corn, <sup>26</sup> and a country is rich or poor, depending on whether its goods are exchanged more or less corn. There are still others, who consider a country rich or poor, depending on the amount of work it can buy. <sup>27</sup> But why should gold, corn, or labor be the standard measure of value, more than coals or iron? - more than cloth, soap, candles and other necessities of the worker? - why, in short, should any product, or all products together, be the norm, when such a norm is itself subject to fluctuations in value? Corn, as well as gold, may, due to difficulties or production facilities, vary by 10, 20 or 30 percent compared to other things; why should we always say that it was these other things that varied, not the wheat? This merchandise is invariable on its own, which requires at all times the same sacrifice of labor and labor to produce it. We have no knowledge of such a commodity, but we can hypothetically discuss and talk

about it, as if we had it; and can improve our knowledge of science, by clearly showing the absolute inapplicability of all the standards that have been adopted so far. But supposing that one or the other is a correct standard of value, it would not yet be a standard of wealth, because wealth does not depend on value. A man is rich or poor, according to the abundance of necessities and luxuries he can command; and whether their value exchangeable for money, corn or labor is high or low, they will also contribute to the enjoyment of their owner. It's by confusing ideas of value and wealth, or wealth, it has been argued, that by decreasing the quantity of goods, that is to say, necessities, conveniences and enjoyments of human life, wealth can be increased. If value was the measure of wealth, this could not be denied, because by scarcity the value of goods increases; but if Adam Smith is right, if riches consist of necessities and enjoyments, then they cannot be increased by a decrease in quantity.

It is true that the man in possession of a rare commodity is richer, if he can, through him, command more the necessities and the pleasures of human life; but as the general stock from which the wealth of each man is drawn is reduced in quantity, by all that any individual draws from it, the shares of other men must necessarily be reduced proportionally, because this favored individual can appropriate a greater amount for itself. .

Let water become scarce, says Lord Lauderdale, and be exclusively owned by an individual, and you will increase its wealth, because water will then have value; and if wealth is the aggregate of individual wealth, by the same means, you will also increase wealth. You will undoubtedly increase the wealth of this individual, but insofar as the farmer must sell part of his wheat, the shoemaker part of his shoes, and all the men abandon part of their property for the sole purpose of replenish with water. , which they had previously had for nothing, they are poorer in the whole quantity of goods which they are obliged to devote to this purpose, and the owner of the water profits precisely from the amount of their loss. The same amount of water and the same amount of goods are appreciated by all of society, but they are distributed differently. However, this supposes rather a monopoly of water than a scarcity of it. If it were rare, then the wealth of the country and individuals would in fact be diminished, to the extent that it would be deprived of part of one of its enjoyments. The farmer would not only have less corn to trade for other products that might be necessary or desirable for him, but he and any other individual would be shortened in the enjoyment

of one of the most essential to their comfort. Not only would there be a different distribution of wealth, but a real loss of wealth.

We can then say of two countries possessing exactly the same amount of all the necessities and comfort of life, that they are also rich, but the value of their respective wealth would depend on the ease or the comparative difficulty with which they have been produced. Because if an improved machine allowed us to make two pairs of stockings, instead of one, without additional work, double the quantity would be given in exchange for one meter of fabric. If a similar improvement is made in the manufacture of the fabric, the stockings and the fabric will be exchanged in the same proportions as before, but they will both have lost value; for by exchanging them for hats, for gold or other goods in general, it is necessary to give twice the first quantity. Extend the improvement to gold production and all other products; and they will all return to their old proportions. There will be double the quantity of products produced annually in the country, and therefore the wealth of the country will be doubled, but this wealth will not have increased in value.

Although Adam Smith gave the correct description of wealth, which I have noticed more than once, he then explains it differently and says, "A man must be rich or poor according to the amount of work he can afford to buy." Now, this description differs essentially from the other and is certainly incorrect; for suppose that the mines become more productive, so that gold and silver lose value, thanks to the greater ease of their production; or that the velvets had to be made with so much less work than before, that they fell to half their former value; the wealth of all those who buy these goods would be increased: one man could increase the quantity of his plate, another could buy double the quantity of velvet; but with the possession of this additional plate and velvet, they could not employ more work than before; because as the exchangeable value of the velvet and the plate would be lowered, they must proportionally part with more of these kinds of wealth to buy a day's work. Wealth cannot then be estimated by the amount of work they can buy.

From what has been said, it will be seen that the wealth of a country can be increased in two ways: it can be increased by employing a greater part of the incomes in the maintenance of the productive workforce, which will not only increase the quantity, but the value of the mass of the goods; or it can be increased, without using any additional amount of labor,

by making the same amount more productive, which will add to the abundance, but not to the value of the goods.

In the first case, a country would not only become rich, but the value of its wealth would increase. He would become wealthy sparingly; by reducing spending on luxury and pleasure items; and use those savings in reproduction.

In the second case, there will be no need either a reduction in spending on luxury and enjoyment, or an increase in the quantity of productive labor employed, but with the same labor more would be produced; wealth would increase, but not value. Of these two modes of increasing wealth, the latter must be preferred, because it produces the same effect without deprivation and reduction of enjoyments, which cannot fail to accompany the first mode. Capital is the part of a country's wealth that is used for future production and can be increased in the same way as wealth. Additional capital will be just as effective in producing future wealth, whether it comes from upgrading skills and machines or using more reproductive income; for wealth always depends on the quantity of goods produced, regardless of the ease with which the instruments used in production could be purchased. A certain amount of clothing and food will maintain and employ the same number of men, and therefore provide the same amount of work to do, whether produced by the work of 100 or 200 men; but they will be twice as large if 200 were used in their production.

Mr. Say seems to me to have been singularly unhappy in his definition of wealth and value in the first chapter of his excellent work: here is the substance of his reasoning: wealth, he observes, consists only of things that have value themselves: riches are great when the sum of the values that compose them is great. They are small when the sum of their values is small. Two things of equal value are riches of equal quantity. They have the same value when, by mutual agreement, they are freely exchanged for each other. Now, if humanity values something, it is because of the *uses to* which it applies. This ability, which certain things have, of satisfying the various needs of humanity, I call utility. To create objects that have any value is to create wealth, because the usefulness of things is the first foundation of their value, and it is the value of things that constitutes wealth. But we don't create objects: all we can do is reproduce matter in another form - we can make it useful. Production is therefore a creation, not of material but of utility, and it is measured by the value resulting from

the utility of the object produced. The utility of any object, according to a general estimate, is indicated by the quantity of other goods for which it will be exchanged. This evaluation, resulting from the general estimate formed by society, constitutes what Adam Smith calls value in exchange; what Turgot calls appreciable value; and what we can refer to more briefly by the term *value* .

So far, Mr. Say, but in his account of value and wealth, he has confused two things which must always be separated, and which are called by Adam Smith, use value and exchange value. If, thanks to an improved machine, I can, with the same amount of work, make two pairs of stockings instead of one, I in no way alter the *usefulness* of a pair of stockings, although I reduce their value. If then I had exactly the same amount of coats, shoes, stockings and all the other things, as before, I should have exactly the same amount of useful objects, and should therefore also be rich, if utility was the measure of wealth; but I should have less value, because my stockings would only be half their old value. Utility is therefore not a measure of exchangeable value.

If we ask Mr. Say what wealth is, he tells us that he has valuables. If we then ask him what he means by value, he tells us that things are precious insofar as they have a use. If again we ask him to explain to us by what means we must judge the usefulness of objects, he replies, by their value. So the measure of value is utility, and the measure of utility is value.

Mr. Say, speaking of the excellences and imperfections of Adam Smith's great work, imputes to him, as a mistake, that "he attributes to the work of man alone the power to produce value. A more detailed analysis correct shows us that value is due to the action of work, or rather of the industry of man, combined with the action of agents that nature provides, and that of capital. His ignorance of this principle prevented him from establishing the true theory of the influence of machines in the production of wealth. "

Contrary to the opinion of Adam Smith, Mr. Say, in the fourth chapter, speaks of the value which is given to the goods by the natural agents, such as the sun, the air, the pressure of the atmosphere, etc., which are sometimes substituted for the work of man, and sometimes agree with him in production.<sup>28</sup>

But these natural agents, although they add a lot to the *use value* , never add an exchangeable value, of which Mr. Say speaks, to a commodity: as soon as, using machines or by the knowledge of natural philosophy, you force natural agents to perform the work that was previously done by man, the exchangeable value of such work decreases accordingly. If ten men transformed a corn mill, and it was discovered that using the wind or water, the work of these ten men could be saved, the flour, which is the product of the work done by the mill, would immediately drop in value, proportional to the amount of labor saved; and society would be richer in the goods which the work of the ten men could produce, the funds intended for their maintenance being in no way altered.

Mr. Say accuses Dr. Smith of neglecting the value that natural agents and machines place on goods. for he considered that the value of all things came from the work of man; but it does not seem to me that this accusation is established; Nowhere does Adam Smith undervalue the services these natural agents and machines provide for us, but he rightly distinguishes the nature of the value they add to goods - they are useful to us, increasing the abundance of products , making men richer, adding to the utility value; but since they do their work for free, as nothing is paid for the use of air, heat and water, the help they give us adds nothing to the value in return . In the first chapter of the second book, Mr. Say himself gives a statement of similar value, because he says that "utility is the foundation of value, that goods are only desirable, because they are in some way so useful, but that their value does not depend on their usefulness, not on the extent to which they are desired, but on the amount of work necessary to obtain them. " "

The usefulness of a commodity thus understood, makes it an object of human desire, makes him desire and establishes it. When to get a thing, just desiring it, it can be considered as an article of natural wealth, given to man in unlimited quantity, and which he enjoys, without buying it by any sacrifice; such are air, water, sunlight. If he thus obtained all the objects of his desires and desires, he would be infinitely rich: he would lack nothing. But unfortunately this is not the case; most of the things which are convenient and agreeable to him, as well as those which are indispensable in the social state, for which man seems to be specially trained, are not given to him free of charge; they could only exist through the effort of certain works, the use of a certain capital and, in many cases, through the use of land. These are obstacles to gratuitous enjoyment; the obstacles from

which actual production expenditure results; because we have to pay for the help of these production agents. "" It is only when this utility has been so communicated to a thing (namely by industry, capital and land) that it is a production, *and that it has value* . It is its usefulness that is the basis of the request, *but the sacrifices and burdens necessary obtaining it, that is to say its price* , limits the extent of this demand. "

The confusion that results from the confusion of the terms "value" and "wealth" will be better seen in the following passages.<sup>30</sup> His pupil observed: "You also said that the wealth of a society was composed of the total sum of the values that it possessed; it seems to me to follow, that the fall of a production, from low for example, by decreasing the total sum of the value belonging to the society, decreases the mass of its wealth; " to which the following answer is given:" the *sum* of the wealth of the society will not fall for this account. Two pairs of stockings are produced instead of one; and two pairs at three francs, are also worth with a pair at six francs. The revenues of the company remain the same, because the manufacturer has earned as much on two pairs at three francs, that he has earned on a six franc pair. " So far, Mr. Say, though incorrect, is at least consistent. If value is the measure of wealth, society is also wealthy because value of all of its products is the same as before. But now for his deduction. "But when the income remains the same, and the production drops in price, the company really gets rich. If the same drop takes place at the same time in all the products, which is not absolutely impossible, the company procures at half of its old price, all the objects of its consumption, without having lost part of its income, would actually be twice as rich as before, and could buy twice as much goods. "

In the first passage, we are told that if each thing fell to half its value, of abundance, society would also be rich, for there would be twice the quantity of goods at half their former value, or in other words, there would be the same value. But in the last passage, we are informed that by doubling the quantity of products, although the value of each product should be halved, and therefore that the value of all the products together is exactly the same as before, the society would be twice as rich as before. In the first case, wealth is estimated by the amount of value: in the second, they are estimated by the abundance of products contributing to human

pleasures. Mr. Say also says: "that a man is infinitely rich without valuables, if he cannot get all the objects he wants for nothing; however, we are told in another place" that wealth consists, not in the product itself, because it is not wealth if it has no value, but in its value. "Vol. II. P. 2.

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## CHAPTER XIX.

### EFFECTS OF ACCUMULATION ON PROFITS AND INTERESTS.

FROM the account that has been given the profits of stock, it appears that no capital accumulation will lower to permanent earnings, unless there is a permanent cause of rising wages. If the funds for manpower maintenance were doubled, tripled or quadrupled, it would not be long to find the required number of hands to be employed by these funds; but because of the increasing difficulty of making constant contributions to the country's food, funds of the same value would probably not maintain the same amount of work. If the needs of the worker could be constantly increased with the same ease, there could be no permanent alteration of profit or salary, regardless of the amount of capital that could be accumulated. Adam Smith, however, uniformly attributes the fall in profits to capital accumulation and the competition that will result, without ever emphasizing the increasing difficulty of providing food for the additional number of workers that the additional capital will employ. "The increase in stocks," he says, "which increases wages, tends to lower profits. When the stocks of many wealthy merchants are transformed into the same trade, their mutual competition naturally tends to lower its profits; and when there is a similar increase in stocks in all the different trades in the same company, the same competition must have the same effect altogether." Adam Smith is talking about an increase in wages here, but this is a temporary increase, increasing funds before the population increases; and he does not seem to see that at the same time as capital increases, the work to be done by capital increases in the same proportion. Mr. Say has however shown very satisfactorily that there is no

capital which cannot be employed in a country, because demand does 'is limited only by production. No man produces, but with a view to consuming or selling, and he never sells, but with the intention of buying another commodity, which may be immediately useful to him, or which may contribute to future production. By producing, he therefore necessarily becomes either the consumer of his own goods, or the buyer and consumer of another person's goods. It should not be assumed that he should, for a long time, be uninformed about the goods he can produce most advantageously, in order to achieve the object he has in view, namely the possession of other goods; it is therefore unlikely that it will continually produce a commodity for which there is no demand. <sup>31</sup>

No sum of capital can then be accumulated in a country which cannot be used productively, until wages rise so high because of the increase in necessities, and there is so little left for them. stock profits, let the reason for accumulation cease.<sup>32</sup> While the benefits of stocks are high, men will have a reason for accumulation. While a man has no desired satisfaction not provided, he will have a demand for more goods; and it will be an effective demand as long as it has new value to offer in return. If ten thousand pounds were given to a man of 100,000 *l.* per year, he would not lock it in a trunk, but would increase his expenses by 10,000 *l.* ; use it productively or lend it to another person for this purpose; in both cases, the demand would be increased, even if it was for different objects.- If he increased his expenses, his actual demand could probably relate to buildings, furniture or such enjoyment. If he used his 10,000 *l.* productively, its effective demand would be for food, clothing and raw materials, which could put new workers to work; but that would still be the demand. <sup>33</sup>

The productions are always bought by productions, money is only the means by which the exchange takes place. It is possible to produce too much of a particular commodity, the glut of which on the market can be such that it does not reimburse the capital spent; but this cannot be the case for all goods; the demand for corn is limited by the mouths that must eat it,

the shoes and coats by the people who must wear them; but although a community, or part of a community, may have as much corn and as many hats and shoes as it can or may want to consume, the same cannot be said of every commodity produced by nature or by art. Some would consume more wine if they had the capacity to get it. Others, having enough wine, would like to increase the quantity or improve the quality of their furniture. Others may want to decorate their land or expand their home. The wish to do all or part of these is established in the bosom of every man; nothing is necessary except the means, and nothing can afford the means, but an increase in production. If I had food and necessities at my disposal, I would not fail to have workers who would put me in possession of some of the objects most useful or most desirable to me.

Whether these increases in production and the consequent demand which they cause, reduce profits or not, depend solely on the rise in wages; and increasing wages, with the exception of a limited period, on the ease of producing food and the necessities of the worker. I say, except for a limited time, because no point is better established, that the supply of labor will always be ultimately proportional to the means of supporting them.

There is only one case, and it will be temporary, in which the accumulation of capital with a low price of food can be accompanied by a fall in profits; that is, when the funds needed to maintain the workforce grow much faster than the population; - wages will then be high and profits low. If each man had to give up the use of luxury and focus only on accumulation, a quantity of necessary products could be produced, for which there could be no immediate consumption. Among the commodities so limited in number, there could undoubtedly be a universal glut, and therefore there could be neither demand for an additional quantity of these products, nor profits from the employment of more capital. . If men stopped consuming, they would stop producing. This admission does not call into question the general principle. In a country like England, for example, it is difficult to assume that there may be a willingness to devote the entire capital and labor of the country to the production of necessities.

When the traders engage their capital in the foreign trade, or in the trade of portage, it is always by choice, and never by necessity: it is because in this trade their profits will be a little more important than in the internal trade .

Adam Smith aptly observed "that the desire for food is limited in every man by the narrow capacity of the human stomach, but the desire for conveniences and ornaments of construction, clothing, equipment and household furniture, seems to have no limits or certain limits. "Nature then necessarily limited the amount of capital that can at some point be profitably engaged in agriculture, but it placed no limit on the amount of capital that can be used to provide" the conveniences and the ornaments "of life. Obtaining these gratuities in greater abundance is the object in view, and it is only because foreign trade, or the portage trade, will accomplish it better, than men. indulge in them, preferably in the manufacture of the necessary products, or a substitute for them, at home. If, however, special circumstances, we were prevented from committing capital in foreign trade or in the portage trade , we should, although with fewer benefits, use it at home, and although there is no limit to the desire for "amenities, building ornaments, dress, equipment and household furnishings" there can be no limit to the capital that can be employed to obtain them, except what limits our power to maintain the workers who must produce them.

Adam Smith, however, talks about babywearing trade not a choice but a necessity; as if the capital involved was inert there if it were not so employed, as if the capital of internal trade could overflow, if it was not limited to a limited amount. He says, "when the capital stock of a country is increased to such a degree *that it cannot be used to supply consumption and support the productive labor of that particular country* , the excess part of it naturally disgorges in transport trade, and performs the same functions in other countries. "

"About ninety-six thousand coppers of tobacco are bought each year with part of the surplus products of British industry. But demand from Great Britain may not require more than fourteen thousand. If the four -the remaining two thousand, therefore, could not be sent abroad *and exchanged for something more in demand at home* , their importation would cease immediately, *and with it the productive work of all the inhabitants of Great Britain , which are at present employed in preparing the goods with which these eighty-two thousand pipes are bought each year* . " But this part of the is Britain's productive workforce employed to prepare another kind of goods, with which something more in demand at home could be bought? And if that could not, could we not use this productive work, although with less advantages, to manufacture these goods in demand at

home, or at least a substitute? If we wanted velvets, could we not try to make velvets; and if we could not succeed, could we not make more fabric or some other object that is desirable to us?

We manufacture basic products and, with them, buy goods abroad, because we can get a larger quantity than we could do at home. We deprive ourselves of this craft, and we immediately manufacture again for ourselves. But this opinion of Adam Smith is in contradiction with all his general doctrines on this subject. "If a foreign country can provide us with a cheaper product than we can do, it is better to buy it with part of the products of our own industry, used so that we have a certain advantage. *The industry general of the country being always proportional to the capital which employs it* , will not be diminished thereby, but left only to discover how it can be used with the greatest benefit. "

Again. "Those, therefore, who have orders for more food than they can eat themselves, are always ready to exchange the surplus, or, what is the same thing, the price of it, for gratifications of another kind, satisfying the limited desire, are given for the amusement of those desires which cannot be satisfied, but seem to be quite endless. The poor, in order to obtain food, strive to satisfy these fantasies of the wealthy; and to obtain it more certainly, they compete in the cheapness and the perfection of their work. The number of workers increases with the increasing quantity of food, or with the increasing improvement and the culture of land; and as the nature of their enterprise admits the most extreme subdivisions of work, the quantity of materials which they can work increases in a proportion much greater than their number. Hence a demand for all kinds of materials than the invention hu maine can use, either usefully or allied, in construction, clothing, equipment or household furniture; for fossils and minerals contained in the bowels of the earth, precious metals and precious stones. "

Adam Smith has rightly observed that it is extremely difficult to determine the rate of profit on equities. "The profit is so fluctuating that, even in a particular trade, and much more in the trades in general, it would be difficult to indicate the average rate. To judge what it may have been in the past or in remote periods , with a certain degree of precision, must be entirely impossible. " Yet, as it is evident that much money will be given for the use of money, while much can be done by it, suggests he, "the market interest rate will lead us to get a certain idea of the rate of profit and the history of the progress of interest gives us that of the progress of

profits." Without a doubt, if the rate of 'market interest could be known precisely for a considerable period of time, we should have a fairly correct criterion for estimating profit growth.

But in all countries, starting from wrong notionsAs a matter of policy, the state intervened to prevent a fair and free market interest rate, by imposing heavy and ruinous sanctions on all those who take more than the rate set by law. In all countries, these laws are probably evaded, but the documents give us little information on this subject and indicate the legal and fixed rate rather than the market interest rate. During the current war, treasury and navy bills have often benefited from such a high discount that they have allowed their buyers 7 to 8% or a higher interest rate for their money. Loans have been granted by the government at interest above 6%. Individuals have often been forced, by indirect means, to pay more than 10% for interest on money; however, during this same period, the legal interest rate was uniformly 5%. We can then depend little on the information of what is the fixed and legal interest rate, when we find that it can differ considerably from the market rate. Adam Smith informs us that, from the 37th of Henry VIII, to the 21st of James I., 10 percent. the legal interest rate. Shortly after the restoration, it was reduced to 6%., and by Anne's 12, 5 percent. He believes that the legal rate followed and did not precede the market interest rate. Before the American War, the government borrowed at 3% and the creditors of the capital and many other parts of the kingdom at 3½, 4 and 4½%.

