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PRINCIPLES OF POLITICAL ECONOMY *and TAXATION*

CHAPTER I

ON VALUE

SECTION I

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

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

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

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

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

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

In speaking, then, of commodities, of their exchangeable value, and of the laws which regulate their relative prices, we mean always such commodities only as can be increased in quantity by the exertion of human industry, and on the production of which competition operates without restraint.

In the early stages of society, the exchangeable value of these commodities, or the rule which determines how much of one shall be given in exchange for another, depends almost exclusively on the comparative quantity of labour expended on each. "The real price of everything," says Adam Smith, "what everything really costs to the man who wants to acquire it, is the toil and trouble of acquiring it. What everything 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."¹

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

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

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

Gold and silver are no doubt subject to fluctuations from the discovery of new and more abundant mines; but such discoveries are rare, and their effects, though powerful, are limited

¹ Book i. chap. 5.

Technological advancement

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 land 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 necessities, 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 necessities 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 necessities, he probably could not have subsisted if that quantity had been reduced. Food and necessities in this case will have risen 100 per cent. if estimated by the quantity of labour necessary to their production, while they will scarcely have increased in value if measured by the quantity of labour for which they will *exchange*.

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

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

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

Two commodities vary in relative value, and we wish to know in which the variation has really taken place. If we compare the present value of one with shoes, stockings, hats, iron, sugar, and all other commodities, we find that it will exchange for precisely the same quantity of all these things as before. If we compare the other with the same commodities, we find it has varied with respect to them all: we may then with great probability infer that the variation has been in this commodity, and not in the commodities with which we have compared it. If on examining still more particularly into all the circumstances

connected with the production of these various commodities, we find that precisely the same quantity of labour and capital are necessary to the production of the shoes, stockings, hats, iron, sugar, etc.; but that the same quantity as before is not necessary to produce the single commodity whose relative value is altered, probability is changed into certainty, and we are sure that the variation is in the single commodity: we then discover also the cause of its variation.

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

Now it is against this language that I protest. I find that precisely, as in the case of the gold, the cause of the variation between corn and other things is the smaller quantity of labour necessary to produce it, and therefore, by all just reasoning, I am bound to call the variation of corn and labour a fall in their value, and not a rise in the value of the things with which they

are compared. If I have to hire a labourer for a week, and instead of ten shillings I pay him eight, no variation having taken place in the value of money, the labourer can probably obtain more food and necessities with his eight shillings than he before obtained for ten: but this is owing, not to a rise in the real value of his wages, as stated by Adam Smith, and more recently by Mr. Malthus, but to a fall in the value of the things on which his wages are expended, things perfectly distinct; and yet for calling this a fall in the real value of wages, I am told that I adopt new and unusual language, not reconcilable with the true principles of the science. To me it appears that the unusual and, indeed, inconsistent language is that used by my opponents.

Suppose a labourer to be paid a bushel of corn for a week's work when the price of corn is 8os. per quarter, and that he is paid a bushel and a quarter when the price falls to 4os. Suppose, too, that he consumes half a bushel of corn a week in his own family, and exchanges the remainder for other things, such as fuel, soap, candles, tea, sugar, salt, etc. etc.; if the three-fourths of a bushel which will remain to him, in one case, cannot procure him as much of the above commodities as half a bushel did in the other, which it will not, will labour have risen or fallen in value? Risen, Adam Smith must say, because his standard is corn, and the labourer receives more corn for a week's labour. Fallen, must the same Adam Smith say, "because the value of a thing depends on the power of purchasing other goods which the possession of that object conveys," and labour has a less power of purchasing such other goods.

