March 1

THE

# PRINCIPLES

OF

# POLITICAL ECONOMY:

WITH A SKETCH

OF THE

RISE AND PROGRESS OF THE SCIENCE.

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By J. R. M'CULLOCH, Esq.

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EDINBURGH:
PRINTED FOR WILLIAM AND CHARLES TAIT:
AND LONGMAN AND CO. LONDON.
M.DCCC.XXV.

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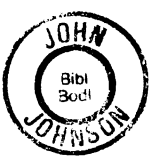


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THOUGH the Article on POLITICAL ECONOMY in the *Supplement to the Encyclopædia Britannica* forms the ground-work of the present publication, it is, in most respects, an entirely New Work. The limits within which it was necessary to compress the article in the *Supplement*, obliged me to omit several interesting and important subjects, which I have here treated at considerable length: And I have endeavoured to avail myself of the aids derived from subsequent reflection, and the suggestions and criticisms of others, to improve those parts of the work that are not completely new, and to render the whole more worthy of the science, and of the public attention.

EDINBURGH,
*November* 1825.

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# PRINCIPLES

OF

# POLITICAL ECONOMY.

## PART I.

### RISE AND PROGRESS OF THE SCIENCE.

*Definition of the Science—Its Importance—Causes of its being neglected in Greece and Rome, and in the Middle Ages—Evidence on which its Conclusions are founded—Rise of the Science in Modern Europe—Mercantile System—System of M. Quesnay and the French Economists—Publication of the "Wealth of Nations"—Distinction between Politics and Statistics and Political Economy.*

POLITICAL Economy* *is the science of the laws which regulate the production, distribution, and consumption of those articles or products which have exchangeable value, and are either necessary, useful, or agreeable to man.*

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* *Economy*, from οἶκος, a house, or family, and νομὸς, a law—*the government of a family.* Hence Political Economy may be said to be to the State what domestic economy is to a single family.



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When it is said that an article or product is possessed of *exchangeable value*, it is meant that one or more individuals are disposed to give a certain quantity of labour, or a certain quantity of some other article or product, obtainable only by means of labour, in exchange for it.

The power or capacity which particular articles or products have of satisfying the various wants and desires of which man is susceptible, constitutes their *utility*, and renders them objects of demand.

An article may be possessed of the highest degree of utility, or of power to minister to our wants and enjoyments, and may be universally made use of, without possessing exchangeable value. This is an attribute or quality of those articles only which it requires some portion of voluntary human labour to produce, procure, or preserve. Without possessing utility of some species or other, no article can ever become an object of demand; but how necessary soever any particular article may be to our comfort, or even existence, still, if it be a spontaneous production of nature—if it exists independently of human agency—and if every individual can command indefinite quantities of it without any voluntary exertion or labour of any sort, it is destitute of value, and can afford no basis for the reasonings of the economist. A commodity or a product is not valuable because it is useful; but it is valuable because it can only be procured by the intervention of labour. It cannot justly be said, that the food with which we appease the cravings of hunger, or the clothes by



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which we defend ourselves from the inclemency of the weather, are more useful than atmospheric air; and yet they are possessed of that exchangeable value of which it is totally destitute. The reason is, that food and clothes are not, like air, gratuitous products: they cannot be had at all times, and in any quantity, without exertion; on the contrary, labour is always required for their production, or appropriation, or both; and as no one will voluntarily sacrifice the fruits of his industry, without receiving an equivalent in return, they are truly said to possess exchangeable value.

The Economist does not investigate the laws which determine the production and distribution of such articles as exist, and may be obtained in unlimited quantities, independently of all voluntary human agency. The results of the industry of man form the only objects with which he is conversant. Political Economy might, indeed, be defined to be the *science of values;* for, nothing which is not possessed of exchangeable value, or which will not be received as an equivalent for something else which it has taken some labour to produce or obtain, can ever properly be brought within the scope of its inquiries.

The word *value* has been very frequently employed to express, not only the exchangeable worth of a commodity, or its capacity of exchanging for other commodities, but also its *utility*, or capacity of satisfying our wants, and of contributing to our comforts and enjoyments. But it is obvious, that the utility of commodities—that the capa-

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city of bread, for example, to appease hunger, or of water to quench thirst—is a totally different and distinct quality from their capacity of exchanging for other commodities. Dr Smith perceived this difference, and showed the importance of carefully distinguishing between the utility, or, as he expressed it, the "*value in use*," of commodities, and their value in exchange. But he did not always keep this distinction in view, and it has been very often lost sight of by subsequent writers. There can be no doubt, indeed, that the confounding together of these opposite qualities has been one of the principal causes of the confusion and obscurity in which many branches of the science, not in themselves difficult, are still involved. When, for instance, we say that water is highly valuable, we unquestionably attach a very different meaning to the phrase from what we attach to it when we say that gold is valuable. Water is indispensable to existence, and has, therefore, a high degree of utility, or of "value in use;" but as it can generally be obtained in large quantities, without much labour or exertion, it has, in most places, but a very low value in exchange. Gold, on the other hand, is of comparatively little utility; but, from its existing only in limited quantities, and from a great deal of labour being necessary to procure a small supply of it, it has a comparatively high exchangeable value, and may be exchanged or bartered for a proportionally large quantity of most other commodities. To confound these different sorts of value would evidently lead to the most erroneous

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conclusions. And hence, to avoid all chance of error from mistaking the sense of so important a word as *value*, I shall never use it except to signify exchangeable worth, or value in exchange; and shall always use the word *utility* to express the power or capacity of an article to satisfy our wants, or gratify our desires.