The interest rate, although ultimately and permanently governed by the rate of profit, is however subject to temporary variations from other causes. With each fluctuation in the quantity and value of money, product prices naturally vary. They also vary, as we have already shown, from the alteration in the proportion of supply to demand, although there should be no greater ease or difficulty of production. When the market prices of goods fall from an abundant supply, a diminished demand or an increase in the value of money, a manufacturer naturally accumulates an unusual quantity of finished products, unwilling to sell them to very depressed prices. To meet his ordinary payments, on which he once depended on the sale of his property, he now endeavors to borrow on credit, and is often forced to grant a higher interest rate. However, this is only temporary; because either the expectations of the manufacturer were well entrenched, and the market price of its products increases, or he discovers that there is a permanent

drop in demand, and he can no longer resist in the course of business: prices fall, money and interest return to their true value. If, by the discovery of a new mine, by the abuses of the bank or by any other cause, the quantity of money increases considerably, its ultimate effect is to increase the prices of goods in proportion to the increased quantity of money; but there is probably always an interval during which a certain effect occurs on the interest rate.

The price of a financed asset is not a constant criterion for judging the interest rate. In wartime, the stock market is so crowded with continued government loans, that stock prices don't have time to settle in at their proper level before a new financing transaction takes place, or until 'be affected by the anticipation of political events. In peacetime, on the contrary, the open market sinking fund rations, the reluctance that a particular category of people feels to divert their funds to another job than that to which they have been accustomed, which they think safe and in which their dividends are paid with the greatest regularity, raises the price of the shares and, consequently, lowers the rate of interest on these titles below the general rate of the market. It is also observable that, for different securities, the government pays very different interest rates. While 100 l. capital at 5%. the stock sells for 95 l. , a 100 l note . , will sometimes sell for 100 l. 5 s. , for which the invoice from the Treasury, no interest will be paid annually more than 4 l. 11 s. 3 d. : one of these securities pays a buyer at the above prices, an interest of more than 5¼ percent., the other but a little more than 4¼; a certain amount of these treasury bills is necessary as a safe and marketable investment for bankers; if they increased well beyond this demand, they would likely be as depreciated as the 5 percent. Stock. 3% stock. per year will always sell at a proportionately higher price than

paying stock 5 percent., for the capital debt of neither can be discharged but at par, or 100 l. money for 100 l. Stock. The market interest rate can drop to 4 percent. The government would then pay the holder 5 percent. stock at par, unless he agrees to take 4 percent., or an interest rate below 5 percent. They would have no advantage in paying the holder 3 percent. until the market interest rate has dropped below 3 percent. per year. To pay interest on the national debt, large sums of money are withdrawn from circulation four times a year for a few days. These requests

for money being only temporary, rarely affect prices; they are usually overcome by paying a high interest rate. 35

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## CHAPTER XX.

### EXPORT FEES AND IMPORT PROHIBITIONS.

**A** PREMIUM on the export of maize tends to lower its price for the foreign consumer, but it has no permanent effect on its price on the domestic market.

Suppose that to afford the usual and general profits from the stock, the price of maize in England should be 4 *l.* by shift; it could not then be exported to foreign countries where it sold for 3 *l.* 15 *s.* by quarter. But if a premium of 10 *s.* per quarter were given for export, it could be sold on the foreign market at 3 *l.* 10 *s.* , and therefore the same profit would be granted to the corn cultivator, that he sells it at 3 *l.* 10 *s.* abroad, or at 4 *l.* on the domestic market.

A premium, which should lower the price of British corn in the foreign country, below the cost of producing corn in that country, would naturally increase demand for British corn and decrease the demand for their own corn. This expansion in demand for British maize could not fail to increase its price for some time on the domestic market and, meanwhile, also to prevent its fall so low on the foreign market that the premium tended to occur . But the causes which thus operate on the market price of corn in England would have no effect on its natural price, on its real cost of production. Growing corn would require neither more labor nor more capital and, therefore, if the profits of the farmer's stock were previously only equal to the benefits of the stock of other traders, they will, after prices rise, considerably above them . By increasing the profits of the farmer's stock, the premium will serve as an incentive for agriculture and capital will be withdrawn from manufactured products for use on the land, until increased demand for the foreign market has been provided, when the price of corn falls at home again market at its natural and necessary price, and profits will again be at their ordinary and usual level. The increase in the

supply of grain operating on the foreign market will also lower its price in the country to which it is exported and thus limit the profits of the exporter at the lowest rate at which he can afford to trade.

The ultimate effect of a premium on the export of corn is therefore not to raise or lower the price on the domestic market, but to lower the price of corn for the foreign consumer - across the board. the premium, if the price of maize had not previously been lower on the foreign market than on the domestic market - and to a lesser extent, if the price in the country had been higher than the price on the foreign market.

A writer in the fifth vol. of the Edinburgh Review on an export premium for maize, very clearly emphasized its effects on foreign and domestic demand. He also rightly pointed out that he would not fail to encourage agriculture in the exporting country; but it seems to have absorbed the common error that misled Dr. Smith, and I believe most other writers on it. He assumes, because the price of corn ultimately regulates wages, that he will therefore regulate the price of all other products. He says that the premium, "by increasing the profits of agriculture, will function as an incentive to breeding; by increasing the price of corn for consumers at home, it will decrease their purchasing power for the time being. necessary of life, and It is obvious, however, that this latter effect must be temporary: the wages of hardworking consumers had previously been adjusted by competition, and the same principle will adjust them again at the same rate, increasing money labor price, *and thus other products, at the silver price of corn* . The export premium, therefore, will ultimately increase the silver price of corn on the domestic market; not directly , but through increased demand on the foreign market and a consequent increase in the real price in the country: *and this increase in the price of silver, when it has been communicated to other goods, will of course become fixed* . "

If, however, I have succeeded in showing that it is not the rise in wages in labor money which drives up the price of raw materials, but that this rise always affects profits, it follows that the prices of raw materials would not increase as a result of a premium.

But a temporary increase in the price of corn, produced by increased demand from abroad, would have no effect on the monetary price of wages. The rise in maize results from competition for this offer, which was previously exclusively reserved for the domestic market. By increasing profits, additional capital is used in agriculture and increased supply is

obtained; but until it is obtained, the high price is absolutely necessary to match consumption to supply, which would be thwarted by higher wages. The rise of corn is a consequence of its scarcity and is the means by which the demand of home buyers is diminished. If wages were increased, competition would increase and a further increase in the price of maize would become necessary. In this account of the effects of a premium, nothing was supposed to happen to increase the natural price of corn, by which its market price is ultimately governed; for it has not been assumed that additional labor would be necessary on the land to assure a given production, and that alone can increase the natural price. If the natural price of the fabric was 20 s. per yard, a strong increase in foreign demand could bring the price to 25 s. or more, but the profits which would then be made by the clothier would not fail to attract capital in this direction, and although demand should be doubled, tripled or quadrupled, supply would ultimately be obtained and the fabric would fall to its natural price of 20 s. Thus, in the supply of corn, although we should export 2, 3 or 800,000 quarters a year, it would ultimately be produced at its natural price, which never changes unless a different amount of labor is required to the production.

Perhaps in no part of Adam Smith's aptly celebrated work can his conclusions be found more liable to objection, only in the chapter on premiums. First, he speaks of corn as a commodity whose production cannot be increased as a result of an export premium; it invariably supposes that it acts only on the quantity actually produced and is not a stimulus for the continuation of production. "In the years of plenty," he says, "by causing extraordinary export, it necessarily keeps the price of corn on the domestic market above what it would naturally fall into. In the years of scarcity, though the premium is frequently suspended, yet the large export it causes in years of abundance must frequently prevent, more or less, the abundance of one year from relieving the scarcity of another. abundance than in years of scarcity, generosity therefore necessarily tends to raise the silver price of corn a little higher than it would otherwise be on the domestic market. " <sup>36</sup>

Adam Smith seems to be fully aware that the soundness of his argument depended entirely on the fact that the increase in the monetary price of corn,

by making this commodity more profitable for the farmer, would not necessarily encourage its production.

"I answer," he said, "that this could be the case if the effect of the premium was to increase the real price of corn or to allow the farmer, with an equal amount, to maintain a larger number of workers in the same way, whether liberal, moderate or few in number, like the other workers are generally maintained in its district. "

If nothing was consumed by the worker except corn, and if the portion he received was the smallest he needed, there was perhaps reason to suppose that the quantity paid to the worker could not in no case to be reduced, ... but wages in labor money sometimes do not increase at all, and never increase in proportion to the increase in the silver price of corn, because corn, although important, is not only part of the worker's consumption. If half of his salary was spent on corn, and the other half on soap, candles, fuel, tea, sugar, clothing, etc., products on which no increase is expected to take place, it is obvious that it would be just as well. paid with a bushel and a half of wheat, when it was 16 s. a bushel, as it was with two bushels, when the price was 8 s. per bushel; or with 24s. silver, as it was before with 16 s. His salary would only increase by 50%. although corn has increased by 100 percent, and therefore there would be enough reason to divert more capital to the land, if profits on other trades continued as before. But such a rise in wages would also encourage manufacturers to withdraw their capital from factories, to use it in the field; because while the farmer increased the price of his commodity by 100 percent and his salary by only 50 percent, the manufacturer would also be forced to raise his wages by 50 percent, when he had no compensation, in the rise of its manufactured product, for this increased production load; capital would therefore flow from manufactured goods to agriculture, until supply again lowers the price of corn to 8 s. per bushel and salary at 16 s. per week; when the manufacturer obtains the same profits as the farmer, and the capital tide ceases to go in both directions. This is in fact the mode in which the cultivation of corn is still widespread and the increased needs of the market supplied. Funding for maintaining the workforce increases and wages are increased. the comfortable situation of the worker pushes him to marry - the population increases and the demand for corn increases its price compared to other things - the more the capital is

profitably used in agriculture and continues to flow towards it until supply equals demand, when the price drops again and agricultural and manufacturing profits are brought to a new level.

But if wages were stationary after the price of maize rose, or increased moderately, or enormously, that does not matter for this question, since wages are paid by the manufacturer as well as by the farmer, and so in this regard they must also be affected by an increase in the price of maize. But they are unevenly affected in their profits, insofar as the farmer sells his goods at an advanced price, while the manufacturer sells his at the same price as before. However, it is the inequality of profit, which is always the incentive to withdraw capital from one job to another, and therefore more corn would be produced, and less products produced. The factories wouldn't increase, because less was made, a supply would be obtained in exchange for the exported corn.

A premium, if it increases the price of corn, either increases it relative to the price of other products, or it does not. If so, it is impossible to deny the farmer's greatest profits and the temptation to withdraw capital, until his price is further lowered by an abundant supply. If it does not increase it compared to other products, where is the damage suffered by the domestic consumer, beyond the inconvenience of paying the tax? If the manufacturer pays a higher price for his corn, he is compensated by the higher price at which he sells his merchandise, with which his corn is ultimately bought.

Adam Smith's error comes precisely from the same source as that of the author of the Edinburgh Review; because they both think "that the silver price of corn regulates that of all other craft products". <sup>37</sup> "He regulates",

says Adam Smith, "the cash price of labor, which must always be such as to allow the worker to buy enough corn to support himself and his family, either liberally, moderately or in short supply, in which the advancement, cessation, or deterioration of the circumstances of the company oblige its employers to maintain it. By regulating the price in money of all the other parts of the raw products of the grounds, it regulates that of the materials of almost all manufactures. By regulating the money price of labor, it regulates that of the making of art and industry, and by regulating both, it regulates that of complete manufacturing. *The money price of labor, and whatever is*

*produced either from the land or from labor must necessarily increase or decrease in proportion to the money price of corn. "*

I have already tried to refute this opinion of Adam Smith. When he considers an increase in the price of basic products as a necessary consequence of an increase in the price of corn, he reasons as if there were no other fund from which the increase could be paid. He completely neglected the consideration of profits, the decrease of which forms this fund, without increasing the price of goods. If this opinion of Dr. Smith were well founded, profits could never really fall, regardless of capital accumulation. If, when wages increased, the farmer could increase the price of his corn, and the clothier, the hatter, the shoemaker and all the other manufacturers could also increase the price of their products proportionately in advance, although they were estimated in money, they could all be raised, they would continue to have the same value in relation to each other. Each of these trades could order the same quantity as before of the goods of the others, which, since it is goods, and not money, which constitute wealth, is the only circumstance which could be important to them; and the whole increase in the price of raw products and merchandise would not be prejudicial to anyone other than those whose property consisted of gold and silver, or whose annual income was paid in contribution of these metals, that this either in the form of bullion or silver. Suppose the money is entirely set aside and all trading is done by bartering. In such circumstances, could corn increase in tradable value with other things? If so, it is not true that the value of corn regulates the value of all other products; for this, it should not vary in relative value for them. If he could not, then it must be argued that, whether the maize is obtained on rich or poor land, with much labor, or with little, with the help of machines or without, he would always exchange for an equal quantity of all other products.

I cannot however notice that, although the general doctrines of Adam Smith correspond to those which I have just quoted, it seems however that, in a part of his work, he correctly exposed the nature of the value. "The proportion between the value of gold and silver, and that of goods of any other kind, *depends in any case,* " he says, " *on the proportion between the amount of labor that is necessary to bring a certain amount of gold and silver on the market, and what is necessary to bring in it a certain amount of any other kind of goods* . " Does he not here fully recognize that if an

increase in the amount of labor occurs product, needed to put on the market a kind of goods, while no increase takes place to introduce another way, these goods will increase in relative terms. If more labor is required to bring the fabric and gold to market, their relative value will not change, but if more labor is required to market corn and shoes, corn and shoes will not grow relative to fabric and money. Golden?

Adam Smith again considers that the effect of the premium is to cause a partial deterioration in the value of money. "This deterioration," he says, "of the value of silver, which is the effect of the fertility of mines, and which operates equally, or almost equally, in most of the trading world, is a matter of very little consequence from the rise in all money prices, even if it does not make those who receive them really richer, does not really make them poorer. A plate service becomes really cheaper, and everything the rest remains exactly the same actual value as before. " This observation is the most correct.

"But this deterioration in the value of money, which is the result either of the particular situation or of the political institutions of a particular country, takes place only in this country, is a question of very great importance which, far from trying to make any body really richer, tends to make each body really poorer. The increase in the silver price of all products, which in this case is specific to this country, tends to discourage more or less every type of industry that is carried on in and allow foreign nations, by supplying almost all kinds of goods for a lesser amount of money than its own workers cannot afford, to under-sell them, not only abroad, but even in the domestic market. "

I have tried elsewhere to show that a partial deterioration in the value of money, which will affect both agricultural and manufactured goods, cannot be permanent. To say that money is partially degraded, in this sense, is to say that all products are at a high price; but while gold and silver are free to make purchases on the cheapest market, they will be exported for cheaper products from other countries, and reducing their quantity will increase their domestic value; raw materials will return to their usual level, and those adapted to foreign markets will be exported, as before.

We cannot therefore oppose a premium for this reason.

If then a premium increases the price of corn over all other things, the farmer will benefit and more land will be cultivated; but if the premium does not increase the value of the wheat in relation to other things, then no

other inconvenience will assist it than that of paying the premium; the one I don't want to hide or underestimate.

Dr. Smith says that "by imposing high import duties and premiums on the export of corn, peasants appeared to have imitated the conduct of the manufacturers". By the same means, both had endeavored to increase the value of their products. "They may not have witnessed the great and essential difference that nature has made between corn, and almost all other types of goods. When, by any of the above means, you allow our manufacturers to sell their products at a price slightly better than they could otherwise get, you are not only increasing the nominal price, but the price real of these products. You are increasing not only the nominal, but the real profit, wealth and real income of these manufacturers - you really encourage these manufacturers. But when, by similar institutions, you increase the nominal or monetary price of corn, you do not increase its real value, you do not increase the real wealth of our farmers or our peasants, you do not encourage growth corn. The nature of things has given corn a real value, which cannot be changed by simply changing its price in cash. Across the world in general, this value is equal to the amount of work it can maintain. "

I have already tried to show that the price of corn on the market, under increased demand for the effects of a premium, would exceed its natural price, until the required additional supply was obtained, and that it would fall then at its natural price level. But the natural price of corn is not as fixed as the natural price of goods; because, with any significant additional demand for maize, poorer quality land must be cultivated, on which more labor will be needed to produce a given quantity, and the natural price of maize would increase. Therefore, a continued export premium for corn would create a tendency for the price of corn to go up constantly, and this, as I have shown elsewhere, <sup>38</sup> never fails to increase the rent. The peasants therefore have not only a temporary but permanent interest in the ban on the import of corn and in the premiums for its export; but manufacturers have no permanent interest in a premium on the export of goods, their interest is quite temporary.

An export premium for manufactured goods will no doubt increase, as Dr. Smith argues, the market price for manufactured goods, but it will not

increase their natural price. The work of 200 men will produce double the amount of these goods that 100 could duce before; and therefore, when the required quantity of capital was employed to supply the required quantity of manufactured goods, they fell back to their natural price. It is only then during the interval following the rise in the market price of the basic products, and before the additional supply is obtained, that the manufacturers profit from high profits; because as soon as prices drop, their profits would drop to the general level.

Instead of agreeing, therefore, with Adam Smith, that the country gentlemen did not have as much interest in banning the importation of corn as the manufacturer had in banning the importation of manufactured goods, I submit that they have a much higher interest; because their advantage is permanent, while that of the manufacturer is only temporary. Dr. Smith points out that nature has made a great and essential difference between corn and other products, but the correct conclusion to be drawn from this circumstance is directly the opposite of what it draws from it; because it is because of this difference that the rent is created, and that the farmers have an interest in the rise of the natural corn prices. Instead of comparing the interest of the manufacturer to that of the country gentleman, Dr. Smith should have compared it to the interest of the farmer, which is very different from that of its owner. Manufacturers have no interest in raising the natural price of their primary commodities, nor farmers have any interest in increasing the natural price of corn or other raw products, although these two categories benefit while the price of the market for their products exceeds their natural price. On the contrary, the owners have a very determined interest in the increase in the natural price of corn; for the rise in rents is the inevitable consequence of the difficulty of producing raw products, without which its natural price could not increase. Now that export premiums and import bans on corn are increasing demand and pushing us to cultivate poorer land, it necessarily leads to increased production difficulties.

The only effect of the premium, either on the export of manufactured products or on maize, is to divert part of the capital towards a job which it would not naturally seek. This causes a pernicious distribution of the company's general funds - it bribes a manufacturer to start or continue in a comparatively less profitable job. It is the worst kind of taxation, because it does not give the foreign country everything it takes from the country of

origin, the balance of the losses being constituted by the less advantageous distribution of general capital. Thus, if the price of corn is in England 4 *l.* , and in France 3 *l.* 15 *s.* a bonus of 10 *s.* will finally reduce it to 3 *l.* 10 *s.* in France, and keep it at the same price of 4 *l.* in England. For each quarter exported, England pays a tax of 10 *s.* For each quarter imported into France, France gains only 5 *s.* , so the value of 5 *s.* the quarter is absolutely lost to the world, by such a distribution of its funds that the result is a reduction in production, probably not of corn, but of some other object of necessity or enjoyment.

Mr. Buchanan seems to have seen the fallacy of Dr. Smith's arguments regarding premiums, and on the last passage I quoted, he very wisely remarks: "In asserting that nature has marked real value on corn, which cannot be changed by simply changing its cash price, Dr. Smith confuses its value in use with its exchange value. A bushel of wheat will not feed more people during the scarcity than during the abundance; but a bushel of wheat will be exchanged for a greater quantity of luxuries and conveniences when it is scarce than when it is abundant; and the landowners, who have a surplus of food at their disposal, will therefore be, in times of scarcity, richer men; they will exchange their surplus for a greater value of other pleasures than when the corn is in greater quantity. It is therefore pointless to claim that if the premium results in a forced export of maize, it will also not lead to a real increase in prices." The whole of Mr. Buchanan's arguments on this part of the subject of bonuses seem to me to be perfectly clear and satisfactory.

Mr. Buchanan, however, does not, I think, any more than Dr. Smith, or the writer of the Edinburgh Review, have correct opinions as to the influence of a rise in the price of labor on manufactured goods. From his particular views, which I have noticed elsewhere, he considers that the price of labor has nothing to do with the price of maize and that, therefore, the real value of maize could and would increase without affecting the price of labor; but if the work were affected, he would maintain with Adam Smith and the writer of the Edinburgh Review, that the price of manufactured goods would also increase; and then I do not see how he would distinguish such an increase in wheat from a fall in the value of money, nor how he could reach any other conclusion than that of Dr. Smith. In a note on page 276, vol. I. of the wealth of nations, observes Mr. Buchanan, "but the price of corn does not regulate the silver price of all the other parts of the raw

products of the land. It does not regulate the price neither of metals, nor of various other useful substances , such as coals, wood, stones, etc., *and since it does not regulate the price of labor, it does not regulate the price of manufactured goods* ; so that the premium, to the extent that it increases the price corn, is undoubtedly a real advantage for the farmer. It is therefore not for this reason that his policy must be argued. His encouragement to agriculture, by increasing the price of corn, must be admitted; and the question then arises whether should agriculture be encouraged in this way? "- It is then, according to Mr. Buchanan, a real advantage for the farmer, because he does not increase the price of labor; but if he did, he would increase the price of all things in proportion, and it would then offer no particular encouragement to agriculture.