SECTION II

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

In speaking, however, of labour, as being the foundation of all value, and the relative quantity of labour as almost exclusively determining the relative value of commodities, I must not be supposed to be inattentive to the different qualities of labour, and the difficulty of comparing an hour's or a day's labour in one employment with the same duration of labour in another. The estimation in which different qualities of labour are held comes soon to be adjusted in the market with sufficient precision for all practical purposes, and depends much on the comparative skill of the labourer and intensity of the labour

performed. The scale, when once formed, is liable to little variation. If a day's labour of a working jeweller be more valuable than a day's labour of a common labourer, it has long ago been adjusted and placed in its proper position in the scale of value.¹

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

¹ "But though labour be the real measure of the exchangeable value of all commodities, it is not that by which their value is commonly estimated. It is often difficult to ascertain the proportion between two different quantities of labour. The time spent in two different sorts of work will not always alone determine this proportion. The different degrees of hardship endured, and of ingenuity exercised, must likewise be taken into account. There may be more labour in an hour's hard work than in two hours' easy business; or in an hour's application to a trade, which it costs ten years' labour to learn, than in a month's industry at an ordinary and obvious employment. But it is not easy to find any accurate measure, either of hardship or ingenuity. In exchanging, indeed, the different productions of different sorts of labour for one another, some allowance is commonly made for both. It is adjusted, however, not by any accurate measure, but by the higgling and bargaining of the market, according to that sort of rough equality which, though not exact, is sufficient for carrying on the business of common life." — *Wealth of Nations*, book i. chap. 10.

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."¹

SECTION III

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

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

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

All the implements necessary to kill the beaver and deer might belong to one class of men, and the labour employed in

¹ *Wealth of Nations*, book i. chap. 10.

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 particularise. The aggregate sum of these various kinds of labour determines the quantity of other things for which these stockings will exchange, while the same

consideration of the various quantities of labour which have been bestowed on those other things will equally govern the portion of them which will be given for the stockings.

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

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

Suppose that, in the early stages of society, the bows and arrows of the hunter were of equal value, and of equal durability, with the canoe and implements of the fisherman, both being the produce of the same quantity of labour. Under such circumstances the value of the deer, the produce of the hunter's day's labour, would be exactly equal to the value of the fish, the produce of the fisherman's day's labour. The comparative value of the fish and the game would be entirely regulated by the quantity of labour 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, and were calculated to last for ten years, and he employed ten men, whose annual labour cost £100, and who in one day obtained by their labour twenty salmon: If the weapons employed by the hunter were also of £100 value, and calculated to last ten years, and if he also employed ten men, whose annual labour cost £100, and who in one day procured him ten deer; then the natural price of a deer would be two salmon, whether the proportion of the whole produce bestowed on the men who obtained it were large or small. The proportion which might be paid for wages is of the utmost importance in the question of profits; for it must at once be seen that profits would be high or low exactly in proportion as wages were low or high; but it could not in the least affect the relative value of fish and game, as wages would be high or low at the same time in both occupations. If the hunter urged the plea of his paying a large proportion, or the value of a large proportion of his game for wages, as an inducement to the fisherman to give him more fish in exchange for his game, the latter would state that he was equally affected by the same cause; and therefore, under all variations of wages and profits, under all the effects of accumulation of capital, as long as they continued by a day's labour to obtain respectively the same quantity of fish and the same quantity of game, the natural rate of exchange would be one deer for two salmon.

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

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

Suppose money to be that commodity. If a salmon were worth £1 and a deer £2, one deer would be worth two salmon. But a deer might become of the value of three salmon, for more labour might be required to obtain the deer, or less to get the salmon, or both these causes might operate at the same time. If we had this invariable standard, we might easily ascertain in what degree either of these causes operated. If salmon

continued to sell for £1 whilst deer rose to £3, we might conclude that more labour was required to obtain the deer. If deer continued at the same price of £2 and salmon sold for 13s. 4d., we might then be sure that less labour was required to obtain the salmon; and if deer rose to £2 10s. and salmon fell to 16s. 8d., we should be convinced that both causes had operated in producing the alteration of the relative value of these commodities.

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

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

If we had then an invariable standard, by which we could measure the variation in other commodities, we should find that the utmost limit to which they could permanently rise, if produced under the circumstances supposed, 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

Section 4 is the most important

of wages would not raise them in money value, nor relatively to any other commodities, the production of which required no additional quantity of labour, which employed the same proportion of fixed and circulating capital, and fixed capital of the same durability. If more or less labour were required in the production of the other commodity, we have already stated that this will immediately occasion an alteration in its relative value, but such alteration is owing to the altered quantity of requisite labour, and not to the rise of wages.

SECTION IV

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

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

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

According as capital is rapidly perishable, and requires to be frequently reproduced, or is of slow consumption, it is classed

under the heads of circulating or of fixed capital.¹ A brewer whose buildings and machinery are valuable and durable is said to employ a large portion of fixed capital: on the contrary, a shoemaker, whose capital is chiefly employed in the payment of wages, which are expended on food and clothing, commodities more perishable than buildings and machinery, is said to employ a large proportion of his capital as circulating capital.

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

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

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

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

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

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

¹ A division not essential, and in which the line of demarcation cannot be accurately drawn.

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

Suppose two men employ one hundred men each for a year in the construction of two machines, and another man employs the same number of men in cultivating corn, each of the machines at the end of the year will be of the same value as the corn, for they will each be produced by the same quantity of labour. Suppose one of the owners of one of the machines to employ it, with the assistance of one hundred men, the following year in making cloth, and the owner of the other machine to employ his also, with the assistance likewise of one hundred men, in making cotton goods, while the farmer continues to employ one hundred men as before in the cultivation of corn. During the second year they will all have employed the same quantity of labour, but the goods and machine together of the clothier, and also of the cotton manufacturer, will be the result of the labour of two hundred men employed for a year; or, rather, of the labour of one hundred men for two years; whereas the corn will be produced by the labour of one hundred men for one year, consequently if the corn be of the value of £500, the machine and cloth of the clothier together ought to be of the value of £1000, and the machine and cotton goods of the cotton manufacturer ought to be also of twice the value of the corn. But they will be of more than twice the value of the corn, for the profit on the clothier's and cotton manufacturer's capital for the first year has been added to their capitals, while that of the farmer has been expended and enjoyed. On account then of the different degrees of durability of their capitals, or, which is the same thing, on account of the time which must elapse before one set of commodities can be brought to market,

they will be valuable, not exactly in proportion to the quantity of labour bestowed on them—they will not be as two to one, but something more, to compensate for the greater length of time which must elapse before the most valuable can be brought to market.

Suppose that for the labour of each workman £50 per annum were paid, or that £5000 capital were employed and profits were 10 per cent., the value of each of the machines as well as of the corn, at the end of the first year, would be £5500. The second year the manufacturers and farmers will again employ £5000 each in the support of labour, and will therefore again sell their goods for £5500; but the men using the machines, to be on a par with the farmer, must not only obtain £5500 for the equal capitals of £5000 employed on labour, but they must obtain a further sum of £550 for the profit on £5500, which they have invested in machinery, and consequently their goods must sell for £6050. Here, then, are capitalists employing precisely the same quantity of labour annually on the production of their commodities, and yet the goods they produce differ in value on account of the different quantities of fixed capital, or accumulated labour, employed by each respectively. The cloth and cotton goods are of the same value, because they are the produce of equal quantities of labour and equal quantities of fixed capital; but corn is not of the same value as these commodities, because it is produced, as far as regards fixed capital, under different circumstances.