It must be admitted, however, that the tendency of an export premium for any commodity is to decrease the value of money to a small extent. Everything that facilitates export tends to accumulate money in a country; and on the contrary, everything that hinders export tends to decrease it. The general effect of taxation, by increasing the prices of taxed products, tends to decrease exports and therefore to curb the flow of money; and according to the same principle, a bonus encourages the inflow of money. This is explained in more detail in the general comments on taxation.

The deleterious effects of the mercantile system have been fully exposed by Dr. Smith; the overall objective of this system was to increase the price of raw materials on the market prohibit foreign competition; but this system did no more harm to the agricultural classes than to any other part of the community. By forcing capital to use channels where it would not otherwise flow, it has reduced the total amount of commodities produced. The price, although always higher, was not supported by scarcity, but by the difficulty of production; and therefore, although the sellers of these products sold them at a higher price, they did not sell them, after the required amount of capital was used to produce them, with higher profits. <sup>39</sup>

The manufacturers themselves, as consumers, had to pay an additional price for these products, and therefore it cannot be correctly said that "the price increase caused by both (company laws and high duties on the import of foreign products) is everywhere ultimately paid by the owners, farmers and workers of the country. "

It is all the more necessary to make this remark, because nowadays the authority of Adam Smith is cited by country gentlemen to impose similar high duties on the importation of foreign corn. Because the costs of production, and therefore the prices of the various manufactured products, are raised for the consumer by an error of legislation, the country was called, on a call to justice, to be discreetly subjected to new abuses. Because we all pay extra price for our flax, muslin and cotton, we just think we should also pay an extra price for our corn. Because, in the general distribution of labor in the world, we have prevented the greatest quantity of productions from being obtained by this labor in manufactured products; we must punish ourselves more by reducing the productive powers of general labor in the supply of raw products. It would be much wiser to recognize the mistakes that a wrong policy prompted us to make and immediately begin to gradually return to the healthy principles of universal free trade.

"I have already had occasion to remark," observes Mr. Say, "in speaking of what is wrongly called the balance of trade, than if it is better for a trader to export the precious metals to a foreign country than any other good, it is also in the interest of the State that it exports them, because the State gains or loses only through the channel of its citizens; and as regards foreign trade, what works best for the individual, also works for the state; therefore, opposing export barriers that individuals to be inclined to make precious metals, nothing more is done, than to force them to substitute another commodity less profitable for themselves and for the State. It should be noted, however, that I say only *with regard to foreign trade*; because the profits which the tradesmen make from their relations with their compatriots, as well as those which are carried out in the exclusive trade with the colonies, are not entirely gains for the State. In trade between individuals of the same country, there is no other gain than the value of a utility produced; *That the value of a utility produced* . " <sup>40</sup> Vol. ip 401.

I don't see- the distinction made here between the benefits of domestic and foreign trade. The goal of any trade is to increase production. If for the purchase of a wine pipe, I could export ingots bought with the product value of 100 working days, but the government, by prohibiting the export of ingots, should oblige me to buy my wine with a commodity bought with the value of the product of one hundred and five working days, the product of

five working days is lost to me and, through me, to the State. But if these transactions took place between individuals, in different provinces of the same country, the same advantage would accrue both to the individual and, through him, to the country, if he were not free in his choice of products with whom he makes his purchases; and the same disadvantage, if he were obliged by the government to buy with the least advantageous merchandise. If a manufacturer could work with the same capital, more iron where the coals are plentiful, than it would do where the coals are scarce, the country would benefit from the difference. But if coals were scarce, and he imported iron, and could obtain this additional quantity, by the manufacture of a commodity, with the same capital and the same work, it would profit in the same way to his country from the additional quantity of iron. In the 6th Chap. of this work, I tried to show that any trade, foreign or national, is beneficial, by increasing the quantity, and not by increasing the value of the productions. We will have no greater value, whether we do the most advantageous internal and external trade, or because of being hampered by prohibitive laws, we are forced to settle for the least advantageous. The rate of profit and the value produced will be the same. The advantage is always resolved by what Mr. Say seems to confine to internal trade; in both cases there is no gain other than that of the value of a *utility produced* .

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## CHAPTER XXI.

### ON PRODUCTION FEES.

IT can - not be instructive to examine the effects of a premium on the *generation* of raw materials and other products based, in order to observe the principles that I have endeavored to establish, in which concerns stock profits, annual land and labor products, and relative prices of manufactured and raw products. Let us first assume that a tax has been imposed on all products, in order to raise a fund to be used by the government, by granting a premium on corn *production* . Since no part of such a tax would be spent by the government and everything that would be

received from one category of people would be donated to another, the nation would not be richer or poorer, of such a tax and such a premium. It would be readily accepted that the commodity tax by which the fund was created would increase the price of taxed products; all consumers of these products would therefore contribute to this fund; in other words, their natural or necessary price being increased, it would be the same for their market price. But for the same reason that the natural price of these products would increase, the natural price of corn would be lowered; before the premium was paid on production, the farmers obtained the price of their wheat as high as necessary to reimburse their rent and expenses and offer them the general rate of profit; after the premium, they would receive more than this rate, unless the price of corn drops by at least the premium. The tax and the premium would then have the effect of increasing the price of the goods to a degree equal to the tax collected on them and of lowering the price of corn by an amount equal to the premium paid. It will also be observed that no permanent change can be made to the distribution of capital between agriculture and manufacturing, because Without alteration, neither in capital nor in population, there would be precisely the same demand for bread and manufactured products. The farmer's profits would not be higher than the general level, after the fall in the price of maize; the manufacturer's profits would also not be lower after the rise in manufactured products; generosity would therefore not cause more capital to be used on the land for the production of corn, nor less for the manufacture of goods. But how would the owner's interest be affected? On the same principles as a raw product tax would reduce the corn rent from the land, leaving the money rent unchanged, a production premium, which is directly the opposite of a tax, would increase the corn rent, leaving the money rent unchanged. <sup>41</sup> With the same rent, the owner would have a higher price to pay for his manufactured products and a lower price for his wheat; he would therefore probably be neither richer nor poorer.

Now, if such a measure would have any effect on labor wages, depend on the question of whether the worker, by buying goods, would pay as much

for the tax as he would receive from the premium, for the low price of his food. If these two quantities were equal, wages would remain unchanged; but if the goods taxed were not those consumed by the worker, his wages would fall, and his employer would benefit from the difference. But this is not a real advantage for his employer; it would indeed have the effect of increasing the rate of its profits, as every drop in wages must do; but to the extent that the worker contributed less to the fund from which the premium was paid and which, it should be remembered, had to be increased, his employer had to contribute more; in other words, he would contribute as much to the tax through his expenses as he would receive together from the effects of the premium and the higher rate of profit. He obtains a higher rate of profit to remunerate him, not only from his own tax quota, but also from that of his worker; the remuneration he receives for the quota of his worker results in a fall in wages or, which comes to the same thing, in an increase in profits; the remuneration of his worker clean appears in the decrease in the price of the wheat it consumes, resulting from generosity.

It should be noted here the different effects produced on profits by an alteration in the real value of the labor of maize, and an alteration in the relative value of maize, in taxation and in premiums. If the price of corn is lowered by a change in its labor price, not only will the rate of profit from the stock be changed, but so will absolute profits; which does not happen, as we have just seen, when the fall is caused artificially by a generosity. In the real fall in the value of corn, resulting from the fact that it takes less labor to produce one of the most important objects of human consumption, labor is made more productive. With the same capital, the same labor is employed, and this results in an increase in productions; not only then will the rate of profits, but the absolute profits of stocks will increase; not only will each capitalist have a higher monetary income, if he uses the same monetary capital, but also when this money is spent, he will procure for him a greater sum of goods; his pleasure will increase. In the case of the premium, to balance the advantage it derives from the fall of one commodity, it has the disadvantage of paying a more than proportionately high price for another; he receives an increased rate of profit to enable him to pay this higher price; so that his real situation did not improve in any way: although he obtained a higher rate of profit, he did not have greater control over the products of the land and the labor of the country. When the

fall in the value of corn is caused by natural causes, it is not offset by the rise in other products; on the contrary, they fall from the raw material from which they come: but when the fall of the corn is caused by artificial means, it is always counteracted by a real increase in the value of another commodity, so that if the corn is bought cheaper, other products are bought more expensive.

This is further proof, that no particular inconvenience arises from taxes on necessities, due to the increase in wages and the fall in the rate of profit. The benefits are indeed reduced, but only up to the the part of the worker's tax, which must in any event be paid either by his employer or by the consumer of the worker's labor products. Whether you deduct 50 *l.* per year from the employer's income, or add 50 *l.* at the prices of the goods which he consumes, cannot have for him or for the community any other consequence than that which can also affect all the other classes. If it is added to the price of the goods, a miser can avoid the tax by not consuming; if it is indirectly deducted from each man's income, he cannot avoid paying his fair share of public charges.

A premium on maize production would then have no real effect on the country's annual land and labor products, although it would make corn relatively cheap and manufactured products relatively expensive. But now suppose that a contrary measure should be adopted, that a tax should be levied on corn in order to offer a fund for a premium on the production of goods.

In this case, it is obvious that the corn be expensive, and cheap; the work would continue at the same price, if the worker benefited as much from the cheap commodity market as from the high cost of wheat; but if it were not, wages would rise and profits would fall, while the monetary rent would continue as before; profits would fall because, as we have just explained, it would be the mode by which the part of the workers in the tax would be paid by the employers. By increasing wages, the worker would be compensated for the tax he would pay on the increased price of wheat; by not spending any part of his salary on manufactured products, he would receive no part of the premium; the premium would be fully collected by the employers and the tax would be paid in part by the employees; remuneration would be paid to workers, in the form of wages, for this increased burden imposed on them, and thus the rate of profit would

be reduced. In this case too, there would be a complicated measure producing no national result.

In examining this question, we have left aside our examination of the effect of such a measure on foreign trade; rather, we have assumed the case of an isolated country, having no commercial link with other countries. We have seen that, as the country's demand for corn and raw materials would be the same, whichever direction the premium might take, there would be no temptation to withdraw capital from one job. other: but this would no longer be the case if there were foreign trade, and this trade was free. By modifying the relative value of commodities and corn, having such a powerful effect on their natural prices, we should apply a strong stimulus to the export of products whose natural prices have been lowered, and a stimulus equal to the import of these products. whose natural prices have been increased, and such a financial measure could therefore completely modify the natural distribution of jobs; to the benefit of foreign countries, but ruinously to that where such an absurd policy was adopted.

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## CHAPTER XXII.

### ADAM SMITH DOCTRINE CONCERNING LAND RENTAL.

“**S**UCH only part of the product of the land,” says Adam Smith, “can generally be put on the market, the regular price of which is sufficient to replace the stock that must be employed to bring them there, along with its profits ordinary. If the regular price is more than that, the excess part of it will naturally go to the rent of the land. *If not more, although the product can be placed on the market, it cannot afford rent to the owner.* it is the price is, or is not more depends on demand. ”

This passage would naturally lead the reader to conclude that its author could not be mistaken about the nature of the rent, and that he must saw that the quality of land that the demands of society might require to be cultivated would depend on the " *regular price of its products*", *if they were sufficient to replace the stock, which must be used to cultivate them, together with ordinary profits .* ”

But he had adopted the notion that "there were certain parts of the earth's products for which demand should always be such as to offer a price higher than what was sufficient to place them on the market"; and he saw food as one of those parts.

He says that "the land, in almost all situations, produces a greater amount of food than is sufficient to maintain all the labor necessary to put it on the market, in the most liberal way this labor is never maintained. The surplus too is always more than enough to replace the stock that employed this labor, as well as its profits. So there is always something to rent to the owner. "

But what proof does he give? - noother than the assertion that "the most barren moors of Norway and Scotland produce a sort of pasture for cattle, the milk and increase of which is always more than enough, not only to maintain all the work necessary for to maintain them, and to pay the ordinary profit for the farmer or the owner of the herd or herd, but to pay a small rent to the owner. " Now, I may be allowed to maintain a doubt. I believe that in all countries, from the coarsest to the most refined, there is land of such quality that it cannot yield a product more than precious enough to replace the stock which is used there, as well as the profits ordinary and usual in this country. In America, we all know that this is the case, yet no one argues that the principles governing rents are different in this country and in Europe. But if it were true that England had so far advanced in cultivation, that at that time there was no more land left which could not afford to pay rent, it would also be true that there must have been formerly such lands; and whether or not it matters on this issue, because it is the same thing if there is capital employed in Great Britain on land which only returns shares with their ordinary profits, whether used on old or new land. If a farmer accepts a lease for seven or fourteen years for a piece of land, he can offer to use a capital of 10,000 *l.* knowing that at the current price of cereals and raw products, he can replace the part of his stock that he is obliged to spend, to pay his rent and to obtain the general rate of profit. It will not use 11,000 *l.* , unless the last 1000 *liters.* can be used productively to allow it the usual benefits of actions. In his calculation, whether he uses it or not, he considers only if the price of the raw products is sufficient to replace his expenses and his profits, because he knows that he will not have to pay any additional rent. Even at the end of his lease, his rent will not be increased; because if its owner had to demand a rent,

because this supplement of 1000 *l.* was employed, he would withdraw it; since by using it, he obtains, by the supposition, only the ordinary and usual profits which he can obtain by any other use of stock; and therefore, he cannot afford to pay rent, unless the price of raw materials continues to rise, or, which it is the same thing, unless the usual and general rate of profit drops.

If the understanding of Adam Smith had been directed towards this fact, he would not have argued that rent is one of the components of the price of raw products; for the price is everywhere regulated by the yield obtained by this last portion of capital, for which no rent is paid. If he had asserted this principle, he would not have made any distinction between the law which regulates the rent for mines and the rent for land.

"The question of whether a coal mine, for example," he says, "can afford any rent, depends partly on its fertility and partly on its situation. A mine of any kind can be considered fertile or sterile, depending on the amount of minerals that can be brought in by a certain amount of work, is greater or less than what can be brought in by an equal amount of most of it " other mines of the same kind. Certain coal mines, advantageously located, cannot be worked because of their sterility. The product does not pay the exthought. They cannot afford profit or rent. There are some, the product of which is scarcely sufficient to pay labor and replace, with its ordinary profits, the stock employed to work them. They provide some profit to the contractor, but no rent to the owner. They can only be carried out advantageously by the owner, who himself being the contractor, obtains the ordinary profit of the capital which he uses there. Many coal mines in Scotland are operated in this way and cannot be operated in any other. The landlord will not allow any other organization to work them without paying rent, and no one can afford it.

"Other coal mines in the same country, sufficiently fertile, cannot be exploited because of their situation. A quantity of minerals sufficient to cover labor costs, could be brought from the mine by the ordinary, or even less than the ordinary quantity of work, but in an interior country, sparsely inhabited, and without good roads or transport by water, this quantity could not be sold. "The whole principle of the rental is here admirably and visibly ex plain, but each word is as applicable to lands as to mines; however, he asserts that "it is different in the above ground areas. The proportion, both of their products and of their income, is proportional to their absolute value

and not to their relative fertility ". But suppose there is no land that has no rent; then, the amount of the rent on the worst land would be proportional to the excess of the value of the product over the capital expenditure and ordinary profits of the stock: the same principle would govern the rent of a quality land a little better, or more favorably situated, and therefore the rent of this land would exceed the rent of that which is lower by the superior advantages which it possessed; the same could be said of the third grade, and so on at best. Is it not then as certain that it is the relative fertility of the land that determines the portion of the product that must be paid for the rental of the land, as it is that the relative fertility of mines determines the portion of their product , who should be paid for the rent from the mines?

After Adam Smith said there are mines that cannot be mined by the owners, since they will only be able to afford the expenses of labor, as well as the ordinary profits of the capital employed, it must be expected that he will admit that it is these particular mines which regulate the price of the products. If the old mines are insufficient to supply the required amount of coal, the price of coal will rise and continue to rise until the owner of a new lower mine finds that he can obtain the usual profits from the stock by exploiting his mine. If his mine is fertile enough, the climb will not be great before it becomes his interest to use his capital in this way; but if it is less productive, it is obvious that the price must continue to increase until it gives him the means to pay his expenses and obtain the ordinary profits from the stock. It thus appears that it is always the least fertile mine which regulates the price of coal. Adam Smith, however, took a different view: he observed that "the most fertile coal mine also regulates the price of coal in all the other mines in its neighborhood. The owner and the contractor find, who can get a higher rent, the on the other hand, that he can get a greater profit, by somewhat under-selling all their neighbors. Their neighbors are soon forced to sell at the same price, although they cannot afford it, and although this always decreases, and sometimes takes away completely, both their rent and their profits. Some works are completely abandoned; others cannot afford any rent and can only be worked by the owner. "If the demand for coal were to decrease, or if by a new process the quantity was to increase, the price would fall and certain mines would be abandoned; but in any case, the price must be sufficient to pay the expenses and the profits of this mine that operates without paying rent. So the least fertile mine sets the

price. This is what Adam Smith himself says in another place, because he says, "The price the lowest at which coals can be sold for a considerable time is like that of all other products, the price which is barely sufficient to replace, with its ordinary profits, the stock which must be used to bring them to market. In a coal mine for which the owner cannot obtain any rent, but which he must either work himself or leave alone all together, the price of coals should generally be roughly equal to this price. "

But the same circumstance, namely the abundance and the cheapness which results from it, whatever the cause, which would force to abandon the mines on which there is no rent, or very moderate, would do it, if there were the same abundance and the resulting cheap market for raw products, it was necessary to abandon the cultivation of land for which no rent was paid, or very moderate. If, for example, potatoes became the general and common food of the people, as rice is in some countries, a quarter, or half of the land currently cultivated, would probably be immediately abandoned; for if, as Adam Smith says, "an acre of potatoes will produce six thousand weights of solid food, three times the amount produced by an acre of wheat", there could not be for such a considerable time such a multiplication of people, consume the amount that could be harvested from the land before being used for growing wheat; a lot of land would therefore be abandoned, and the rent would drop; and it will only be when the population has been doubled or tripled that the same amount of land can be cultivated and that the rent will be paid as high as before.

No greater proportion of the gross product would be paid to the owner, whether it be potatoes, which would feed three hundred people, or wheat, which would feed only one hundred; because, although production costs would be greatly reduced if the worker's wages were mainly regulated by the price of potatoes and not by the price of wheat, and although consequently the proportion of total gross production after to have paid the workers, would have increased considerably, but no part of this additional proportion would be devoted to the rent, but the whole invariably to the profits, the profits being constantly increased when the wages fall and lowered when the wages increase. Whether wheat or potatoes are grown, the rent would be governed by the same principle - it would always be equal to the difference between the quantities of products obtained with equal capital, either on the same land or on land of different qualities. ; and therefore, while land of the same quality were cultivated and their relative

fertility or their benefits were not modified, the rent would always have the same proportion compared to the gross product.

Adam Smith, however, argues that the proportion incumbent on the owner would be increased by a decrease in the cost of production and, therefore, that he would receive a larger share as well as a larger quantity, of an abundant product that little abundant. "A field of rice," he says, "produces much more food than the most fertile corn field." Two crops a year, thirty to sixty bushels each, would be the ordinary product of an acre. the cultivation therefore requires more work, a rest of the surplus much more after keeping all this work. In the rice countries therefore, where rice is the commune and the people's favorite vegetable food, and where the cultivators are mainly subsidized with it, *an additional share of this larger surplus should belong to the owner than in the corn countries.* "

Mr. Buchanan also notes that "it is quite clear that if any other product which the land brought in more abundantly than corn became the common food of the people, the owner's rent would be improved in proportion to its greater abundance. "

If potatoes became the common food of the people, there would be a long interval during which the owners would suffer a huge rent deduction. They would probably not receive as much sustenance from man as they do now, while that sustenance would fall to a third of its present value. But all the manufactured products, on which part of the owner's rent is spent, would not suffer any other fall than that which would come from the fall of the raw material of which they were made, and which would only come from the highest fertility of the land , which could then be devoted to its production.

When, because of population growth, land of the same quality as before should be cultivated, to produce the necessary food, and the same number of men should be used to produce it, the owner would not only have the same proportion of the product as before, but this proportion would also have the same value as before. The rent would then be the same as before; however, the benefits would be much higher because the price of food, and therefore wages, would be much lower. High profits favor the accumulation of capital. The demand for labor would increase further and homeowners would continuously benefit from the increased demand for land.