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

There can be no rise in the value of labour without a fall of profits. If the corn is to be divided between the farmer and the labourer, the larger the proportion that is given to the latter the less will remain for the former. So, if cloth or cotton goods be divided between the workman and his employer, the larger the proportion given to the former the less remains for the latter. Suppose then, that owing to a rise of wages, profits fall from 10 to 9 per cent., instead of adding £550 to the common price

of their goods (to £5500) for the profits on their fixed capital, the manufacturers would add only 9 per cent. on that sum, or £495, consequently the price would be £5995 instead of £6050. As the corn would continue to sell for £5500 the manufactured goods in which more fixed capital was employed would fall relatively to corn or to any other goods in which a less portion of fixed capital entered. The degree of alteration in the relative value of goods, on account of a rise or fall of labour, would depend on the proportion which the fixed capital bore to the whole capital employed. All commodities which are produced by very valuable machinery, or in very valuable buildings, or which require a great length of time before they can be brought to market, would fall in relative value, while all those which were chiefly produced by labour, or which would be speedily brought to market, would rise in relative value.

The reader, however, should remark that this cause of the variation of commodities is comparatively slight in its effects. With such a rise of wages as should occasion a fall of 1 per cent. in profits, goods produced under the circumstances I have supposed vary in relative value only 1 per cent.; they fall with so great a fall of profits from £6050 to £5995. The greatest effects which could be produced on the relative prices of these goods from a rise of wages could not exceed 6 or 7 per cent.; for profits could not, probably, under any circumstances, admit of a greater general and permanent depression than to that amount.

Not so with the other great cause of the variation in the value of commodities, namely, the increase or diminution in the quantity of labour necessary to produce them. If to produce the corn, eighty, instead of one hundred men, should be required, the value of the corn would fall 20 per cent., or from £5500 to £4400. If to produce the cloth, the labour of eighty instead of one hundred men would suffice, cloth would fall from £6050 to £4950. An alteration in the permanent rate of profits, to any great amount, is the effect of causes which do not operate but in the course of years, whereas alterations in the quantity of labour necessary to produce commodities are of daily occurrence. Every improvement in machinery, in tools, in buildings, in raising the raw material, saves labour, and enables us to produce the commodity to which the improvement is applied with more facility, and consequently its value alters. In estimating, then, the causes of the variations in the value of commodities, although it would be wrong wholly to omit the

consideration of the effect produced by a rise or fall of labour, it would be equally incorrect to attach much importance to it; and consequently, in the subsequent part of this work, though I shall occasionally refer to this cause of variation, I shall consider all the great variations which take place in the relative value of commodities to be produced by the greater or less quantity of labour which may be required from time to time to produce them.

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

Suppose I employ twenty men at an expense of £1000 for a year in the production of a commodity, and at the end of the year I employ twenty men again for another year, at a further expense of £1000 in finishing or perfecting the same commodity, and that I bring it to market at the end of two years, if profits be 10 per cent., my commodity must sell for £2310; for I have employed £1000 capital for one year, and £2100 capital for one year more. Another man employs precisely the same quantity of labour, but he employs it all in the first year; he employs forty men at an expense of £2000, and at the end of the first year he sells it with 10 per cent. profit, or for £2200. Here, then, are two commodities having precisely the same quantity of labour bestowed on them, one of which sells for £2310—the other for £2200.

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

It appears, then, that the division of capital into different proportions of fixed and circulating capital, employed in different trades, introduces a considerable modification to the rule, which is of universal application when labour is almost exclusively employed in production; namely, that commodities never vary in value unless a greater or less quantity of labour be bestowed

on their production, it being shown in this section that, without any variation in the quantity of labour, the rise of its value merely will occasion a fall in the exchangeable value of those goods in the production of which fixed capital is employed; the larger the amount of fixed capital, the greater will be the fall.

SECTION V

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

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

If fixed capital be not of a durable nature it will require a great quantity of labour annually to keep it in its original state of efficiency; but the labour so bestowed may be considered as really expended on the commodity manufactured, which must bear a value in proportion to such labour. If I had a machine worth £20,000 which with very little labour was efficient to the production of commodities, and if the wear and tear of such machine were of trifling amount, and the general rate of profit 10 per cent., I should not require much more than £2000 to be added to the price of the goods, on account of the employment of my machine; but if the wear and tear of the machine were great, if the quantity of labour requisite to keep it in an efficient state were that of fifty men annually, I should require an additional price for my goods equal to that which would be obtained by any other manufacturer who employed fifty men in the production of other goods, and who used no machinery at all.

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

I have already said that fixed capital is of various degrees of durability—suppose now a machine which could in any particular trade be employed to do the work of one hundred men for a year, and that it would last only for one year. Suppose, too, the machine to cost £5000, and the wages annually paid to one hundred men to be £5000, it is evident that it would be a matter of indifference to the manufacturer whether he bought the machine or employed the men. But suppose labour to rise, and consequently the wages of one hundred men for a year to amount to £5500, it is obvious that the manufacturer would now no longer hesitate, it would be for his interest to buy the machine and get his work done for £5000. But will not the machine rise in price, will not that also be worth £5500 in consequence of the rise of labour? It would rise in price if there were no stock employed on its construction, and no profits to be paid to the maker of it. If, for example, the machine were the produce of the labour of one hundred men, working one year upon it with wages of £50 each, and its price were consequently £5000; should those wages rise to £55, its price would be £5500, but this cannot be the case; less than one hundred men are employed or it could not be sold for £5000, for out of the £5000 must be paid the profits of stock which employed the men. Suppose then that only eighty-five men were employed at an expense of £50 each, or £4250 per annum, and that the £750 which the sale of the machine would produce over and above the wages advanced to the men constituted the profits of the engineer's stock. When wages rose 10 per cent., he would be obliged to employ an additional capital of £425, and would therefore employ £4675 instead of £4250, on which capital he would only get a profit of £325 if he continued to sell his machine for £5000; but this is precisely the case of

all manufacturers and capitalists; the rise of wages affects them all. If therefore the maker of the machine should raise the price of it in consequence of a rise of wages, an unusual quantity of capital would be employed in the construction of such machines, till their price afforded only the common rate of profits.¹ We see then that machines would not rise in price in consequence of a rise of wages.

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

It will be seen then, that in the early stages of society, before much machinery or durable capital is used, the commodities produced by equal capitals will be nearly of equal value, and will rise or fall only relatively to each other on account of more or less labour being required for their production; but after the introduction of these expensive and durable instruments, the commodities produced by the employment of equal capitals will be of very unequal value, and although they will still be liable to rise or fall relatively to each other, as more or less labour becomes necessary to their production, they will be subject to another, though a minor variation, also from the rise

¹ We here see why it is that old countries are constantly impelled to employ machinery, and new countries to employ labour. With every difficulty of providing for the maintenance of men, labour necessarily rises, and with every rise in the price of labour, new temptations are offered to the use of machinery. This difficulty of providing for the maintenance of men is in constant operation in old countries; in new ones a very great increase in the population may take place without the least rise in the wages of labour. It may be as easy to provide for the seventh, eighth, and ninth million of men as for the second, third, and fourth.

or fall of wages and profits. Since goods which sell for £5000 may be the produce of a capital equal in amount to that from which are produced other goods which sell for £10,000, the profits on their manufacture will be the same; but those profits would be unequal if the prices of the goods did not vary with a rise or fall in the rate of profits.

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

SECTION VI

On an invariable measure of value

WHEN commodities varied in relative value it would be desirable to have the means of ascertaining which of them fell and which rose in real value, and this could be effected only by comparing them one after another with some invariable standard measure of value, which should itself be subject to none of the fluctuations to which other commodities are exposed. Of such a measure it is impossible to be possessed, because there is no commodity which is not itself exposed to the same variations as the things the value of which is to be ascertained; that is, there is none which is not subject to require more or less labour for its production. But if this cause of variation in the value of a medium could be removed—if it were possible that in the production of our money, for instance, the same quantity of labour should at all times be required, still it would not be a perfect standard or invariable measure of value, because, as I have already endeavoured to explain, it would be subject to relative variations from a rise or fall of wages, on account of the different proportions of fixed capital which might be necessary to produce it, and to produce those other commodities whose alteration of value we wished to ascertain. It might be subject to variations, too, from the same cause, on account of the different degrees of durability of the fixed capital employed on it, and the commodities to be compared with it—or the time necessary to bring the one to market might be longer or shorter than the time necessary to bring the other commodities to

market, the variations of which were to be determined; all which circumstances disqualify any commodity that can be thought of from being a perfectly accurate measure of value.