The interest of the owner is always opposed to that of the consumer and the manufacturer. Corn can be permanently priced at an advanced price only because extra labor is needed to produce it; because its production cost is increased. The same cause invariably increases the rent, so it is in the owner's interest that the cost of producing corn be increased. It is not, however, in the interest of the consumer; for him, it is desirable that the corn is low compared to the money and the goods, because it is always with the goods or the money that one buys the corn. Nor is it the manufacturer's interest that corn should be at a high price, because the high price of corn will lead to high wages, but will not increase the price of its merchandise. Not only then must we give more of his merchandise, or, what amounts to the same thing, the value of more of his merchandise, be given in exchange for the wheat he consumes himself, but we must give more, or the more value, for wages to his workers, for which he will receive no remuneration. Consequently, all classes, except the owners, will be harmed by the increase in the price of corn. Transactions between the owner and the public are not like commercial transactions, where the seller and the buyer can also be considered winners, but the loss is entirely on one side and the gain entirely on the other; and if corn by importation could be bought cheaper, the loss resulting from non-importation is much greater on the one hand than the gain on the other.

Adam Smith never distinguishes between a low monetary value and a high value of corn, and therefore deduces that the interest of the owner is not opposed to it from the rest of the community. In the first case, the money is weak compared to all the products; in the other, corn is high compared to all. In the first, corn and commodities continue at the same relative value, in the second, corn is higher relative to commodities than to silver.

The following observation by Adam Smith is applicable to a low monetary value, but it is totally inapplicable to a high value of corn. "If (corn) imports were free at all times, our farmers and peasants would probably have a year-over-year, less money for their corn than they do now, while importing is mostly in force prohibited; but the money they get would be more valuable, *buy more goods of all kinds*, and employ more labor. Their real wealth, real income, therefore, would be the same as it is today, although they may be expressed in a smaller amount of money, and they would not be handicapped or discouraged from growing corn as much as

they do today. like increasing the real value of money as a result of the silver price of corn, somewhat lowers the silver price of all other commodities, it gives industry in the country where it takes place some advantage in all foreign markets, and thus tends to encourage and to grow this industry. But the extent of the domestic corn market must be proportional to the general industry of the country where it grows, or the number of those who produce something else, to give in exchange for corn. But in all countries, the domestic market, because it is the closest and most convenient, is also the most important and important market for maize. This increase in the real value of money, which therefore has the effect of lowering the average price of maize in currency, tends to widen the largest and most important market for maize, and therefore to encourage, rather than discourage his growth. "

A high or low price of silver corn, resulting from the abundance and cheapness of gold and silver, is of no importance to the owner, as every type of product would be affected equally, just like Adam Smith describes it; but a relatively high price of corn is very beneficial to the owner at all times, as with the same amount of corn, it not only gives him control over a greater amount of money, but over a greater amount of each commodity that money can buy.

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## CHAPTER XXIII.

### ON COLONIAL TRADE.

**A** SMITH DAM , in its observations on colonial trade, has shown, in a very satisfactory manner, the advantages of free trade and the injustice suffered by the colonies, prevented by their mother country, from selling their products on the market. the most expensive and buy their manufactures and stores at the cheapest. He showed that by allowing each country to freely exchange the products of its industry when and where it pleases, the best distribution of labor in the world will be effected, and the greatest abundance of necessities and enjoyments of human life will be secure.

He also tried to show that this freedom of trade, which undoubtedly promotes the interest of the whole, also promotes that of each particular country; and that the narrow policy adopted in the European countries with regard to their colonies is no less prejudicial to the colonies themselves than to the colonies whose interests are sacrificed.

"The monopoly of the colonial trade," he said, "like all the other wicked and clever expedients of the mercantile system, depresses the industry of all the other countries, but mainly that of the colonies, without, at the very least, increasing, but on the contrary decreasing, that of the country in favor of which it is established. "

This part of his subject, however, is not treated as clearly and convincingly as that in which he shows the injustice of this system towards the colony.

Without asserting or denying that the current practice of Europe with regard to their colonies is detrimental to the mother countries, I am entitled to doubt that a mother country may sometimes not benefit from the restrictions to which it subjects its colonial possessions . Who can doubt, for example, that if England were the colony of France, the latter country would benefit from a generous premium paid by England for the export of corn, cloth or other products? By examining the question of premiums, supposing that the corn is at 4 *l.* per quarter in this country, we have seen, that with a premium of 10 *s.* per quarter, for export to England, maize would have been reduced to 3 *l.* 10 *s.* In France. Now, if the corn had previously been 3 *l.* 15 *s.* per quarter in France, French consumers would have benefited from 5 *s.* per quarter on all imported corn ; if the natural price of corn in France was before 4 *l.* , they would have won the entire 10 *sec* bonus . by quarter. France would thus benefit from the loss suffered by England: it would not only gain part of what England lost, but in some cases the whole.

It can, however, be said that an export premium is a measure of domestic policy and could not be easily imposed by the mother country.

If it suited the interests of Jamaica and Holland to exchange the goods which they produce respectively, without the intervention of England, it is quite certain that by preventing them, the interests of Holland and Jamaica would suffer; but if Jamaica is obliged to send its goods to England and to exchange them for Dutch goods, an English capital or an English agency will be employed in a trade in which it would not be otherwise engaged. He

was won over by a premium, not paid by England, but by Holland and Jamaica.

Adam Smith himself said that the loss suffered as a result of an unfavorable division of labor in two countries could be beneficial for one of them, while the other would suffer more than the loss which actually belongs to such a distribution. which, if it is true, will immediately prove that a measure, which can be very prejudicial to a colony, can be partially beneficial for the mother country.

Speaking of trade treaties, he says: "When a nation is bound by treaty, either to allow the entry of certain goods from a foreign country which it prohibits all others, or to exempt the goods of a country from the duties to which it subjects those of all others, of the country, or at least The country's merchants and manufacturers, whose trade is so favored, must necessarily derive a great advantage from the treaty. These merchants and manufacturers enjoy a kind of monopoly in the country, which is so lenient to them. This country becomes both a larger and more profitable market for their goods; more extensive, because the goods of other nations, being either excluded or subject to heavier rights, it takes off a greater quantity; more advantageous, for the merchants of the favored country, who enjoyed a sort of monopoly there, often sold their goods at a better price than if they were exposed to the free competition of all other nations. "

That the two nations, between which the commercial treaty is concluded, are the mother country and her colony, and Adam Smith, it is obvious, admits, that a mother country can benefit from the oppression of her colony. However, it can again be noted that, unless the monopoly of the foreign market is in the hands of an exclusive company, buyers of foreign products will not pay more for goods than buyers of houses; the price they will both pay will not differ much from their natural price in the country where they are produced. England, for example, may, under ordinary circumstances, always buy French products, at the natural price of these products in France, and France would have an equal privilege to buy English products at their natural price in England. But at these prices, the goods would be purchased without a treaty. What advantage or disadvantage does the treaty then have for one or the other of the parties?

The disadvantage of the treaty for the importing country would be the following: it would oblige it to buy a commodity, from England for example, at the natural price of this commodity in England, whereas it

could perhaps have bought it much lower natural price from another country. It then causes a disadvantageous distribution of the general capital, which is mainly the responsibility of the country bound by its treaty to buy on the least productive market ; but it gives no advantage to the seller because of a supposed monopoly, because it is prevented by competition from its own compatriots from selling its goods above their natural price; where he would sell them, whether he exports them to France, Spain or the Antilles, or sells them for domestic consumption.

What then is the advantage of the stipulation of the treaty? It consists of this: these particular goods could not have been manufactured in England for export, but for the privilege which it alone had to serve this particular market; because competition from this country, where the natural price was lower, would have deprived it of any chance of selling these products. This, however, would have been of little importance, if England had been certain that she could sell at the same amount any other good she could manufacture, either on the French market, or with an equal advantage over any that the other. The objective of England is, for example, to buy a quantity of French wines worth 5000 *l.* - she then wishes to sell somewhere where she can get 5000 *l.* for this reason. If France grants it the monopoly of the canvas market, it will gladly export canvas for this purpose; but if trade is free, competition from other countries may prevent the natural price of fabric in England from being low enough to enable it to obtain 5000 *l.* by the sale of fabric, and to obtain the usual profits by such use of its stock. The industry of England must then be employed on some other commodity; but it may be that none of its productions can, at the present value of silver, afford to sell at the natural price of other countries. What is the consequence? Wine drinkers in England are always ready to give 5000 *l.* for their wine, and therefore 5000 *l.* silver is exported to France for this purpose. By this export of money, its value increases in England and decreases in other countries; and with it the *natural price* of all the basic products produced by British industry is also lowered. The rise in the price of silver is the same as the fall in the price of raw materials. To obtain 5000 *l.* , British products can now be exported; at their reduced natural price they can now compete with products from other countries. However, more goods are sold at low prices to obtain the 5000 *l.* kits, which, once obtained, will not provide the same amount of wine; for, while the fall in money in England lowered the natural price of

goods there, the increase in money in France caused the natural price of goods and wine to rise in France. Less wine will then be imported into England, in exchange for its goods, when trade is perfectly free, than when it is particularly favored by trade treaties. The *rate* of profit will not have varied, however; the currency will have changed in relative value in the two countries, and the advantage that France will have obtained will be to obtain a greater quantity of English, in exchange for a given quantity of French products, while the loss suffered by England will consist in obtaining a smaller quantity of French goods in exchange for a given quantity of those of England.

Foreign trade, whether hampered, encouraged or free, will therefore continue, regardless of the relative difficulty of production in different countries; but it can only be regulated by changing the natural price, not the natural value at which goods can be produced in these countries, and this is done by changing the distribution of precious metals. This explanation confirms the opinion I have expressed elsewhere, according to which there is no tax, premium or ban on importing or exporting products which does not lead to a different distribution of precious metals. and which therefore does not change both the natural price and the market price of basic products everywhere.

It is therefore obvious that trade with a colony can be regulated so as to be both less beneficial for the colony and more beneficial for the metropolis than perfectly free trade. As it is disadvantageous for a single consumer to be limited in its transactions to a particular store, it is also disadvantageous for a nation of consumers to be forced to buy from a particular country. If the store or country offered the cheapest products, they would be sure to sell them without any this exclusive privilege; and if they did not sell for less, the general interest would require that they should not be encouraged to pursue a trade which they could not exercise on an equal basis with the others. The store, or the seller country, could lose because of the change of employment, but the general advantage is never as fully guaranteed as by the most productive distribution of general capital; that is, by universal free trade.

An increase in the production cost of a product, if it is an essential item, will not necessarily decrease its consumption; for although the general power of buyers to consume is diminished by the increase of any commodity, they may forgo the consumption of another commodity whose

cost of production has not increased. In this case, the quantity delivered will be in the same proportion of demand as before; only the cost of production will have increased, and yet the price will increase, and must increase, to place the profits of the producer of the improved commodity at the level of profits from other trades.

Say says that cost of production is the foundation of price, yet in various parts of his book he argues that price is regulated by the proportion demand brings to supply. The real and ultimate regulator of the relative value of any two products is the cost of their production, and neither the respective quantities that can be produced, nor the competition between buyers.

According to Adam Smith, the colonial trade, being a trade in which only British capital can be employed, has increased the rate of profit of all other trades; and since, according to him, high profits and high wages drive up the prices of goods, the monopoly of the commerce of the colonies was, according to him, prejudicial to the metropolis; because it diminished its power to sell manufactured goods as cheaply as other countries. He says that "as a result of the monopoly, the increase in trade in the colonies did not so much add to the trade that Britain had before, as a total change in its direction. Second, this monopoly necessarily contributed to maintain the rate of profit in all the different branches of British commerce, higher than it would have been naturally, if all nations had been allowed free trade with the British colonies. "" But anything that increases the rate of ordinary profit in any country higher than it would otherwise necessarily subject that country to both an absolute disadvantage and a relative disadvantage in all branches of trade which it does not has no monopoly. This puts her at an absolute disadvantage, because in such branches of trade, her traders cannot obtain this greater profit without selling more expensive than they would otherwise do, both the goods from foreign countries which they import in their own country and goods from their own country which they export to foreign countries. Their own country must both buy and sell at a higher price; must both buy less and sell less; must both enjoy less and produce less than it would otherwise. "

"Our merchants frequently complain of the high wages of British labor as the cause of the under-sales of their manufactured goods in foreign markets; but they say nothing about the high profits of the stocks. They complain of the extravagant gain from others, but they say nothing about them. The high profits from British stocks, however, can help raise the price of British

manufacturing in many cases as much, and in some perhaps more, than the high wages of British labor. "

I allow the monopoly of the commerce of the colonies to change, and often in a detrimental manner, the direction of capital; but from what I have already said about profits, it will be seen that any change from one foreign trade to another, or from internal trade to foreign trade, cannot, in my opinion, affect the rate of profits . The harm suffered will be what I have just described; the distribution of capital and industry in general will be worse and, as a result, production will be lower. The natural price of commodities will increase and, therefore, although the consumer can buy at the same monetary value, he will get fewer commodities. We will also see that if it even had the effect of increasing profits, it would not cause the slightest alteration in prices; prices being governed neither by wages nor by profits.

And Adam Smith does not agree in this opinion, when he says, that "the prices of goods, or the value of gold and silver, in relation to goods, depend on the proportion between the *quantity of work* that is necessary to bring a certain amount of gold and silver to the market, and what is necessary to bring a certain amount of other goods into it? " This quantity will not be affected, whether the profits are high or low, or low or high wages. How then can prices be increased by high profits?

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## CHAPTER XXIV.

ON GROSS AND NET SALES.

**A** SMITH DAM constantly amplifies the benefits that a country derives from high gross income rather than significant net income. "To the extent that a greater share of a country's capital is used in agriculture," he says, "the greater the amount of productive labor it sets in motion within the country; even as will be the value that its use adds to the annual product of the earth and the labor of society. After agriculture, the capital employed in the factories sets in motion the greatest quantity of productive labor, and



to pay taxes is proportional to the net and not proportional to gross income.

In the distribution of jobs among all countries, the capital of the poorest countries will naturally be used in these activities, where a large amount of work is taken care of at home, since in these countries the food and products necessary for a growing population can be obtained most easily. In rich countries, on the contrary, where food is expensive, capital naturally flows, when trade is free, in professions where the least amount of work must be kept at home: like the portage trade, the foreigner distant commerce, where profits are proportional to capital and not proportional to the quantity of labor employed. <sup>43</sup>

Although I admit that, because of the nature of the rent, a given capital employed in agriculture, on anything other than the last cultivated land, sets in motion a greater quantity of labor than a the capital employed in manufactured products and trade, but I cannot admit that there is a difference in the quantity of labor employed by a capital engaged in internal trade and an equal capital engaged in external trade.

"The capital which sends Scottish factories to London and brings back corn and English factories to Edinburgh", says Adam Smith, "necessarily replaces, by each of these operations, two British capitals which had both been employed in agriculture or the factories of Great Britain. .

"The capital used to buy foreign goods for domestic consumption, when this purchase is made with the products of the national industry, also replaces, by each of these operations, two distinct capital; but only one of them is employed to support the national industry. The capital which sends British goods to Portugal and brings back Portuguese goods to Great Britain, replaces, by each of these operations, only one British capital, the other is Portuguese. of consumption foreign trade should therefore be as fast as home trade, the capital which is employed there will give only half of the incentives to industry or to the productive workforce of the country. "

This argument seems to me fallacious; for, although two capitals, one Portuguese and one English, are employed, as Dr Smith assumes, a capital will still be employed in foreign trade, double what would be employed in internal trade. Suppose that Scotland uses a capital of a thousand pounds to make flax, which it exchanges for the product of a similar capital used to make silks in England. Two thousand pounds and a proportional amount of

labor will be employed by the two countries. Suppose now that England discovers that it can import more flax from Germany for the silks it previously exported to Scotland and that Scotland discovers that it can obtain more flax from France in exchange for its linen than 'she had never obtained one before from England. , - England and Scotland will they not immediately cease to trade between them, and will the internal trade of consumption not be changed for an external trade of consumption? But although two addi the national capitals will enter into this trade, the capital of Germany and that of France, will not continue to employ the same quantity of scotch and English capital, and will not give movement to the same quantity of industry as when was she engaged in internal trade?

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## CHAPTER XXV.

### IN CURRENCY AND BANKS.

**I**T is not my intention to retain the player by a long dissertation on the subject of money. So much has already been written about money, that of those who turn their attention to such matters, that prejudice ignores its true principles. I will therefore only take a brief overview of some of the general laws which govern its quantity and value.

Gold and silver, like all other commodities, have value only in proportion to the amount of labor required to produce and place them on the market. Gold is about fifteen times more expensive than silver, not because there is greater demand, nor because the supply of silver is fifteen times that of gold, but only because that fifteen times the quantity of work is necessary to obtain a given quantity.

The amount of silver that can be used in a country must depend on its value: if gold alone was used for the circulation of goods, a quantity would be required, only one fifteenth of what would be necessary, if silver was used for the same purpose.

Circulation can never be as abundant as it overflows; for by decreasing its value, in the same proportion, you will increase its quantity, and by

increasing its value, you will decrease its quantity. <sup>44</sup>

While the state puts money and charges no seigniorage, silver will have the same value as any other coin of the same metal of equal weight and fineness; but if the State invoices a seigniorage for the currency, the coin invented will generally exceed the value of the metal piece not joined by the whole seigniorage invoiced, because it will require a greater quantity of work, or, which is the same thing, the value of the product of a greater amount of labor, to obtain it.

While the state only coins, there can be no limit to this accusation of seigniorage; because by limiting the quantity of coins, it can be raised to any imaginable value.

It is on this principle that paper money circulates: the entire price of paper money can be considered as seigniorage. Although it has no intrinsic value, however, by limiting its quantity, its exchange value is as great as an equal denomination of coin or ingot in that coin. On the same principle also, namely, by limiting its quantity, a degraded piece would circulate at the value it should have, if it had the legal weight and finesse, and not at the value of the quantity of metal which it actually contained. In the history of British money, we therefore find that currency has never been depreciated in the same proportion as it has been degraded; the reason was that it was never multiplied in proportion to its diminished value. <sup>45</sup>

After the creation of banks, the state does not have the exclusive power to forge or issue money. Currency can be increased by paper as well as by coin; so that if a state were to lower its money and limit its quantity, it could not sustain its value, because the banks would have equal power to increase the total amount of circulation.

On these principles, we will see that it is not necessary that paper money be payable in cash to guarantee its value; it suffices that its quantity be adjusted according to the value of the metal declared as a standard. Yes the standard was gold of a given weight and fineness, the paper could be increased with each fall in the value of gold, or, which is the same thing in its effects, with each increase in price of goods.

"By issuing too much paper," says Dr. Smith, "whose surplus kept coming back to be exchanged for gold and silver, the Bank of England was, for many years together forced gold coins up to eight hundred thousand

pounds and a million a year, or on average about eight hundred and fifty thousand pounds. For this great currency, the Bank, due to the worn and degraded condition into which the gold coin had fallen a few years ago, was often forced to buy bullion, at the high price of four pounds an ounce, which he soon after issued in coins at 3 l. 17 s. 10½ d. per ounce, losing between two and a half and three per cent. on the currency of such a large sum. Although the Bank has therefore not paid seignorage, though the government was properly at the expense of money, this li                    The government's lacklusteriness did not completely prevent the Bank from spending. "

On the principle stated above, it seems clear to me, that by not reissuing the paper thus brought, the value of the whole currency, of the degraded currency as well as of the new gold coin, would have been increased; when all requests to the Bank have ceased.

Buchanan, however, disagreed because he said, "that the great expense to which the Bank was exposed at that time was not incurred, as Dr. Smith seems to imagine , by an imprudent question of paper, but by the degraded state of the currency, and the high price of the ingots which results from it.

The Bank, it will be noticed, having no other means of obtaining<sup>46</sup> guineas

but by sending ingots- mint to invent, has always been forced to issue new invented guineas, in exchange for its returned notes; and when the currency was generally in deficit and the price of bullion was high in proportion, it became profitable to draw these heavy guineas from the Bank in exchange for its paper; to convert them into ingots and to resell them with a profit for bank paper, to be returned to the Bank for a new supply of guineas, which were again melted and sold. The bank must always be exposed to this flow of cash when the currency is deficient, because both an easy profit and a certain profit result from the constant exchange of paper for cash. It can however be noted that, whatever the inconveniences and the expenses to which the Bank was exposed by the exhaustion of its kind, it was never considered necessary to lift the obligation to pay money for its notes . "

Mr. Buchanan obviously thinks that all the currency must necessarily be brought back to the level of the value of the degraded coins; but surely by a reduction in the quantity of money, all that remains can be raised to the value of the best coins.

Dr. Smith seems to have forgotten his own principle in his argument about colonial money. Instead of attributing the depreciation of this paper to its excessive abundance, he asked whether, allowing the security of the colony to be perfectly good, a hundred pounds, payable in fifteen years, would also be valid with a hundred pounds to pay immediately? I answer yes, if it is not too abundant.

However, experience shows that neither a state nor a bank has ever had unlimited power to issue paper money, without abusing it: in all states, the question of paper money should therefore be under control and control; and none seems as appropriate for this purpose as that of submitting paper money issuers to the obligation to pay their notes, either in gold coins or in ingots.