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

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

a commodity produced with such proportions of the two kinds of capital as approach nearest to the average quantity employed in the production of most commodities? May not these proportions be so nearly equally distant from the two extremes, the one where little fixed capital is used, the other where little labour is employed, as to form a just mean between them?

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

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

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

It is necessary for me also to remark that I have not said, because one commodity has so much labour bestowed upon it as will cost £1000, and another so much as will cost £2000, that therefore one would be of the value of £1000, and the other of the value of £2000; but I have said that their value will be to each other as two to one, and that in those proportions they will be exchanged. It is of no importance to the truth of this doctrine whether one of these commodities sells for £1100 and the other for £2200, or one for £1500 and the other for £3000; into that question I do not at present inquire; I affirm only

that their relative values will be governed by the relative quantities of labour bestowed on their production.¹

SECTION VII

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

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

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

Money, from its being a commodity obtained from a foreign country, from its being the general medium of exchange between all civilised 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.

¹ Mr. Malthus remarks on this doctrine, "We have the power indeed, arbitrarily to call the labour which has been employed upon a commodity its real value, but in so doing we use words in a different sense from that in which they are customarily used; we confound at once the very important distinction between *cost* and *value*; and render it almost impossible to explain with clearness the main stimulus to the production of wealth, which in fact depends upon this distinction."

Mr. Malthus appears to think that it is a part of my doctrine that the cost and value of a thing should be the same; it is, if he means by cost, "cost of production" including profits. In the above passage, this is what he does not mean, and therefore he has not clearly understood me.

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

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

It is not by the absolute quantity of produce obtained by either class that we can correctly judge of the rate of profit, rent, and wages, but by the quantity of labour required to obtain that produce. By improvements in machinery and agriculture the whole produce may be doubled; but if wages, rent, and profit be also doubled, these three will bear the same proportions to one another as before, and neither could be said to have relatively varied. But if wages partook not of the whole of this increase; if 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 before	• • • • • 25
The landlords	• • • • • 25
And the capitalists	• • • • • 50

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

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

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

The variation in the value of money, however great, makes no difference in the *rate* of profits; for suppose the goods of the manufacturer to rise from £1000 to £2000, or 100 per cent., if his capital, on which the variations of money have as much effect as on the value of produce, if his machinery, buildings, and stock in trade rise also a 100 per cent., his rate of profits will be the same, and he will have the same quantity, and no more, of the produce of the labour of the country at his command.

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

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

CHAPTER II

ON RENT

It remains however to be considered whether the appropriation of land, and the consequent creation of rent, will occasion any variation in the relative value of commodities independently of the quantity of labour necessary to production. In order to understand this part of the subject we must 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, and, besides, were properly drained and manured, and advantageously divided by hedges, fences, and walls, while the other had none of these advantages, more remuneration would naturally be paid for the use of one than for the use of the other; yet in both cases this remuneration would be called rent. But it is evident that a portion only of the money annually to be paid for the improved farm would be given for the original and indestructible powers of the soil; the other portion would be paid for the use of the capital which had been employed in ameliorating the quality of the land, and in erecting such buildings as were necessary to secure and preserve the produce. Adam Smith sometimes speaks of rent in the strict sense to which I am desirous of confining it, but more often in the popular sense in which the term is usually employed. He tells us that the demand for timber, and its consequent high price, in the more southern countries of Europe caused a rent to be paid for forests in Norway which could before afford no rent. Is it not, however, evident that the person who paid what he thus calls rent, paid it in consideration of the valuable commodity which was then standing on the land,

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

Pareto effect

CHAPTER VII

ON FOREIGN TRADE

No extension of foreign trade will immediately increase the amount of value in a country, although it will very powerfully contribute to increase the mass of commodities, and therefore the sum of enjoyments. As the value of all foreign goods is measured by the quantity of the produce of our land and labour which is given in exchange for them, we should have no greater value if, by the discovery of new markets, we obtained double the quantity of foreign goods in exchange for a given quantity of ours. If by the purchase of English goods to the amount of £1000 a merchant can obtain a quantity of foreign goods, which he can sell in the English market for £1200, 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 £1200. In either case his profit will be limited to £200, or 20 per cent. on his capital; and in either case the same value will be imported into England. If the fifty pipes sold for more than £1200, 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 everything 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, etc., 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.¹

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, etc., 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, etc., 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, etc., 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, etc., will be required. At the same time that capital is liberated from the production of shoes, hats, etc., more must be employed in manufacturing those commodities with which foreign commodities are purchased; and, consequently, in all cases the demand for foreign and home commodities together, as far as regards value, is limited by the revenue and capital of the country. If one increases the other must diminish. If the quantity of wine imported in exchange for the same quantity of English com-

¹ See Adam Smith, book i. chap. 9.

modities 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 with which I purchased annually one pipe of wine for £100, and a certain quantity of English commodities for £900; when wine fell to £50 per pipe, I might lay out the £50 saved, either in the purchase of an additional pipe of wine or in the purchase of more English commodities. If I bought more wine, and every wine-drinker did the same, the foreign trade would not be in the least disturbed; the same quantity of English commodities would be exported in exchange for wine, and we should receive double the quantity, though not double the value of wine. But if I, and others, contented ourselves with the same quantity of wine as before, fewer English commodities would be exported, and the wine-drinkers might either consume the commodities which were before exported, or any others for which they had an inclination. The capital required for their production would be supplied by the capital liberated from the foreign trade.

There are two ways in which capital may be accumulated; it may be saved either in consequence of increased revenue or of diminished consumption. If my profits are raised from £1000 to £1200, while my expenditure continues the same, I accumulate annually £200 more than I did before. If I save £200 out of my expenditure, while my profits continue the same, the same effect will be produced; £200 per annum will be added to my capital. The merchant who imported wine after profits had been raised from 20 per cent. to 40 per cent., instead of purchasing his English goods for £1000, must purchase them for £857 2s. 10d., still selling the wine which he imports in return for those goods for £1200; or, if he continued to purchase his English goods for £1000, must raise the price of his wine to £1400; he would thus obtain 40 instead of 20 per cent. profit on his capital; but if, in consequence of the cheapness of all the commodities on which his revenue was expended, he and all other consumers could save the value of £200 out of every £1000 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

Two ways capital is accumulated

* Trade helps workers

revenue had been raised 20 per cent.; but in one case the rate of profits is stationary, in the other it is raised 20 per cent.—If, by the introduction of cheap foreign goods, I can save 20 per cent. from my expenditure, the effect will be precisely the same as if machinery had lowered the expense of their production, but profits would not be raised.

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

It has been my endeavour to show 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 necessities on which wages are expended. If, therefore, by the extension of foreign trade, or by improvements in machinery, the food and necessities 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 necessities 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 everything remains at its former price. In the first case they get the same as before; but everything 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 a common tie of interest and intercourse, the universal society of nations throughout the civilised 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 it in consequence of

7 have creates effects in products.

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 connection with other countries, instead of employing a great part of her capital and industry in the production of wines, with which she purchases for her own use the cloth and hardware of other countries, she would be obliged to devote a part of that capital to the manufacture of those commodities, which she would thus obtain probably inferior in quality as well as quantity.