A currency is in its most perfect state when it is entirely made up of paper money, but paper money of a value equal to the gold it claims to represent. The use of paper instead of gold replaces the cheapest instead of the most expensive medium and allows the country, without loss for anyone, to exchange all the gold it had previously used for this purpose, against raw materials, utensils and food, by the use of which increase both its wealth and its enjoyments.

From a national perspective, it does not matter that the issuers of this well-regulated paper money, be it the government or a bank, on the whole it will be as productive of wealth as it is issued by one or by the other; but it is not the same for the interests of individuals. In a country where the market interest rate is 7% and the state requires a special cost of 70,000 *l.* per year is a matter of importance for individuals in this country, if they have to be taxed to pay these 70,000 *l.* per year, or if they could increase it without taxes. Suppose that a million dollars is needed to equip an expedition. If the state issued a million pieces of paper and moved a million pieces, the expedition would be equipped at no cost to the people; but if a bank issued a million paper and lent it to the government at 7 per cent, thus displacing a million coins, the country would be liable for a continuous tax of 70,000 *l.* per year: the people would pay the tax, the bank would receive it and the society would in both cases be as rich as before; the expedition would have been really arranged by the improvement of our system, by making the capital, worth a million, productive in the form of goods, instead of leaving it unproductive in the form of parts; but the advantage would still be in favor of paper issuers; and since the state represents the people, the people

would have saved the tax if they, not the bank, had issued this million.

I have already observed that if there were perfect security that the power to issue paper money would not be abused, it would have no importance as regards the wealth of the country collectively, by whom it was issued ; and I have now shown that the public would have a vested interest in the issuers being the state and not a trading or banker company. The danger, however, is that this power is more likely to be misused if it is held by the government than by a banking company. It is said that a business would be more under the control of the law, and although it may be in their interest to extend their problems beyond the bounds of discretion, they would be limited and controlled by the power that would have individuals to call ingots. or species. It is argued that the same check would not be honored for long if the government had the privilege of issuing money; that they would be too apt to consider the present convenience rather than the future security and could thus, for reasons presumed of expediency, be too inclined to delete the checks, by which the amount of their emissions was controlled.

Under an arbitrary government, this objection would have great force, but in a free country, with an enlightened legislature, the power to issue paper money, under the requisite convertibility checks at the holder's will, could be deposited in full security in the hands of commissioners appointed for this special purpose, and they could become completely independent of the control of ministers.

The sinking fund is managed by commissioners, accountable only to Parliament, and the investment of the money entrusted to them takes place with the greatest regularity; What reason is there to doubt that the issues of paper money can be settled with the same fidelity, if they are placed under a similar management?

It can be said that, although the advantage accruing to the State, and therefore to the public, of the issue of paper money, is sufficiently manifest, because it would exchange part of the national debt, on which interest is paid by the public, in an interest-free debt, but it would be disadvantageous for the trade, because it would prevent merchants to borrow money and obtain a discount on their invoices, a method by which bank paper is partly issued.

However, this assumes that money cannot be borrowed if the Bank does not lend it and that the market interest and profit rate depends on the amount of money issued and the channel through which it is issued. . But as a country would not run out of cloth, wine or any other commodity, if it could afford to pay it, in the same way there would be no deficit of money to lend, if the borrowers offered good security, and were willing to pay the market interest rate for it.

In another part of this work, I have tried to show that the real value of a commodity is regulated, not by the accidental advantages from which some of its producers can benefit, but by the real difficulties encountered by this least favored producer . This is so with regard to interest in money; it is not regulated by the rate at which the Bank will lend, whether either 5, 4 or 3 per cent., but by the rate of profit, which can be realized by the use of capital, and which is totally independent of the quantity or value of money. Whether a bank lends a million, ten million or a hundred million, it would not permanently change the market interest rate; they would only change the value of the money thus issued. In one case, 10 to 20 times more money could be needed to run the same business than what might be required in the other. Requests for money from the Bank therefore depend on the comparison between the rate of profit which can be realized by its use and the rate at which they are ready to lend it. If they charge less than the market interest rate, there is no money they could not lend, if they charge more than this rate, we would only find spendthrift and wonders at borrow. So we find that when the market interest rate exceeds the rate of 5 percent. to which the Bank uniformly lends, the discount office is besieged with money seekers; and, on the contrary, when the market rate is even temporarily less than 5%. the clerks in this office are unemployed.

The reason why, for the past twenty years, the Bank has given so much aid to trade, by helping traders with money, is because they have, during this whole period, lent money below the market interest rates; below this rate at which merchants could have borrowed elsewhere; but I admit that it seems to me rather an objection to their establishment, than an argument in its favor.

What about an establishment that should regularly supply half of the drapers with their wool at market prices? What would be the benefits for the community? This would not prolong our trade, because the wool would also have been purchased, if they had charged the market price. That would not

lower the price of the fabric for the consumer, because the price, as I said before, would be regulated by the cost of its production for those who would be the least favored. Its only effect would then be to inflate the profits of a part of the clothiers beyond the general and common rate of profits. The establishment would be deprived of its equitable benefits and another part of the community would benefit to the same extent. This is precisely the effect of our banking establishments; an interest rate is fixed by law below that at which it can be borrowed on the market, and at this rate the Bank is required to lend or not to lend at all. By the nature of their establishment, they have significant funds which they can only dispose of in this way; and a part of the traders of the country are unjustly, and for the country without profit, took advantage of the possibility of providing themselves a commercial instrument, at a price lower than those which must be influenced only by the market price.

The whole enterprise, which the whole community can exercise, depends on the amount of capital, i.e. its raw material, its machines, its food, its ships, etc., used in production. Once a well-regulated paper money is established, it cannot be increased or decreased by the operations of banking. If the State then issued the country's paper money, although it should never discount a banknote or lend a shilling to the public, there would be no change in the amount of trade; because we should have the same amount of raw materials, machinery, food and ships; and it is also likely that the same amount could be lent, not 5%. indeed, a rate fixed by law, but at 6, 7 or 8 per cent., the result of fair competition in the market between lenders and borrowers.

Adam Smith talks about the advantages for merchants of the superiority of the Scottish mode of offering accommodation for trade, compared to the English mode, through cash accounts. These cash accounts are credits granted by the Scottish banker to his customers, in addition to the invoices which he discounts for them; but as the banker, to the extent that he advances money and puts it into circulation in one way, is prevented from emitting so many things from the other, it is difficult to see what the advantage consists of. If all the traffic will carry only one million paper money, only one million will be distributed; and it cannot have any real importance either for the banker or for the merchant, whether the whole is issued in the form of a discount or that a part is issued, and the rest is issued by means of these cash accounts.

It may be necessary to say a few words about the two metals, gold and silver, which are used in money, especially since this question seems to disturb the minds of many people. clear and simple principles of money. "In England," says Dr. Smith, "gold was not considered legal tender for a long time after it was invented in silver. The proportion between the values of gold and silver was not fixed by any law or public proclamation; but it remained to be settled by the market. If a debtor offered a payment in gold, the creditor could either reject this payment completely, or accept it for such a valuation of gold, like him and its debtor could agree. "

In this state of affairs, it is obvious that a Guinea can sometimes spend 22 s. or more, and sometimes for 18 s. or less, entirely depending on the change in the relative market value of gold and silver. All variations in both the value of gold and the value of silver would be noted in the gold coin, it would seem that silver is invariable and that gold alone is subject to rising or falling the drop. Thus, although a Guinea passed for 22 s. instead of 18 s. gold might not have varied in value, the variation could have been entirely limited to silver, and therefore 22 s. could not have been more valuable than 18 s. were before. And on the contrary, all the variation could have been in gold: a guinea, which was worth 18 s. could have reached the value of 22 s.

If we now assume that this silver currency is degraded by clipping and also increased in quantity, a guinea could pass for 30 s. ; for the money in 30 s. of such degraded currency might not be worth more than gold in a guinea. By restoring money money to its money value, money money would increase; but it seems that gold has fallen, for a Guinea probably wouldn't be worth more than 21 of these good shillings.

If now gold were also legal tender, and each debtor would be free to discharge a debt by the payment of 420 shillings, or twenty guineas, for 21 *liters*. that he owes, he will pay one or the other according to whether he will be able to discharge his debt the cheapest. If, with five quarts of wheat, he can get as many gold bars as mint will sell in twenty guineas, and for the same wheat as many silver bars as mint will cost him in 430 shillings, he will prefer to pay in money, because he would earn ten shillings by thus paying his debt. But if, on the contrary, he could obtain with this wheat as much gold as one would have invented in twenty and a half guineas, and as much money as coins in 420 shillings, he would naturally prefer to pay his debt in gold. If the quantity of gold which he could procure could only be

invented in twenty guineas, and the quantity of silver in 420 shillings, it would be a perfect indifference for him in which the money, the money or the 'was that he was paying his debt. So it's not a question of luck; It is not because gold is better suited to the circulation of a rich country that gold is always preferred to pay debts; but simply because it is in the interest of the debtor to pay them.

For a long time before 1797, the year of the restriction of bank payments in coins, gold was so cheap compared to silver that it suited the Bank of England and all other debtors to buy gold on the market, and no money, in order to bring it to mint to invent, as they could in this invented metal cheaply debts. Silver money was for a large part of this period very degraded, but it existed to a certain extent of scarcity, and therefore according to the principle that I explained previously, it never dropped in its current value. Although if degraded, the debtors still had an interest in paying the gold coin. If indeed the quantity of this damaged silver coin had been extremely large, or if the currency had issued such damaged coins, it might have been in the interest of the debtors to pay in this damaged money; but its quantity was limited and it maintained its value, and there Gold was in practice the real monetary standard.

That it is so, it is not the case; but it has been argued that this was done by law which declared that money should not be legal tender for any debt greater than 25 *l.*, except by weight, according to the mint standard.

But this law did not prevent any debtor from paying a debt, however important it was, in money money; that the debtor did not pay in this metal, it was not a question of chance, nor of constraint, but quite the effect of the choice; it didn't suit him to take mint money, it suited him to take gold there. It is probable that if the quantity of this damaged money in circulation had been enormously great, and also a legal tender, that a guinea would have been worth thirty shillings again; but it would be the degraded shilling which would have lost its value, and not the Guinea which had risen.

It then appears that if each of the two metals were also legal tender for debts of any amount, we were subject to a constant change from the main standard measure of value. Sometimes it would be gold, sometimes silver, depending entirely on changes in the relative value of the two metals, and at that time the metal, which was not the norm, would be melted and removed from the circulation, because its value would be more in bullion than in

coins. This was an inconvenience which it was highly desirable to remedy, but the progress of improvement is so slow that, although it has been demonstrated irrefutably by Mr. Locke, and that all writers have spoken of it since his time, a better system was never adopted until the last session of Parliament, when it was promulgated that gold alone should be legal tender for any sum exceeding forty-two shillings.

Dr. Smith does not seem to have been fully aware of the effect of the use of two metals as currency, and at the same time of a legal tender for debts of any amount; because he says that "in reality, for the duration of one regulated proportion between the respective values of the different metals in the coin, the value of the most precious metal regulates the value of the whole coin. "Because gold was in his time the means by which debtors were to pay their debts, he believed that it had some inherent quality by which it did so then, and would always regulate the value of silver coins.

During the reformation of the gold coin in 1774, a new Guinea fresh out of the currency would only exchange twenty-one degraded shillings; but under the reign of King William, when the silver coin was in precisely the same condition, an equally new and fresh guinea of the coin would exchange for thirty shillings. On this M. Buchanan observes, "here, then, is a very singular fact, of which the common theories of currency offer no account; Guinea exchanging at a given moment for thirty shillings, its intrinsic value in a currency of degraded money, and after the same guinea only exchanged for 21 of these degraded shillings. It is clear that a great change must have intervened in the state of money between these two different periods, of which Dr. Smith's hypothesis offers no explanation. "

It seems to me that the difficulty can be solved very simply, by referring this state different from the value of Guinea to the two periods mentioned, to the different *quantities* of degraded money in circulation. During the reign of King William, gold was not legal tender, it only went to a conventional value. All of the large payments were probably made in cash, particularly in paper money, and there was little understanding of banking. The quantity of this degraded silver money exceeded the quantity of silver money, which would have been kept in circulation, if nothing but unfounded money had been used; and consequently, it has been depreciated as well as degraded. But during the next period, when gold was legal tender, when banknotes were also used to make payments, the amount

of money in spoiled money did not exceed the amount of silver coins fresh out money, which would have circulated if there had been no money in degraded money; so good the money has been lowered, it has not been written off. Mr. Buchanan's explanation is somewhat different, he thinks that a subsidiary currency is not liable to depreciation, but that the main currency is. During the reign of King William, silver was the main currency and was therefore susceptible to depreciation. In 1774 it was a subsidiary currency and therefore retained its value. Depreciation, however, does not depend on the currency or the main currency, it depends entirely on its excess quantity.

To a moderate seigniorage on the currency, there cannot be much objection, in particular on this currency which must make the small payments. The money is generally valued at the total amount of the seigniorage, and it is therefore a tax that does not affect those who pay it, while the amount of money is not in excess. It should be noted, however, that in a country where paper money is established, although the issuers of that paper should be required to pay it in cash at the request of the holder, however, both their notes and the coin could be written off to the total amount seigniorage on this coin, which is the only legal tender, before the check, which limits the circulation of paper, operates. If the seigniorage on the gold coin was 5%, for example, the currency, by an abundant issue of banknotes, could be really depreciated by 5%. before, it would be in the interest of the holders to demand coins to melt them in ingots; a depreciation to which we would never be exposed if there were no seigniorage on the gold coin; or, if seigniorage was authorized, holders of banknotes could demand ingots, and not coins, in exchange for these, at the new price of 3 *l.* 17s . 10½ *d.* Unless the bank is obliged to pay their notes in ingots or coins, at the will of the holder, the late law which authorizes a seigniorage of 6 percent., Or four pence per ounce., On the silver coin , but which orders that gold be invented by money at no cost, this is perhaps the most appropriate, as this will more effectively prevent unnecessary variation in money. <sup>47</sup>

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## CHAPTER XXVI.

## ON THE COMPARATIVE VALUE OF GOLD, CORN AND LABOR, IN THE RICH AND POOR COUNTRIES.

"GOLD and silver, like all other products," says Adam Smith, "naturally seek the market where the best price is given to them. And the best price is generally given for everything in the country that can best allow work, it must be remembered, is the ultimate price that is paid for everything; and in countries where work is also well rewarded, the monetary price of labor will be proportional to that of the subsistence of the worker. But gold and silver naturally exchange for a greater quantity of subsistence in a rich country than in a poor country, in a country which abounds in subsistence, than in a country which is only indifferently provided."

But corn is a commodity, like gold, silver and other things; if all the products therefore have a high tradable value in a rich country, maize should not be excluded; and therefore we could rightly say that the corn was exchanged for a lot of money, because it was expensive, and that money also exchanged for a large amount of corn, because that too was expensive; is to say that corn is expensive and cheap at the same time. No point in political economy can be better established than the fact that a rich country cannot increase its population, in the same proportion as a poor country, by the progressive difficulty of providing food. This difficulty must necessarily increase the relative price of foodstuffs and encourage their importation. How then can silver, gold and silver exchange for more corn in rich countries than in poor countries? It is only in wealthy countries, where corn is expensive, that landowners urge legislators to ban the importation of corn. Who has ever heard of a law banning the import of raw products into America or Poland? - Nature effectively prohibited its import by the comparative ease of its production in these countries.

How then can it be true that "if you except corn and the other vegetables which are raised by human industry, all the other kinds of coarse products - cattle, poultry, game of all kinds, the useful fossils and minerals the land, etc., naturally becomes more expensive as society progresses." Why should corn and vegetables alone be excluded? Dr. Smith's error throughout his work is to assume that the value of corn is constant; that even if the value of

all other things can, the value of corn can never be increased. Corn, he says, still has the same value because it will always feed the same number of people. In the same way, you could say that this fabric always has the same value, because it will always have the same number of layers. What value can have to do with the power of food and clothing?

Corn, like any other product, has its natural price in every country, viz. this price which is necessary for its production, and without which it could not be cultivated: it is this price which governs its market price, and which determines the advisability of export it abroad. If the import of corn was banned in England, its natural price could reach 6 *l.* per quarter in England, when it was only half that price in France. If, at that time, the import ban were lifted, the corn would fall on the English market, and not at a price between 6 *l.* and 3 *l.* , but finally and permanently at the natural price of France, the price at which it could be supplied to the English market, and allow the usual and ordinary profits of the growers in France; and it would remain at this price, whether England consumes a hundred thousand or a million quarters. If the demand from England was for the latter quantity, it is probable that because of the necessity for France to resort to land of lesser quality to supply this important supply, the natural price would increase in France; and that would of course also affect the price of corn in England. All I support is that it is the natural price of commodities in the exporting country, which ultimately regulates the prices at which they will be sold, if not monopolized, in the importing country.

But Dr. Smith, who so skillfully supported the doctrine of the natural price of products ultimately regulating their market price, assumed a case in which he believed that the market price would not be regulated nor by the natural price of export nor the importing country. "Decrease the real opulence of Holland or the territory of Genoa," he says, "while the number of their inhabitants remains the same; decrease their power to refuel from distant countries, and the price of corn, instead of sinking with this reduction in the quantity of their money which must necessarily accompany this declination, either as its cause or as its effect, will drive up the price of a famine. "

It seems to me that the opposite would happen: the decrease in purchasing power of the Dutch or Genoese could lower the price of corn for a time below its natural price in the country from which it was exported, as

well than in the countries where it was imported, but it is quite impossible that it could ever carry it above this price. Only by increasing the opulence from the Dutch or Genoese, that you could increase demand, and raise the price of corn above its old price; and this would only happen for a very limited time, unless new difficulties arise in obtaining supply.

Dr. Smith further notes on this subject: "When we run out of essentials, we have to part with all of the superfluity, the value of which, as it increases in times of opulence and prosperity, sinks in times of poverty and distress. " It is undoubtedly true; but it continues," it is otherwise with necessities. Their real price, the quantity of work they can buy or order, increases in times of poverty and distress, and sinks in times of opulence and prosperity, which are always periods of great abundance, because they do not could not be otherwise times of opulence and prosperity. Corn is a necessity, money is only a superfluity. "

Two propositions are put forward here, which have no link between them; one, that in the supposed circumstances, the corn would require more work, which is not disputed; the other, that the corn would be sold at a higher price, that it would exchange more money; I think this is wrong. It could be true, if corn was scarce at the same time, if the usual supply had not been provided. But in this case, it is abundant, it is not claimed that a quantity less than normal is imported, or that more is needed. To buy corn, the Dutch or the Genoese want money, and to get that money, they are forced to sell their superfoods. It is the market value and the price of these superfluities that are falling, and the money seems to increase relative to them. But this will not tend to increase demand for corn, or lower the value of money, the only two causes that can drive up the price of corn. Money, for want of credit and for other reasons, can be in high demand, and therefore expensive, compared to corn; but there is no fair principle that silver would be cheap and therefore the price of wheat would rise in such circumstances.

When we talk about the high or low value of gold, silver or any other commodity in diffIn some countries, we must always mention a means in which we value them, or no idea can be attached to the proposal. So, when we say that gold is more expensive in England than in Spain, if no goods are mentioned, what notion does the statement convey? If corn, olives, oil, wine and wool are cheaper in Spain than in England; estimated in these raw materials, gold is more expensive in Spain. If again, the material, the sugar,

the cloth, etc. to be at a lower price in England than in Spain, then, estimated in these raw materials, gold is more expensive in England. Thus gold appears more expensive or less expensive in Spain, because the imagination of the observer can be fixed on the support by which it estimates its value. Adam Smith, having stamped corn and labor as a universal measure of value, would naturally estimate the comparative value of gold by the quantity of these two objects for which he would trade: and, therefore, when he speaks of the comparative value of gold in two countries, I understand it to mean its estimated value in corn and in work.

But we have seen that, estimated in corn, gold can have a very different value in twocountries. I have tried to show that it will be low in rich countries and high in poor countries; Adam Smith takes a different view: he believes that the value of gold estimated in corn is the highest in rich countries. But without examining further which of these opinions is correct, one or the other suffices to show that gold will not necessarily be lower in countries that own mines, although this is a proposition maintained by Adam Smith. Suppose England possesses the mines, and the opinion of Adam Smith, that gold is of the greatest value in rich countries, to be exact: although gold would flow naturally from England to all the other countries in exchange for their *goods* , it would not follow this gold was necessarily weaker in England, compared to corn and labor, than in these countries. In another place, however, Adam Smith speaks of the necessarily lower precious metals in Spain and Portugal, than in other parts of Europe, because these countries happen to be almost the sole owners of the mines that produce them. "Poland, where the feudal system continues to this day as a beggar coun try as before the discovery of America. *The silver price of corn has increased, however* ; THE REAL VALUE OF PRECIOUS METALS HAS DECLINED in Poland, in the same way as in other parts of Europe. Their quantity must therefore have increased there as elsewhere, *and roughly in the same proportion as the annual product of land and labor* . This increase in the quantity of these metals did not, however, seem to have increased this annual production, nor improved the factories and agriculture of the country, nor repaired the situation of its inhabitants. Spain and Portugal, countries that own the mines, are perhaps, after Poland, the two most begging countries in Europe. The value of precious metals, however, *must be lower in Spain and Portugal* than in any other part of

Europe, loaded not only with freight and insurance, but at the cost of smuggling, their export being either prohibited or subject to a duty. *Consequently, in proportion to the annual product of land and labor, their quantity must be higher in* these countries than in any other part of Europe: these countries are, however, poorer than most of Europe.

Although the feudal system was abolished in Spain and Portugal, it was not much better. "

Dr. Smith's argument seems to me to be as follows: - Gold, when estimated in corn, is cheaper in Spain than in other countries, and the proof is, not that corn is given by other countries to Spain for gold, but that the fabric, the sugar, the hardware are supplied by the countries in exchange for this metal.

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## CHAPTER XXVII.

### TAXES PAID BY THE PRODUCER.

**MR.** SAY greatly amplifies the disadvantages that result if a tax on a manufactured product is levied at an early stage rather than a late stage in its manufacture. The manufacturers, he observes, into whose hands the goods can pass successively, must use larger funds because of having to advance the tax, which is often very difficult to grant to a manufacturer of very limited capital and credits. . No objection can be made to this observation.

Another disadvantage on which he insists is that, because of the advance of the tax, the profits on the advance must also be charged to the consumer, and that this addiThe national tax is that from which the Treasury derives no benefit.

In this last objection, I cannot subscribe to the opinion of M. Say. We will assume that the state wants to lift 1000 *l* immediately . and imposes it on a manufacturer who, for twelve months, will not be able to invoice the consumer for his finished goods. Because of this delay, he is obliged to invoice for his goods an additional price, not only of 1000 *l*. the amount of the tax, but probably 1100 *l*. , 100 *l*. being of interest on the 1000 *l*.

Advanced. But in exchange for those additional 100 *liters* . paid by the consumer, it has a real advantage, in that its payment of the tax which the government immediately demanded, and which it must ultimately pay, has been postponed for one year; an opportunity was therefore offered to him to lend to the builder, who had the opportunity, the 1000 *l.* at 10 percent. or at any other interest rate that may be agreed. Eleven hundred pounds payable after one year, when the money is 10%. of interest, has no more value than 1000 *l.* to pay immediately. If the government delays receiving tax for a year until the manufacturing of the goods is completed, he might be obliged to issue an interest-bearing Treasury bill, and he would pay as much interest as the consumer would save in price, except, by indeed, from that part of the price that the manufacturer might be able, because of the tax, to add to his own actual earnings. If, for the sake of the Exchequer bill, the government would have paid 5 percent., A tax of 50 *l.* is registered by not delivering it. If the manufacturer has borrowed the additional capital at 5% and billed 10% to the consumer, he will also have earned 5%. on its advance beyond its usual profits, so that the manufacturer and the government earn together, or save, precisely the amount that the consumer pays.

Mr. Simonde, in his excellent work, *De la Richesse Commerciale* , following the same argument as Mr. Say, calculated that a tax of 4,000 francs, originally paid by a manufacturer, whose profits were at the moderate rate of 10 percent., Would, if the manufactured product passed only through the hands of five different people, be raised to the consumer the sum of 6,734 francs. This calculation is based on the assumption that whoever advanced the first tax would receive from the next manufacturer 4,400 francs, and he again from the next, 4,840 francs; so at each step 10%. on its value would be added to it. This assumes that the value of the tax would accrue at compound interest, not at the rate of 10 per cent. per year, but at an absolute rate of 10 percent., at each stage of its progress. This opinion of M. de Simonde would be correct if five years passed between the first advance of the tax and the sale of the goods taxed to the consumer; but if only one year passed, a remuneration of 400 francs instead of 2734 would give a profit of 10%. per year, to all those who contributed to the advance of the tax, whether the goods passed through the hands of five manufacturers or fifty.

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# CHAPTER XXVIII.

## ON THE INFLUENCE OF DEMAND AND SUPPLY ON PRICES.

IT is the cost of production which must end account regulate the price of commodities, and not, as was often said, the proportion between supply and demand: the proportion between supply and demand can, in effect, for a certain time affect the market value of a commodity, until it is supplied in more or less abundance, depending on whether demand may have increased or decreased; but this effect will only be temporary.

Lower the cost of producing hats, and their price will eventually fall to their new natural price, although demand is expected to be doubled, tripled or quadrupled. Decrease the cost of subsistence for men, by decreasing the natural price of food and clothing, thanks to which life is maintained, and wages will eventually fall, although the demand for workers may very strongly increase.

The view that the price of commodities depends only on the proportion of supply to demand, or demand to supply, has become almost an axiom of political economy and has been at the origin many errors in this science. It is this opinion which has led Mr. Buchanan to maintain that wages are not influenced by an increase or a fall in the price of provisions, but only by the demand and supply of labor; and that a tax on labor wages would not increase wages because it would not change the proportion of workers' demand to supply.

It cannot be said that the demand for a product increases, if no additional quantity of it is bought or consumed; and yet, in such circumstances, its monetary value may increase. Thus, if the value of money were to fall, the price of each product would increase, because each of the competitors would be willing to spend more money than before on their pure hunt; but although its price has increased by 10 or 20 percent. if we did not buy more than before, it would not be, I believe, admissible to say that the variation in the price of the commodity was caused by the increase in demand. Its natural price, its cost of monetary production, would be really modified by the modified value of money; and without an increase in demand, the price of the product would naturally be adjusted to this new value.

"We have seen," says Mr. Say, "that the cost of production determines the lowest price at which things can fall: the price below which they cannot stay long, because production would then be completely stopped, be reduced Vol. II P. 26.

He then said that the demand for gold having increased in an even greater proportion than the supply, since the discovery of the mines, "its price in goods, instead of falling in the proportion of ten for one, fell only in the proportion of four to one; " that is, instead of falling proportionally its natural price had fallen, lowered in proportion to supply exceeding demand.<sup>48</sup> " *The value of each commodity always increases in a direct relationship to demand and in an inverse relationship to supply.* "

The same opinion is expressed by the Earl of Lauderdale.

"With regard to variations in value, of which everything of value is susceptible, if we could for a moment suppose that a substance possessed an intrinsic and fixed value, so as to constantly make of it a quantity supposed, in all circumstances, of 'an equal value, then the degree of value of all things, determined by such a fixed norm, would vary according to the proportion *between the quantity of them* , and the demand for them, and each commodity would naturally be subject to a variation of its value, from four different circumstances.

1. "It would be subject to an increase in its value, to a decrease in its quantity.
2. "A decrease in its value, an increase in its quantity.
3. "It could suffer from an increase in its value, due to increased demand.
4. "Its value could be diminished by a failure in demand.

"As it will however become clear that no commodity can have a fixed and intrinsic value, so as to qualify it as a measure of the value of other goods, humanity is led to choose, as a practical measure of value the one that appears the least subject to one of these four sources of variation, the *only causes of alteration in value* .

"When, in common language, we therefore express the *value* of a commodity, it may vary from one period to what it is to another, as a result of eight different contingencies.

1. "Of the four circumstances set out above, in relation to the goods whose value we want to express.

2. "In the same four circumstances, in relation to the commodity we have adopted as a measure of value."<sup>49</sup>

This is true for monopolized products and, in fact, for the market price of all other products for a limited period. If the demand for hats were to double, the price would increase immediately, but this increase would only be temporary, unless the cost of production of the hats or their natural price were increased. If the natural price of bread fell by 50%. of a great discovery in the science of agriculture, the demand would not increase much, because no one would desire more than its needs would meet, and as demand would not increase, neither did supply; because a product is not supplied simply because it can be produced, but because there is a demand. So here we have a case where supply and demand have changed little or, if they have increased, they have increased in the same proportion; and yet the price of bread will have dropped by 50%. also at a time when the value of money had remained unchanged.

The products which are monopolized, either by an individual or by a company, vary according to the law that Lord Lauderdale has decreed: they decrease proportionally as the sellers increase their quantity, and increase in proportion to the eagerness of the buyers to buy their ; their price has no necessary link with their natural value: but the prices of the products, which are subject to competition and whose quantity can be increased to a moderate degree, will ultimately depend not on the state of demand and supply, but the increase or decrease in the cost of their production.

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## CHAPTER XXIX.

### MONSIEUR. OPINION OF MALTHUS ON THE RENT.

**ONE** IEN the nature of the rent has in the old pages of this work been treated rather lengthily; yet I consider myself obliged to note some opinions on the subject, which appear to me to be erroneous, and which are the most important, as we find them in the writings of him to whom, of all men today, some branches of economics science is the most indebted. From Mr. Malthus' essay on the population, I am pleased with the opportunity to

express my admiration. The assaults of opponents to this great work have only proven its strength; and I am confident that its just reputation will spread with the cultivation of this science which is the ornament so prominent. Mr. Malthus too - a explained the principles of rent satisfactorily, and showed that it increases or decreases in proportion to the relative advantages, either of fertility or of situation, of the various cultivated lands, and thus highlighted many difficult points related to annuity subject, which were previously either unknown or very imperfectly understood; yet I seem to have fallen into errors which his authority makes all the more necessary, while his characteristic candor makes him less disagreeable to notice. One of these errors is to assume that the annuity is a net gain and a new creation of wealth.

I do not share all of Mr. Buchanan's views on rent; but with those expressed in the following passage, quoted from his work by M. Malthus, I entirely agree; that is why I must oppose Mr. Malthus' comment on them.

"From this point of view, it (the rent) cannot constitute a general addition to the stock of the community, because the net surplus in question is nothing more than an income transferred from one class to another; and from the mere circumstance of his changing hands, it is clear that no fund can come from which to pay taxes. The income that pays for the product of the land already exists in the hands of those who buy this product; and, if the subsistence price were lower, it would remain in their hands, where it would be just as available for taxation as when, by a higher price, it was transferred to the landowner. "

After various observations on the difference between raw and manufactured products, M. Malthus asked: "Is it then possible, with M. de Sismondi, to consider rent as the only product of labor, which has a purely nominal value , and the simple result of this increase in price that a seller obtains due to a particular privilege; or, with Mr. Buchanan, to consider it as no addition to the national wealth, but simply a transfer of value, advantageous only for owners, and proportionately *detrimental* to consumers? " [50](#)

I have already expressed my opinion on this subject when dealing with rent, and I need only add that rent is a creation of value, if I understand this word correctly, but not a creation of wealth. If the price of corn, the

difficulty of producing a part of it, had to go from 4 *l.* at 5 *l.* per quarter, one million quarters will be worth 5,000,000 *l.* instead of 4,000,000 *l.* and as this corn will be exchanged not only for more money but for more of all other merchandise, the possessors will have greater value; and as no one else will consequently have less, society as a whole will have greater value, and in this sense rent is a creation of value. But this value is so nominal that it adds nothing to wealth, that is to say, the necessities, conveniences and enjoyments of society. We should have exactly the same amount, not more goods, and the same million quarts of wheat as before; but the effect of its being evaluated at 5 *l.* per quarter, instead of 4 *l.* , would transfer part of the value of corn and basic commodities from their former owners to the owners. Rental is therefore a creation of value, but not a creation

wealth; it adds nothing to the resources of a country, it does not allow it to maintain fleets and armies; because the country would have more available funds if its land were of better quality, and it could use the same capital without generating a rent.

In another part of Mr. Malthus' "investigation", he observed that "the immediate cause of the rent is obviously the excess of price above the cost of production at which the raw products are sold on the market", and in another place, he says, "that the causes of the high price of raw products can be of three kinds: -

"First and foremost, this quality of the land, by which it can be brought to provide a greater part of the necessities of life than that required for the maintenance of the people employed on the land.

"2dly. This quality proper to the necessities of life to be able to create one's own demand, or to raise a certain number of demanders in proportion to the quantity of necessary products produced.

"And 3dly. The relative scarcity of the most fertile land." Speaking of the high price of corn, Mr. Malthus obviously does not mean the price per quarter or per bushel, but rather the excess price for which the whole product will be sold, above the cost of its production, including always in the long term "cost of production", profits as well as wages. One hundred and fifty quarters of corn at 3 *l.* 10 *s.* per quarter, would bring the landlord a rent greater than 100 quarters at 4 *l.* , provided that the production costs are identical in both cases.

The high price, if the expression is used in this sense, cannot then be qualified as a *cause* of rent; it cannot be said "that the immediate cause of

the rent is obviously the excess of price above the cost of production, at which the raw products are sold on the market", because this excess is itself the rent. Rent, Mr. Malthus defined as "the part of the value of the whole product which remains with the owner of the land, after all expenses pertaining to his culture, of whatever nature, have been paid, including including profits from capital employed, estimated according to usual and ordinary rules profit rate of agricultural stocks at present. "Now, no matter how much this surplus can sell, it is the monetary rent; this is what Mr. Malthus means by" the excess price above the cost of production at which the raw products are sold in the markets; "and therefore in an investigation of the causes which can raise the price of raw products, compared to the cost of production, we look for the causes which can raise rents.

Referring to the primary cause of rising rents, Malthus makes the following comments: "We always want to know why consumption and supply are such that the price so far exceeds the cost of production, and the main cause is evidently the *fertility* of the land by producing the necessities of life decrease this abundance, decrease soil fertility and decrease the excess;. decrease it even more, and it will disappear. " Admittedly, excess of needed products will decrease and disappear, but that is not the issue. The question is whether the excess of their price above the cost of their production will decrease and disappear, because that is what the monetary rent depends on. Did Mr. Malthus justified in his inference that, because the excess quantity will decrease and disappear, "the cause of *the high price* of the necessities of life above the cost of production lies in their abundance, rather than in their scarcity; and is not only essentially different from the high price of artificial monopolies, but from the high price of these particular products of the land, not related to food, which can be called natural and necessary monopolies? "

Are there not circumstances in which the fertility of the earth and the abundance of its products can be reduced, without causing a reduced excess of its price above the cost of production, i.e. -to say a reduced pension? If there are, Mr. Malthus' proposal is far too universal; for it seems to me to state as a general principle, true in all circumstances, that the rent will increase with the increased fertility of the country, and will decrease with its diminished fertility.

Mr. Malthus would no doubt be correct if, to the extent that the land yielded abundantly, a greater part of the totality of the products was paid to the owner; but the opposite is the fact: when no other land, but the most fertile, is under cultivation, the owner has the smallest share of the entire production, as well as the smallest value, and it is only when lower lands are needed to feed a population increase, as the owner's share in the whole product and the value he receives gradually increase.

Suppose that the demand is for a million quarters of corn and that they are the product of the land currently cultivated. Suppose now that the fertility of all the land is so reduced that the same land will only produce 900,000 quarters. With demand for a million quarters, the price of corn would rise, and lower quality land would necessarily have to be used sooner than if the top land had continued to produce a million quarters. But it is this need to cultivate lower lands that is behind the rise in rents. Rent, it should be remembered, is not proportional to the absolute fertility of cultivated land, but proportional to relative fertility. Whatever cause may drive capital to lower lands, it must increase the rent; the cause of the rent being, as Mr. Malthus said in his third proposal, "the relative scarcity of the most fertile land". The price of corn will naturally increase with the difficulty of producing the last portions; but since the cost of production will not increase, because wages and profits taken together will always continue to

be of the same value, <sup>51</sup> it is evident that the excess price above the cost of production, or, in other words, the rent, must increase with the decline in the fertility of the land, unless it is offset by a sharp reduction of capital, population and demand. It therefore does not appear that Mr. Malthus' proposal is correct: the rent does not increase and does not necessarily and necessarily decrease with the increase or decrease in the fertility of the land; but her increased fertility makes her able to pay increased rent at some point in the future. Land owned by very- little fertility can never bear rent; lands with moderate fertility can be brought, as the population increases, to support a moderate rent; and land of great fertility high rent; but it is one thing to be able to bear high rent and another to pay it. The rent can be lower in a country where the land is extremely fertile than in a country where it yields a moderate yield, the latter being proportional rather to relative fertility than absolute - to the value of the

product and not to its abundance. Mr. Malthus says that the "cause of the overpricing of the necessities of life above the cost of production is to be found in their abundance rather than their scarcity, and is essentially different from the high price of these particular products of land, not related to food, which can be called natural and necessary monopolies. "

How are they essentially different? Would not the abundance of these particular products of the land lead to an increase in rents, if their demand increased at the same time? and can the rent ever increase, whatever the commodity produced, in abundance simply and without increase in demand?

The second cause of rent mentioned by Mr. Malthus, namely "this quality specific to the necessities of life, to be able to create their own demand, or to raise a certain number of applicants in proportion to the quantity of necessary products produced", does not seem essential to me. It is not the abundance of necessities which arouses the demanders, but the abundance of the applicants which arouses the necessities.

We are not obliged to continuously produce a greater quantity of goods than that which is requested. If by accident a larger quantity were produced, it would fall below its natural price, and therefore would not pay the cost of production, as well as the usual and ordinary profits of the stock: thus the supply would be checked until 'it is in line with demand, and the market price has risen to the natural price.

Mr. Malthus seems to me too inclined to think that the population is only increased by the previous supply of food, "that it is food that creates its own demand", that it is first by supplying food than marriage is encouraged, instead of considering that the general progress of the population is affected by the increase in capital, the resulting demand for labor and the rise in wages; and that food production is only the effect of this demand.

It is by giving the worker more money, or any other commodity in which wages are paid, and which has not fallen in value, that his situation improves. Increasing population and increasing food will generally be the effect, but not the necessary effect of high wages. The modified condition of the worker, because of the increased value paid to him, does not necessarily oblige him to marry and take care of a family - he can, if he pleases, exchange his salary increases for goods that can contribute to his pleasures - for chairs, tables and equipment; or for better clothes, sugar and tobacco. His wage increase will then be followed with no other effect than

an increase in demand for some of these products; and since the race of workers will not be appreciably increased, their wages will remain permanently high. But although this may be the consequence of high wages, yet so great are the pleasures of domestic society, that in practice it is invariably observed that an increase in the population follows the modified condition of the worker; and it is only because it does, that a new and increased demand for food arises. This demand is then the effect of an increase in population, but not the cause - it is only because the expenditure of the people takes this direction, that the market price of basic products exceeds the natural price, and that the amount of food needed is produced; and it is because the number of people increases, that wages fall again.

What reason can a farmer have for producing more maize than what is really demanded, when the consequence would be a fall in his market price below his natural price, and consequently a deprivation for him of part of his profits, reducing them below the general rate? "If," says Mr. Malthus, "the necessities of life, the most important products of the earth, did not have the property of creating an increase in demand proportionate to their increased quantity, such an increase in the quantity would cause a drop in their exchangeable value.<sup>52</sup> As abundant as the production of a country is, its population can remain stationary. And this abundance without proportionate demand, and with a very high corn labor price, which would naturally take place in these circumstances, could reduce the price of raw products, like the price of manufactured products, to the cost of production. "

"Could reduce the price of raw products to the cost of production?" Is it ever for a duration greater or less than this price? Does not Mr. Malthus himself declare that it will never be so? "I hope," he said, "to be excused for having lived a little and for having presented to the reader in various forms the doctrine that corn, in reference to the quantity *actually produced*, is sold at its necessary price as of manufactured goods, because I regard it as a most important truth, which has been overlooked by economists, by Adam Smith and all of these writers who portrayed raw materials as still selling at a monopoly price. "

"Any extended country can therefore be regarded as possessing a gradation of machinery for the production of maize and raw materials,

including not only all the various qualities of the poor lands, of which each territory generally has an abundance, but the inferior machinery which can be said to be used when good land is being forced more and more for additional products. As the price of raw products continues to rise, these inferior machines are successively put into action; and the price of raw products continues to fall. The illustration here used serves to show both the *need for the actual price of corn for the actual product* , and the different effect that would cause a great reduction in the price of a particular manufacture, and a great reduction in the price of raw products. " [53](#)

How to reconcile these passages with the one who asserts that if the necessities of life did not have the property of creating an increase in demand proportional to their increased quantity, the abundant quantity produced would then, and only then, reduce the price of the crude produced at production cost? If corn is never lower than its natural price, it is never more abundant than the real population demands for its own consumption; no store can be opened consumption of others; it can never, by its cheapness and its abundance, be a stimulant for the population. Since corn can be produced at low prices, raising workers' wages will have more power to support families. In America, the population is growing rapidly, because food can be produced at a cheap price, not because an abundant supply has already been provided. In Europe, the population is growing relatively slowly, because food cannot be produced at a cheap price. In the normal and ordinary course of things, the demand for all products precedes their supply. In saying that corn, like manufactured products, would fall to its producer price, if it could not increase the demand, Mr. Malthus cannot mean that all the rent would be absorbed; for he himself rightly remarked that if all the rents were abandoned by the owners, the wheat would not fall; rent being the effect, not the cause of the high price, and there is always a quality of cultivated land that pays no rent, whose wheat replaces with its price, only wages and profits.