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

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

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

Thus England would give the produce of the labour of 100 men for the produce of the labour of 80. Such an exchange could not take place between the individuals of the same country. The labour of 100 Englishmen cannot be given for that of 80 Englishmen, but the produce of the labour of 100 Englishmen may be given for the produce of the labour of 80

Portuguese, 60 Russians, or 120 East Indians. The difference in this respect, between a single country and many, is easily accounted for, by considering the difficulty with which capital moves from one country to another, to seek a more profitable employment, and the activity with which it invariably passes from one province to another in the same country.¹

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, shows 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 connections, 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

¹ 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?

which would take place if no such metals existed, and the trade between countries were purely a trade of barter.

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

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

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

If the markets be favourable for the exportation of wine from Portugal to England, the exporter of the wine will be a seller of a bill, which will be purchased either by the importer of the cloth, or by the person who sold him his bill; and thus, without the necessity of money passing from either country, the exporters in each country will be paid for their goods. Without having any direct transaction with each other, the money paid in Portugal by the importer of cloth will be paid to the Portuguese exporter of wine; and in England by the negotiation of the same bill the exporter of the cloth will be authorised 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 authorised 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., it to be enabled to pay a debt in England of £100, £102 should be paid in Portugal, whilst cloth which cost £45 would sell for £50, cloth would be imported, bills would be bought, and money

would be exported, till the diminution of money in Portugal, and its accumulation in England, had produced such a state of prices as would make it no longer profitable to continue these transactions.

But the diminution of money in one country, and its increase in another, do not operate on the price of one commodity only, but on the prices of all, and therefore the price of wine and cloth will be both raised in England and both lowered in Portugal. The price of cloth, from being £45 in one country and £50 in the other, would probably fall to £49 or £48 in Portugal, and rise to £46 or £47 in England, and not afford a sufficient profit after paying a premium for a bill to induce any merchant to import that commodity.

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

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

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

This, however, is only a seeming advantage to Portugal, for the

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

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

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

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, though of comparatively small value, are, independently of other causes, higher in those countries where manufactures flourish. Of two countries having precisely the same population, and the same quantity of land of equal fertility in cultivation, with the same knowledge too of agriculture, the prices of raw produce will be

highest in that where the greater skill and the better machinery is used in the manufacture of exportable commodities. The rate of profits will probably differ but little; for wages, or the real reward of the labourer, may be the same in both; but those wages, as well as raw produce, will be rated higher in money in that country, into which, from the advantages attending their skill and machinery, an abundance of money is imported in exchange for their goods.

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

In the former part of this work, we have assumed, for the purpose of argument, that money always continued of the same value; we are now endeavouring to show 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 to the fact that the value of money is never the same in any two countries, depending as it does on relative taxation, on manufacturing skill, on the advantages of climate, natural productions, and many other causes.

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

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

labourer should receive ten shillings per week and in the other twelve.

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

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

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

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

These I believe to be the only two causes which regulate the comparative value of money in the different countries of the world; for although taxation occasions a disturbance of the

equilibrium of money, it does so by depriving the country in which it is imposed of some of the advantages attending skill, industry, and climate.

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

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

This higher value of money will not be indicated by the exchange; bills may continue to be negotiated at par, although the prices of corn and labour should be 10, 20, or 30 per cent.

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

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

When each country has precisely the quantity of money which it ought to have, money will not indeed be of the same value in each, for with respect to many commodities it may differ 5, 10, or even 20 per cent., but the exchange will be at par. One hundred pounds in England, or the silver which is in £100, will purchase a bill of £100, or an equal quantity of silver in France, Spain, or Holland.

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

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

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

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

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

Some indeed more reasonably maintained that £130 in paper was not of equal value with £130 in metallic money; but they said that it was the metallic money which had changed its value and not the paper money. They wished to confine the meaning of the word depreciation to an actual fall of value, and not to a comparative difference between the value of money

and the standard by which by law it is regulated. One hundred pounds of English money was formerly of equal value with and could purchase £100 of Hamburg money: in any other country a bill of £100 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 English money, when Hamburg could obtain them for £100 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 they might unerringly refer, and therefore chose a medium which on the whole appeared to them less variable than any other commodity.

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