In the next passage, Mr. Malthus said given a capable account of the causes of the rise in the price of raw products in rich and progressive countries, in every word with which I agree; but it seems to me to be in contradiction with some of the propositions which he maintained in certain parts of his Essay on rent. "I do not hesitate to assert that, apart from

irregularities in a country's currency and other temporary and accidental circumstances, the cause of the high comparative monetary price of maize is its *high comparative real price* , or the greater quantity of the capital and labor that must be used to produce it, and that the reasons why the real price of corn is higher and continues to rise in countries that are already rich and continue to grow in prosperity and population , find themselves in the necessity of constantly resorting to poorer land, to machines which require a higher expenditure to work them, and which consequently cause each additional cost to the raw products of the country to be bought at a higher cost; , it is found in the important truth, that corn in a progressive country, is sold at the price necessary to give the actual supply; and as this offer becomes more and more difficult, the price increases proportionally. "

The real price of a commodity is here correctly indicated as dependent on the greater or lesser amount of labor and capital (i.e. accumulated labor) which must be used to produce it. The real price does not depend, as some have argued, on monetary value; nor, as others have said, on the value relating to corn, labor or any other product taken separately, or all the products collectively; but, as M. Malthus rightly says, "on the greatest (or least) amount of capital and labor which must be employed to produce it".

Among the causes of the rise in rents, mentions Mr. Malthus, "such an increase in the population which will lower the wages of labor". But if, as labor wages fall, the profits of the stocks increase, and they are together always of the same value, <sup>54</sup> No drop in salary can increase the rent, because

it will not decrease either the share or the value of the share of the pro- which will be allocated to the farmer and the worker together, and will therefore not leave a larger part, nor a greater value for the owner. To the extent that less is allocated to wages, more will be allocated to profits, and *vice versa* . This division will be settled by the farmer and his workers, without any interference from the owner; and indeed it is a question in which he can have no interest, other than one division may be more favorable than another, to new accumulations and a new demand for land. If wages go down, profits, not rents, will go up. If wages went up, profits, not rents, would fall. The rise in rents and wages and the fall in profits are generally the inevitable effects of the same cause: the increase in demand

for food, the increase in the amount of labor required to produce it and its consequently high price. If the landlord gave up all of his rent, the workers would not be the least in the world to benefit. If the workers were to give up all their wages, the owners would derive no advantage from such a circumstance; but in either case, the farmer would receive and keep whatever he gave up. It's my effort to show in this work that a drop in wages would only have an effect on increasing profits.

Another cause of rising rents, according to Malthus, is "agricultural improvements or increased efforts that will decrease the number of workers needed to produce a given effect". This would not increase the value of the entire product and therefore would not increase the rent. It would rather have a contrary tendency, it would lower the rent; for if, as a result of these improvements, the actual amount of food needed could be supplied either with fewer hands or with less land, the price of raw products would fall and capital would be withdrawn from the land. <sup>55</sup> Nothing can increase the rent, but a demand for new, lower-quality land, or a cause that will alter the relative fertility of land already cultivated. <sup>567</sup> improvements- in agriculture and in the division of labor, are common to all lands; they increase the absolute quantity of raw products obtained from each, but probably do not much disturb the relative proportions which previously existed between them.

Mr. Malthus rightly commented on an error by Adam Smith and said: "The substance of his argument (of Dr. Smith) is that corn is of such a special nature that its real price cannot be increased by an increase of its the price of silver, and that, as it is clearly an increase in the real price alone, which can encourage its production, the rise in the price of silver, occasioned by a premium, cannot have such a effect. "

He continues: "It is in no way intended to deny the powerful influence of the price of corn on the price of labor, on average over a considerable number of years; but that this influence is not of a nature to prevent the movement of capital to or from the earth, which is the precise point in question, will be sufficiently highlighted by a brief inquiry into the way in which work is paid for and placed on the market, and by an examination of

the consequences to which the supposition of Adam Smith's proposal would inevitably lead. "<sup>57</sup>

Mr. Malthus then states that demand and the high price will encourage the production of raw products as effectively as the demand and high price of any other product will encourage its production. From this point of view, it will be seen from what I have said about the effects of premiums that I fully agree. I noticed the passage "Observations on the Corn Laws" by Mr. Malthus in order to show how different the term real price is used here, and in his other brochure, entitled "Reasons for an opinion, etc.". In this passage, Mr. Malthus tells us that "it is clearly an increase in the real price alone that can encourage the production of corn", and by real price, he obviously means the increase in its value compared to all other things, or in other words, the rise of its market above its natural price, or the cost of its production. If, by real price, this is what is meant, Mr. Malthus' opinion is undoubtedly correct; it is the increase in the market price of corn which alone encourages its production, because it can be posed as a uniformly true principle, that the only encouragement to increase the production of a commodity is its market value greater than its value natural or necessary.

But this is not the meaning that Mr. Malthus, on other occasions, attaches to the term real price. In the rent essay, Mr. Malthus said, "the real increasing price of corn, I mean the real *amount* of labor and capital, *which was used* to produce the latest additions to the national product " In another part, he states that "the cause of the high comparative real price of corn is the greater *amount* of capital and labor that must be *used* to produce it".

<sup>58</sup> Suppose that in the foreground by the way we had to substitute this definition of real price, wouldn't it work like this? - "It is clearly the increase in the amount of labor and capital that must be used to produce corn, which alone can promote its production." This would be to say that it is clearly the increase in the natural or necessary price of corn which encourages its production, a proposition which could not be maintained. It is not the price at which corn can be produced that influences the quantity produced, but the price at which it can be sold. It is in proportion to the excess of its price above the cost of production that capital is attracted or repelled from the earth. If this excess is of a nature to give to the capital

thus employed, greater than the general profit of the stock, the capital will go to the land; if it is lower, it will be removed.

It is therefore not by a change in the real price of maize that its production is encouraged, but by a change in its market price. It is not "because more capital and labor must be used to produce it", Mr. Malthus' just definition of the real price, that more capital and labor are attracted to the land, but because the market price exceeds this price, and despite the increased cost, makes the cultivation of the land the most profitable use of capital.

Nothing can be more just than Mr. Malthus' following comments on Adam Smith's standard of value. "Adam Smith was obviously led into this train of arguments, starting from his habit of considering *work as the standard measure of value* , and corn as the measure of work. But this corn is a very inaccurate measure of work , the history of our own country will demonstrate amply, where the workforce , compared to corn, will be found to have experienced the greatest and striking variations, not only from year to year , but from a century at, and for ten, twenty and thirty years together. *and that neither labor nor any other commodity can be a precise measure of real value in exchange* , is now considered one of the most essential doctrines of political economy; and, indeed, follows from the very definition of exchange value. "

If neither corn nor labor are precise measures of real value in exchange, which they clearly are not, what is the commodity? - certainly none. If then the expression real price of goods has a meaning, it must be that which M. Malthus stated in the Essay on rent - it must be measured by the proportional quantity of capital and labor necessary to produce them.

In Mr. Malthus' "Survey on the Nature of Rent," he says, "apart from irregularities in a country's currency and other temporary and accidental circumstances, the cause of the high comparative monetary price of corn is its real price compared, *or the greatest amount of capital and labor that must be used to produce it* . [59](#)

It is, I believe, the correct record of all permanent price variations, whether corn or any other commodity. A commodity can only increase permanently, either because more capital and labor must be used to produce it, or because money has lost value; and on the contrary, it can only fall in

price, either because less capital and labor can be used to produce it, or because money has increased in value.

A variation resulting from the last of one or other of these alternatives, an altered value of money, is common to all products; but a variation resulting from the first cause is limited to the particular commodity requiring more or less labor in its production. By authorizing the free importation of maize or by improving agriculture, raw products would fall; but the price of no other merchandise would be affected, except in proportion to the fall in the real value, or the cost of production, of the raw products which were part of its composition.

Mr. Malthus, having recognized the principle cannot, I think, systematically maintain that the total monetary value of all the products of the country must fall exactly in proportion to the fall in the price of corn. If the corn consumed in the country was worth ten million a year and the manufactured and foreign products consumed were worth twenty million, or a total of thirty million, it would not be permissible to infer that the annual expenses were reduced to 15 million, because corn had dropped 50 percent, or from 10 to 5 million.

The value of the raw products used in the composition of these manufactured products should not, for example, exceed 20 per cent. of their total value, and therefore the drop in the value of manufactured goods, instead of being 20 to 10 million, would only be 20 to 18 million; and after the 50 per cent fall in the price of maize, the total amount of annual expenditure, instead of falling from 30 to 25 million, would drop from 30 to 23 million. <sup>60</sup>

Instead of thus considering the effect of a fall in the value of gross products; as Mr. Malthus was required to do by his previous admission; he considers it exactly the same with a 100% increase in value for money, and, therefore, argues as if all commodities would fall to half their former price.

"In the twenty years beginning with 1794," he says, "and ending in 1813, the average price of British corn per quarter was about eighty-three shillings; in the ten years ending with 1813, ninety-two shillings, and during the last five years of the twenty, one hundred, and eight shillings, during which time the government had borrowed nearly five hundred million real capital, for which, on average approximate, excluding the sinking fund, he

agreed to pay about five percent. But if the corn were to fall to fifty shillings per quarter, and other products in proportion, instead of interest of about five percent., the government would actually pay interest of seven, eight, nine, and, for the last two hundred million , ten percent .

"To this extraordinary generosity towards the shareholders, I would be ready to make no objection, if it were not necessary to consider by whom it must be paid; and a moment of reflection will show us, that it cannot be paid only by the working classes of society, and the owners, that is to say by all those whose nominal income will vary according to variations in the measurement of value. The nominal incomes of this part of society, by compared to the average of the past five years, will be halved, and on this nominally reduced income, they will have to pay the same nominal amount of tax. "<sup>61</sup>

First, I think, I have already shown, that the nominal income of the whole the country will not be diminished in the proportion for which Mr. Malthus claims here; it would not follow that, because the corn fell by fifty percent., the income of each man would be reduced by fifty percent. value. <sup>62</sup>

Secondly, I think the reader will agree with me, that the increased burden, if admitted, would not fall exclusively "on the owners and the working classes of society:" the shareholder, by his expenses , contributes its share to the support of public charges in the same way as the other classes of society. If then the money became really more precious, although it would receive a greater value, it would also pay a greater value in taxes, and, therefore, it cannot be true that the totality of the addition to the real value of interest would be paid by "the owners and the working classes."

Mr. Malthus' entire argument, however, is built on a crippled basis: it assumes, because the gross income of the country is decreased, that, therefore, the net income must also be decreased, in the same proportion. One of the objects of this work was to show that, with each fall in the real value of necessities, the wages of labor would fall and that the profits of the actions would increase, i.e. those of any given annual value a smaller portion would go to the working class and a larger portion to those whose funds would employ this class. Suppose that the value of the goods produced in a particular production is 1000 l. , and to distribute between

the master and his workers, at a rate of 800 *l.* to workers, and 200 *l.* to the master; if the value of these products were to fall to 900 *l.* and 100 *l.* to be saved from the wages of labor, because of the fall in necessities, the net income of the masters would in no case be altered, and, consequently, he could with as much ease pay the same amount of taxes, after, as before the price reduction. <sup>63</sup>

And that wages would fall as much as the mass of products, or rather than the net income remaining for owners, farmers, manufacturers, traders and shareholders, the only real taxpayers, would be as high as before, is very highly likely; for nothing would even be nominally lost to society by the freest importation of wheat, but the portion of rent which the owners would be deprived of because of the fall in raw products.

The difference between the value of corn and all other products sold in the country, before and after the importation of cheap corn, would only be equal to the fall in rent; for, regardless of rent, the same amount of labor would always produce the same value.

The whole reduction which is made on wages is a value actually added to the value of the net income previously held by the company; while the only value derived from this net income is the value of the part of their rent which the owners will be deprived of by a fall in gross income. when we to consider that the fall of the products acts on a limited number of owners, while reducing the wages not only of those employed in agriculture, but of all those employed in the manufactures and the trade, one can doubt that the revenues of the company would suffer any reduction whatsoever.<sup>64</sup>

But, if not, it should not be assumed that the ability to pay taxes will decrease to the same extent as the monetary value, even of net income. Suppose my net income went from 1000 *l.* at 900 *l.* ; but that my taxes were always the same, at 100 *l.* : is not it likely that my ability to pay these 100 *l.* can be bigger with the smaller ones than with the bigger incomes? Commodities cannot fall as universally as Mr. Malthus assumes, without benefiting consumers greatly, without allowing them much smaller cash incomes to order more of the conveniences, necessities and luxuries of human life; and the question is resolved in this - if those in possession of the country's net income will benefit as much from the fall in

commodity prices as they will suffer from the greatest real taxation. On which side the balance can predominate, will depend on the proportion that the taxes carry to the annual income; if it is extremely large, it can undoubtedly more than offset the advantages of cheap necessities; but I hope enough that it has been said, to show, that Mr. Malthus very much overestimated the loss for the taxpayers, of a fall in one of the most important necessities of life; and that if they were not entirely remunerated for the real increase in taxes, by the fall in wages and the increase in profits, they would be more than compensated, by the cheaper price of all the objects on which their income were spent.

There is no doubt that the shareholder benefits from a large drop in the value of corn; but if no one else is hurt, that's not a reason why corn should be made expensive: because the shareholder's gains are national gains and, like all other gains, increase the country's real wealth and power. If they benefit unduly, let it be determined precisely to what extent they are, and then it is up to the legislator to find a remedy; but no policy can be more reckless than excluding us from the great benefits of cheap corn and abundant production, simply because the shareholder would have an undue share of the increase.

Paying dividends on stocks by the monetary value of corn has never been attempted. If justice and good faith demanded such regulation, a large debt is owed to the former shareholders; because they have received the same cash dividends for over a century, although the price of corn may have doubled or tripled. <sup>65</sup>

Mr. Malthus says: "It is true that the latest additions to the agricultural products of a country in the process of improvement are not accompanied by a large proportion of rent; and it is precisely this circumstance that can encourage a rich country to import some of its corn, if it can be sure of obtaining a fair supply. But in any case, the import of foreign corn should not respond at the national level, if it is not so much cheaper than the corn that can be grown at home, both the profits and the rent of the grain it displaces." *Reasons*, & c. P. 36.

Since rent is the effect of the high price of corn, the loss of rent is the effect of a low price. Foreign corn never competes with corn of origin which offers rent; the fall in price invariably affects the landlord until all of

his rent is absorbed; - if it falls even further, the price will not even allow the common benefits of the stock; capital will then leave the land for another use, and the wheat, which was previously cultivated there, will then, and until then, be imported. From the loss of rent, there will be a loss of value, of estimated monetary value, but there will be a gain in wealth. The quantity of raw products and other productions together will be increased, from the greater ease with which they are produced; they will, although increased in quantity, diminished in value.

Two men employ equal capital - one in agriculture, the other in manufacturing. That of agriculture produces an annual net value of 1200 *l.* of which 1000 *l.* is kept for profit and 200 *l.* is paid for rent; the other in manufacturing only produces an annual value of 1000 *l.* Suppose that at import, the same quantity of corn can be obtained for products that cost 950 *l.* , and that, consequently, the capital employed in agriculture is diverted towards manufactured products, where it can produce a value of 1000 *l.* the country's net income will be of lower value, it will be reduced by 2200 *l.* at 2000 *l.* , but there will be not only the same quantity of products and corn for its own consumption, but also as much addition to this quantity as 50 *l.* would buy, the difference between the value at which its manufactured products were sold to the foreign country and the value of the corn which had been bought to him.

Mr. Malthus says: "It has been rightly observed by Adam Smith, that no equal amount of productive labor employed in manufactured goods can ever cause reproduction as great as in agriculture." If Adam Smith speaks of value, he is right, but if he speaks of wealth, which is the important point, he is mistaken, because he himself defined wealth as including the necessities, the conveniences and the pleasures of human life. One set of necessities and amenities admits of no comparison with another set; the value in use cannot be measured by any known standard, it is estimated differently by different people.

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[1] Chap. xv. part i. "Outlets", contains in particular some very important principles, which, I believe, were first explained by this eminent writer. \_

[2] Book i. type. 5. \_

[3] "But although labor is the real measure of the tradable value of all products, it is not that by which their value is commonly estimated. It is often difficult to determine the proportion between two different quantities of labor The time spent in two different types of work will not always

determine this proportion alone. The different degrees of difficulty endured and ingenuity exercised must also be taken into account. There can be more work in an hour of hard work than in two hours of easy work; or, in the application of one hour to a trade, which takes ten years of work to learn, than in a month of industry to an ordinary and obvious job. It is not easy to find a precise measure, either of difficulty or ingenuity. By exchanging, in effect, the different productions of different kinds of work for each other, a certain allowance is generally made for both. It is adjusted, however, not by precise measurement, but by market fluctuations and negotiations, according to this kind of approximate equality, which, although imprecise, is sufficient to carry out the affairs of common life."- *Wealth of Nations*. Book i. Type. Ten. \_

[4] *Wealth of Nations*, Book i. type. ten. \_

[5]\_ "The earth, as we have already seen, is not the only agent of nature which has a productive power; but it is the only one, or almost, that a group of men takes to itself, to the exclusion of others, and from which they can consequently appropriate the benefits. The waters of rivers and sea, by the power they have to give movement to our machines, carrying our boats, feeding our fish, also have productive power; the wind that turns our mills, and even the heat of the sun, works for us; but fortunately, no one has yet been able to say: "the wind and the sun is mine, and the service they render must be paid for. "" *Economics*, by JB Say , vol. ii. p. 124. \_

[6]\_ Did Mr. Say not forget, in the following passage, that it is the cost of production that ultimately regulates the price? "The product of labor employed on the land has this particular property, that it does not become more expensive by becoming rarer, because the population always decreases at the same time as food decreases, and consequently the quantity of these products *demanded*. , decreases at the same time as the quantity supplied. In addition, it is not observed that corn is more expensive in places where there is a lot of wasteland than in fully cultivated countries. France were much more imperfectly cultivated in the Middle Ages than they are now; they produced much less raw products: nevertheless, from all that one can judge in relation to the value of other things, maize n 'was not sold at a higher price. If the product was less, the population too; the weak demand compensated for the weak supply. " vol. ii. 338. Mr. Say being impressed by the view that the price of commodities is regulated by the price of labor, and rightly assuming that charitable institutions of all kinds tend to increase the population beyond what 'It would be otherwise, and therefore to lower wages, says: "I suspect that the cheap goods, which come from England is partly caused by the many charitable institutions which exist in this country." flight. ii. 277. This is a consistent opinion among those who maintain that wages regulate prices. \_

[7]\_ "In agriculture too," says Adam Smith, "nature works with man; and although his labor costs nothing, his production has its value, as well as that of the most expensive worker" . Nature's work is paid for, not because it does a lot, but because it does little. As she becomes careless in her gifts, she demands a higher price for her work. Where it is beneficial, it always works for free. "The working

cattle used in agriculture not only cause, like the workers of the manufactures, the reproduction of a value equal to their own consumption, or to the capital which employs them, with the profits of its owner, but of a value Beyond the capital of the farmer and all his profits, they regularly cause the reproduction of the rent of the owner. This rent can be considered as the product of these powers of nature, which the owner lends to the farmer. It is more or less large according to the supposed extent of these powers, that is to say according to the supposed natural or improved fertility of the land. It is the work of nature which remains, after deduction or compensation for all that can be considered as human labor. It is rarely less than a quarter and often more than a third of total production. No equal amount of productive labor employed in factories can never give rise to such a great reproduction. *Nature does nothing, man does everything* ; and reproduction must always be proportionate to the strength of the agents which cause it. The capital employed in agriculture, therefore, not only sets in motion a greater quantity of productive labor than any equal capital employed in the factories, but also in proportion to the quantity of productive labor which it employs, it adds much value greater to the annual production of land and labor in the country, to the wealth and *real* income of its inhabitants. Of all the ways in which capital can be used, it is by far the most beneficial to society. "- Book II. Chap. Vp 15. \_

Does nature have nothing for the man of factories? Are not the powers of wind and water, which move our machines and help navigation, nothing? The pressure of the atmosphere and the elasticity of the vapor, which allow us to work the most prodigious engines, are they not the gifts of nature? not to mention the effects of heat matter in softening and melting metals, the decomposition of the atmosphere during dyeing and fermentation. There is no fabrication which can be mentioned, in which nature does not give aid to man, nor does it also give it, generously and free of charge.

Pointing out the passage that I copied from Adam Smith, Mr. Buchanan observes: "I have tried to show in the observations on productive and unproductive labor, contained in the fourth volume, that agriculture does not add no more to the national stock than any other kind of industry. In dwelling on the reproduction of rent as such a great benefit to society, Dr. Smith does not reflect that rent is the effect of the high price, and that what the landlord earns in this way does not there is no absolute gain for society through the reproduction of rent; it is only one class which profits at the expense of another class. The notion of agriculture yielding a product, and a rent accordingly, because nature agrees with human industry in the cultivation process, is only a fantasy. It is not from the product, but from the price at which the product is sold, that the rent is derived; and this price is obtained, not because nature helps production , but because it is the price which corresponds to consumption on supply. "

[8] To make this obvious, and to show the degrees of variation in the corn and silver rent, suppose that the work of ten men will obtain, on a land of a certain quality, 180 quarts of wheat and its value to be 4 *l.* per quarter, or 720 *l.* ; and that the work of ten additional men will produce, on the same

land or on no other, that 170 more quarters; wheat would drop from 4 *l.* to 4 *l.* 4 *sec.* 8 *d.* for 170: 180 :: 4 *l.* : 4 *l.* 4 *sec.* 8 *d.* ; or, as in the production of 170 quarters, the work of 10 men is necessary in one case, and only 9.44 in the other, the increase would be from 9.44 to 10, or 4 *l.* to 4 *l.* 4 *sec.* 8 *d.* If 10 men were to be hired, and the return was \_

160 the price will rise to £4 10 0  
 ,  
 150 - - - - - 4 16 0  
 ,  
 140 - - - - - 5 2 10  
 ,

Now if no rent was paid for the land which yielded 180 quarters when corn was at 4 l. per quarter, the value of 10 quarters would be paid as rent when only 170 could be procured, which, at 4 l. 4 s. 8 d. would be 42 l. 7 s. 6 d.

20 qrs.	when	160	were produced, which at	£ 1 0 4 0	would be	9 0 £4 0
30 qrs.	..	150	.....	4 1 0 6	...	14 0 4
40 qrs.	..	140	.....	4 2 1 0	...	20 1 5 3 4
Corn rent then would increase in the proportion of	100	and money rent in the proportion of	100			
	212		100			
	340		100			
	400		465			

[9] With Mr. Buchanan in the following passage, if it refers to temporary states of misery, I so far agree, that "the great evil of the labourer's condition, is poverty, arising either from a scarcity of food or of work; and in all countries, laws without number have been enacted for his relief. But there are miseries in the social state which legislation cannot relieve; and it is useful therefore to know its limits, that we may not, by aiming at what is impracticable, miss the good which is really in our power."— *Buchanan* , page 61.

[10] The reader is desired to bear in mind, that for the purpose of making the subject more clear, I consider money to be invariable in value, and therefore every variation of price to be referable to an alteration in the value of the commodity.

[11] The reader is aware, that we are leaving out of our consideration the accidental variations arising from bad and good seasons, or from the demand increasing or diminishing by any sudden effect on the state of population. We are speaking of the natural and constant, not of the accidental and fluctuating price of corn.

[12] The 180 quarters of corn would be divided in the following proportions between landlords, farmers, and labourers, with the above-named variations in the value of corn.

Price per qr.	Rent.	Profit.	Wages.	Total.
£. s. d.	In Wheat.	In Wheat.	In Wheat.	
4 0 0	None.	120 qrs.	60 qrs.	180
4 4 8	10 qrs	111.7	58.3	
4 10 0	20 qrs	103.4	56.6	
4 16 0	30	95	55	
5 2 10	40	86.7	53.5	

and, under the same circumstances, money rent, wages, and profit, would be as follows:

Price per qr.	Rent.	Profit.	Wages.	Total.
£. s. d.	£. s. d.	£. s. d.	£. <sup>s</sup> . d.	£. s. d.
4 0 0	None.	48 0 0	24 0 0	72 0 0
4 4 8	42 7 8	47 3 0	24 7 0	76 7 6
4 10 0	90 0 0	46 5 0	25 5 0	81 0 0
4 16 0	14 4 0	45 6 0	26 4 0	86 4 0
5 2 10	20 1 5	44 1 5	27 5 4	92 1 4

[13] See Adam Smith, book i. chap. 9.

[14] It will appear then, that a country possessing very considerable advantages in machinery and skill, and which may therefore be enabled to manufacture commodities with much less labour than her neighbours, may in return for such commodities, import a portion of the corn required for its consumption, even if its land were more fertile, and corn could be grown with less labour than in the country from which it was imported. Two men can both make shoes and hats, and one is superior to the other in both employments; but in making hats, he can only exceed his competitor by one-fifth or 20 per cent., and in making shoes he can excel him by one-third or 33 per cent.;—will it not be for

the interest of both, that the superior man should employ himself exclusively in making shoes, and the inferior man in making hats?

[15] Book V. ch. ii.

[16] M. Say appears to have imbibed the general opinion on this subject. Speaking of corn, he says, "thence it results, that its price influences the price of *all* other commodities. A farmer, a manufacturer, or a merchant, employs a certain number of workmen, who all have occasion to consume a certain quantity of corn. If the price of corn rises, he is obliged to raise, in an equal proportion, the price of his productions." Vol. i. p. 255.

[17] M. Say says, that "the tax, added to the price of a commodity, raises its price. Every increase in the price of a commodity, necessarily reduces the number of those who are able to purchase it, or at least the quantity they will consume of it." This is by no means a necessary consequence. I do not believe, that if bread were taxed, the consumption of bread would be diminished, more than if cloth, wine, or soap, were taxed.

[18] The following remark of the same author appears to me equally erroneous: "When a high duty is laid on cotton, the production of all those goods, of which cotton is the basis, is diminished. If the total value added to cotton in its various manufactures, in a particular country, amounted to 100 millions of francs per annum, and the effect of the tax was, to diminish the consumption one half, then the tax would deprive that country every year of 50 millions of francs, in addition to the sum received by government." Vol. ii. p. 314.

[19] It is observed by M. Say, "that a manufacturer is not enabled to make the consumer pay the whole tax levied on his commodity, because its increased price will diminish its consumption." Should this be the case, should the consumption be diminished, will not the supply also speedily be diminished? Why should the manufacturer continue in the trade if his profits are below the general level? M. Say appears here also to have forgotten the doctrine which he elsewhere supports, "that the cost of production determines the price, below which commodities cannot fall for any length of time, because production would then be either suspended or diminished."—Vol. ii. p. 26.

"The tax in this case falls then partly on the consumer who is obliged to give more for the commodity taxed, and partly on the producer, who, after deducting the tax, will receive less. The public treasury will be benefited by what the purchaser pays in addition, and also by the sacrifice which the producer is obliged to make of a part of his profits. It is the effort of gunpowder, which acts at the same time on the bullet which it projects, and on the gun which it causes to recoil." Vol. ii. p. 333.

[20] "Melon says, that the debts of a nation are debts due from the right hand to the left, by which the body is not weakened. It is true that the general wealth is not diminished by the payment of the

interest on arrears of the debt: The dividends are a value which passes from the hand of the contributor to the national creditor: Whether it be the national creditor or the contributor who accumulates or consumes it, is I agree of little importance to the society; but the principal of the debt—what has become of that? It exists no more. The consumption which has followed the loan has annihilated a capital which will never yield any further revenue. The society is deprived not of the amount of interest, since that passes from one hand to the other, but of the revenue from a destroyed capital. This capital, if it had been employed productively by him who lent it to the state, would equally have yielded him an income, but that income would have been derived from a real production, and would not have been furnished from the pocket of a fellow citizen."— *Say* , vol. ii. p. 357. This is both conceived and expressed in the true spirit of the science.

[21] "Manufacturing industry increases its produce in proportion to the demand, and the price falls; *but the produce of land cannot be so increased* ; and a high price is still necessary to prevent the consumption from exceeding the supply." *Buchanan* , vol. iv. p. 40. Is it possible that Mr. Buchanan can seriously assert, that the produce of the land cannot be increased, if the demand increases?

[22] I wish the word "Profit" had been omitted. Dr. Smith must suppose the profits of the tenants of these precious vineyards to be above the general rate of profits. If they were not, they would not pay the tax, unless they could shift it either to the landlord or consumer.

[23] See note, p. 346.

[24] Vol. iii. p. 355.

[25] In a former part of this work, I have noticed the difference between rent, properly so called, and the remuneration paid to the landlord under that name, for the advantages which the expenditure of his capital has procured to his tenant; but I did not perhaps sufficiently distinguish the difference which would arise from the different modes in which this capital might be applied. As a part of this capital, when once expended in the improvement of a farm, is inseparably amalgamated with the land, and tends to increase its productive powers, the remuneration paid to the landlord for its use is strictly of the nature of rent, and is subject to all the laws of rent. Whether the improvement be made at the expense of the landlord or the tenant, it will not be undertaken in the first instance, unless there is a strong probability that the return will at least be equal to the profit that can be made by the disposition of any other equal capital; but when once made, the return obtained will ever after be wholly of the nature of rent, and will be subject to all the variations of rent. Some of these expenses however, only give advantages to the land for a limited period, and do not add permanently to its productive powers: being bestowed on buildings, and other perishable improvements, they require to be constantly renewed, and therefore do not obtain for the landlord any permanent addition to his real rent.

[26] Adam Smith says, "that the difference between the real and the nominal price of commodities and labour, is not a matter of mere speculation, but may sometimes be of considerable use in practice." I agree with him; but the real price of labour and commodities, is no more to be ascertained by their price in goods, Adam Smith's real measure, than by their price in gold and silver, his nominal measure. The labourer is only paid a really high price for his labour, when his wages will purchase the produce of a great deal of labour.

[27] In vol. i. p. 108, M. Say infers, that silver is now of the same value, as in the reign of Louis XIV. "because the same quantity of silver will buy the same quantity of corn."

[28] "The first man who knew how to soften metals by fire, is not the creator of the value which that process adds to the melted metal. That value is the result of the physical action of fire added to the industry and capital of those who availed themselves of this knowledge."

"From this error Smith has drawn this false result, that the value of all productions represents the recent or former labour of man, *or in other words, that riches are nothing else but accumulated labour; from which, by a second consequence, equally false, labour is the sole measure of riches, or of the value of productions .*" <sup>29</sup> The inferences with which M. Say concludes are his own, and not Dr. Smith's; they are correct if no distinction be made between value and riches: but though Adam Smith, who defined riches to consist in the abundance of necessaries, conveniences, and enjoyments of human life, would have allowed that machines and natural agents might very greatly add to the riches of a country, he would not have allowed that they add any thing to value in exchange.

[29] Chap. iv. p. 31.

[30] M. Say, *Catechisme d'Economie Politique* , p. 99.

[31] Adam Smith speaks of Holland, as affording an instance of the fall of profits from the accumulation of capital, and from every employment being consequently overcharged. "The Government there borrow at 2 per cent., and private people of good credit, at 3 per cent." But it should be remembered, that Holland was obliged to import almost all the corn which she consumed, and by imposing heavy taxes on the necessaries of the labourer, she further raised the wages of labour. These facts will sufficiently account for the low rate of profits and interest in Holland.

[32] Is the following quite consistent with M. Say's principle? "The more disposable capitals are abundant in proportion to the extent of employment for them, the more will the rate of interest on loans of capital fall."—Vol. ii. p. 108. If capital to any extent can be employed by a country, how can it be said to be abundant compared with the extent of employment for it?

[33] Adam Smith says, that "When the produce of any particular branch of industry exceeds what the demand of the country requires, the surplus must be sent abroad, and exchanged for something for which there is a demand at home. *Without such exportation a part of the productive labour of the country must cease, and the value of its annual produce diminish.* The land and labour of great Britain produce generally more corn, woollens, and hardware, than the demand of the home market requires. The surplus part of them, therefore, must be sent abroad, and exchanged for something for which there is a demand at home. It is only by means of such exportation, that this surplus can acquire a value sufficient to compensate the labour and expense of producing it." One would be led to think by the above passage, that Adam Smith concluded we were under some necessity of producing a surplus of corn, woollen goods, and hardware, and that the capital which produced them could not be otherwise employed. It is, however, always a matter of choice in what way a capital shall be employed, and therefore there can never, for any length of time, be a surplus of any commodity; for if there were, it would fall below its natural price, and capital would be removed to some more profitable employment. No writer has more satisfactorily and ably shewn than Dr. Smith, the tendency of capital to move from employments in which the goods produced do not repay by their price the whole expenses, including the ordinary profits, of producing and bringing them to market.

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[34] See Chap. 10. Book I.

[35] "All kinds of public loans," observes M. Say, "are attended with the inconvenience of withdrawing capital, or portions of capital, from productive employments, to devote them to consumption; and when they take place in a country, *the Government of which does not inspire much confidence* , they have the further inconvenience of raising the interest of capital. Who would lend at 5 per cent. per annum to agriculture, to manufacturers, and to commerce, when a borrower may be found ready to pay an interest of 7 or 8 per cent.? That sort of income, which is called profit of stock, would rise then at the expense of the consumer. Consumption would be reduced by the rise in the price of produce; and the other productive services would be less in demand, less well paid. The whole nation, capitalists excepted, would be the sufferers from such a state of things." To the question: "who would lend money to farmers, manufacturers, and merchants, at 5 per cent. per annum, when another borrower having little credit, would give 7 or 8?" I reply, that every prudent and reasonable man would. Because the rate of interest is 7 or 8 per cent. there where the lender runs extraordinary risk, is this any reason that it should be equally high in those places where they are secured from such risks? M. Say allows, that the rate of interest depends on the rate of profits; but it does not therefore follow, that the rate of profits depends on the rate of interest. One is the cause, the other the effect, and it is impossible for any circumstances to make them change places.

[36] In another place he says, that "whatever extension of the foreign market can be occasioned by the bounty, must, in every particular year, be altogether at the expense of the home market; as every bushel of corn which is exported by means of the bounty, and which would not have been exported without the bounty, would have remained in the home market to increase the consumption, and to lower the price of that commodity. The corn bounty, it is to be observed, as well as every other bounty upon exportation, imposes two different taxes upon the people; first, the tax which they are obliged to contribute, in order to pay the bounty; and, secondly, the tax which arises from the advanced price of the commodity in the home market, and which, as the whole body of the people are purchasers of corn, must in this particular commodity be paid by the whole body of the people. In this particular commodity, therefore, this second tax is by much the heaviest of the two." "For every five shillings, therefore, which they contribute to the payment of the first tax, they must contribute six pounds four shillings to the payment of the second." "The extraordinary exportation of corn, therefore, occasioned by the bounty, not only in every particular year diminishes the home, just as much as it extends the foreign market and consumption, but, by restraining the population and industry of the country, its final tendency is to stunt and restrain the gradual extension of the home market, and thereby, in the long run, rather to diminish than to augment the whole market and consumption of corn."

[37] The same opinion is held by M. Say. Vol. ii. p. 335.

[38] See Chap. on Rent.

[39] M. Say supposes the advantage of the manufacturers at home to be more than temporary. "A Government which absolutely prohibits the importation of certain foreign goods, establishes a monopoly *in favour of those* who produce such commodities at home, *against those* who consume them; in other words, those at home who produce them having the exclusive privilege of selling them, may elevate their price above the natural price; and the consumers at home, not being able to obtain them elsewhere, are obliged to purchase them at a higher price." Vol. i. p. 201.

But how can they permanently support the market price of their goods above the natural price, when every one of their fellow citizens is free to enter into the trade? they are guaranteed against foreign, but not against home competition. The real evil arising to the country from such monopolies, if they can be called by that name, lies, not in raising the market price of such goods, but in raising their real and natural price. By increasing the cost of production, a portion of the labour of the country is less productively employed.

[40] Are not the following passages contradictory to the one above quoted? "Besides, that home trade, though less noticed, (because it is in a variety of hands) is the most considerable, it is also the

most profitable. The commodities exchanged in that trade are necessarily the productions of the same country." Vol. i. p. 84.

"The English Government has not observed, that the most profitable sales are those which a country makes to itself, because they cannot take place, without two values being produced by the nation; the value which is sold, and the value with which the purchase is made." Vol. i. p. 221.

I shall, in the 24th chapter, examine the soundness of this opinion.

[41] See page 198.

[42] M. Say is of the same opinion with Adam Smith: "The most productive employment of capital, for the country in general, after that on the land, is that of manufactures and of home trade; because it puts in activity an industry of which the profits are gained in the country, while those capitals which are employed in foreign commerce, make the industry and lands of all countries to be productive, without distinction.

"The employment of capital, the least favourable to a nation, is that of carrying the produce of one foreign country to another." *Say* , vol. ii. p. 120.

[43] "It is fortunate that the natural course of things draws capital, not to those employments where the greatest profits are made, but to those where their operation is most profitable to the community."—Vol. ii. p. 122. M. Say has not told us what those employments are, which, while they are the most profitable to the individual, are not the most profitable to the state. If countries with limited capitals, but with abundance of fertile land, do not early engage in foreign trade, the reason is, because it is less profitable to individuals, and therefore also less profitable to the state.

[44] "The use of gold and silver then establishes in every place a certain necessity for these commodities; and when the country possesses the quantity necessary to satisfy this want, all that is further imported, not being in demand, is unfruitful in value, and of no use to its owners."— *Say* , vol. i. p. 187.

In page 196, M. Say says, that supposing a country to require 1000 carriages, and to be possessed of 1500—all above 1000 would be useless; and thence he infers, that if it possesses more money than is *necessary* , the overplus will not be employed.

[45] Whatever I say of gold coin, is equally applicable to silver coin; but it is not necessary to mention both on every occasion.

[46] "In the transactions of Government with individuals, and in those of individuals between themselves, a piece of money is never received, whatever denomination may be given to it, but at its

intrinsic value, increased by the value of the utility which the impression it bears has added to it."—*Say* , vol. i. p. 327.

"Money is so little a mark of value, that if the pieces of money lose a part of their value by friction, from use, or by the knavery of the clippers of money, all goods rise in price in proportion to the alteration which they have experienced; and if Government orders a recoinage, and restores each piece to its legal weight and fineness, goods will fall to their former price; if they have not been exposed to variations from other causes."— *Say* , vol. i. p. 346.

[47] M. Say recommends that the seignorage should vary according to the quantity of business that the mint might be called upon to perform.

"Government should not coin the bullion of individuals except on payment, not only of the expenses, but also of the profits of coining. This profit might be carried to a considerable height, in consequence of the exclusive privilege of coining; but it must vary according to the circumstances of the mint, and the quantity required for circulation." Vol. i. p. 380.

Such a regulation would be extremely pernicious, and would expose us to considerable and unnecessary variation in the bullion value of the currency.

[48] If with the quantity of gold and silver which actually exists, these metals only served for the manufacture of utensils and ornaments, they would be abundant, and would be much cheaper than they are at present; in other words, in exchanging them for any other species of goods, we should be obliged to give proportionally a greater quantity of them. But as a large quantity of these metals is used for money, and as this portion is used for no other purpose, there remains less to be employed in furniture and jewellery; now this scarcity adds to their value.— *Say* , vol. i. p. 316. See also note to p. 78.

[49] *An Inquiry into the Nature and Origin of Public Wealth*, page 13.

[50] *An Inquiry into the Nature and Progress of Rent*, p. 15.

[51] See page 124, where I have endeavoured to shew, that whatever facility or difficulty there may be in the production of corn; wages and profits together will be of the same value. When wages rise, it is always at the expense of profits, and when they fall, profits always rise.

[52] Of what increased quantity does Mr. Malthus speak? Who is to produce it? Who can have any motive to produce it, before any demand exists for an additional quantity?

[53] *Inquiry, &c.* "In all progressive countries, the average price of corn is never higher than what is necessary to continue the average increase of produce." *Observations*, p. 21.

"In the employment of fresh capital upon the land, to provide for the wants of an increasing population, whether this fresh capital is employed in bringing more land under the plough, or improving land already in cultivation, the main question always depends upon the expected returns of this capital; and no part of the gross profits can be diminished, without diminishing the motive to this mode of employing it. Every diminution of price, not fully and immediately balanced by a proportioned fall in all the necessary expenses of a farm, every tax on the land, every tax on farming stock, every tax on the necessaries of farmers, will tell in the computation; and if, after all these outgoings are allowed for, the price of the produce will not leave a fair remuneration for the capital employed, according to the general rate of profits, and a rent at least equal to the rent of the land in its former state, no sufficient motive can exist to undertake the projected improvement." Observations, p. 22.

[54] See p. 124.

[55] See p. 70, &c.

[56] It is not necessary to state on every occasion, but it must be always understood, that the same effect will be produced by employing different, but equal portions of capital on the land already in cultivation, with different results. Rent is the difference of produce obtained with equal capitals, and with equal labour on the same, or on different qualities of land.

[57] Observations on the Corn Laws, p. 4.

[58] Upon shewing this passage to Mr. Malthus, at the time when these papers were going to the press, he observed, "that in these two instances he had inadvertently used the term *real price*, instead of *cost of production*. It will be seen from what I have already said, that to me it appears, that in these two instances he has used the term *real price* in its true and just acceptation, and that in the former case only it is incorrectly applied.

[59] Page 40.

[60] Manufactures, indeed, could not fall in any such proportion, because, under the circumstances supposed, there would be a new distribution of the precious metals among the different countries. Our cheap commodities would be exported in exchange for corn and gold, till the accumulation of gold should lower its value, and raise the money price of commodities.

[61] The Grounds of an Opinion, &c. page 36.

[62] Mr. Malthus, in another part of the same work, supposes commodities to vary 25 or 20 per cent. when corn varies  $33\frac{1}{3}$ .

[63] In Chap. 24. I have observed, that the real resources of a country, and its ability to pay taxes, depend on its net, and not on its gross income.

[64] This is on the supposition that money continued at the same value. In the last note, I have endeavoured to shew that money would not continue of the same value,—that it would fall, from increased importation; a fact which is much more favourable to my argument.

[65] Mr. M'Culloch, in an able publication, has very strongly contended for the justice of making the dividends on the national debt conform to the reduced value of corn. He is in favour of a free trade in corn, but he thinks it should be accompanied by a reduction of interest to the national creditor.

THE END.

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## ERRATA.

Page 190, line 8, for obtained, read attained.

521, line 20, for twenty-one shillings, read forty-two shillings.

543, last line , for give, read spend.

555, last line , for rent money, read money rent.

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