Political Economy has been frequently defined to be "the science which treats of the production, distribution, and consumption of *wealth*;" and if by wealth be meant those articles or products which possess exchangeable value, and are either necessary, useful, or agreeable, the definition is quite unexceptionable. But if we understand the term wealth in a more enlarged or contracted sense, it will be faulty. Mr Malthus, for example, has supposed wealth to be identical with "those *material* objects which are necessary, useful, and agreeable to man.*" And though we should waive any objections which may, perhaps, be justly taken to the introduction of the qualifying phrase *material* objects, still it is evident that the definition is essentially defective. In proof of this, it is sufficient to mention, that atmospheric air, and the heat of the sun, are both material, necessary, useful, and agreeable products; though their independent existence, and their incapacity of special appropriation, by depriving them of exchangeable value, excludes them, as we have already shown, from the investigations of this science.

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* *Principles of Political Economy*, p. 28.

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Dr Smith has not explicitly stated what was the precise meaning attached by him to the term wealth; but he most commonly describes it to be "the annual produce of land and labour." Mr Malthus, however, has justly objected to this definition, that it refers to the sources of wealth, before we know what wealth is, and that it includes all the useless products of the earth, as well as those which are appropriated and enjoyed by man.

The definition now given does not seem liable to any of these objections. By confining the science to a discussion of the laws regulating the production, distribution, and consumption of articles or products possessing exchangeable value, we give it a distinct and definite object. When thus properly restricted, the researches of the economist occupy a field which is exclusively his own. He runs no risk of wasting his time in inquiries which belong to other sciences, or in unprofitable investigations respecting the production and consumption of articles which cannot be appropriated, and which exist independently of human industry.

Capacity of appropriation is indispensably necessary to constitute an article wealth. And I shall invariably employ this term to distinguish those products only which are obtained by the intervention of human labour, and which, consequently, can be appropriated by one individual, and consumed exclusively by him. A man is not said to be wealthy, because he has an indefinite command over atmospheric air, for this is a privilege which he enjoys in

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common with every other man, and which can form no ground of distinction; but he is said to be wealthy, according to the degree in which he can afford to command those necessaries, conveniences, and luxuries, which are not the gifts of nature, but the products of human industry.

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The object of Political Economy is to point out the means by which the industry of man may be rendered most productive of those necessaries, comforts, and enjoyments, which constitute *wealth*; to ascertain the proportions in which this wealth is divided among the different classes of the community; and the mode in which it may be most advantageously consumed. The intimate connection of such a science, with all the best interests of society, is abundantly obvious. There is no other, indeed, which comes so directly home to the everyday occupations and business of mankind. The consumption of wealth is indispensable to existence; but the eternal law of Providence has decreed, that wealth can only be procured by industry,—that man must earn his bread in the sweat of his brow. This twofold necessity renders the production of wealth a constant and principal object of the exertions of the vast majority of the human race; has subdued the natural aversion of man from labour; given activity to indolence; and armed the patient hand of industry with zeal to undertake, and patience to overcome, the most irksome and disagreeable tasks.

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But when wealth is thus necessary, when the desire to acquire it is sufficient to induce us to submit to the greatest privations, the science which teaches the means by which its acquisition may be most effectually promoted,—by which we may be enabled to obtain the greatest possible amount of wealth with the least possible difficulty,—must certainly deserve to be carefully studied and meditated. There is no class of persons to whom this knowledge can be considered as either extrinsic or superfluous. There are some, doubtless, to whom it may be of more advantage than to others; but it is of the utmost consequence to all. The prices of all sorts of commodities—the profits of the manufacturer and merchant—the rent of the landlord—the wages of the day-labourer—and the incidence and effect of taxes and regulations, all depend on principles which Political Economy can alone ascertain and elucidate.

Neither is the acquisition of wealth necessary only because it affords the means of subsistence: without it we should never be able to cultivate and improve our higher and nobler faculties. Where wealth has not been amassed, the mind being constantly occupied in providing for the immediate wants of the body, no time is left for its culture; and the views, sentiments, and feelings of the people, become alike contracted, selfish, and illiberal. The possession of a decent competence, or the being able to indulge in other pursuits than those which directly tend to satisfy our animal wants and desires, is necessary to soften the selfish passions; to improve the moral

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and intellectual character, and to ensure any considerable proficiency in liberal studies and pursuits. And hence, the acquisition of wealth is not desirable merely as the means of procuring immediate and direct gratifications, but as being indispensably necessary to the advancement of society in civilization and refinement. Without the tranquillity and leisure afforded by the possession of accumulated wealth, those speculative and elegant studies which expand and enlarge our views, purify our taste, and lift us higher in the scale of being, can never be successfully prosecuted. It is certain, indeed, that the comparative barbarism and refinement of nations depend more on the comparative amount of their wealth than on any other circumstance. A poor people are never refined, nor a rich people ever barbarous. It is impossible to name a single nation which has made any distinguished figure, either in philosophy or the fine arts, without having been at the same time celebrated for its wealth. The age of Pericles and Phidias was the flourishing age of Grecian, as the age of Petrarch and Raphael was of Italian commerce. The influence of wealth is, in this respect, almost omnipotent. It raised Venice from the bosom of the deep, and made the desert and sandy islands on which she is built, and the unhealthy swamps of Holland, the favoured abodes of literature, of science, and of art. In our own country its effects have been equally striking. The number and eminence of our philosophers, poets, scholars, and artists, have ever increased proportionally to the

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increase of the public wealth, or to the means of rewarding and honouring their labours.

The possession of wealth being thus indispensable to individual existence and comfort, and to the advancement of nations in civilization, it may justly excite our astonishment, that so few efforts should have been made to investigate its sources; and that the study of Political Economy is not even yet considered as forming a principal part in a comprehensive system of education. A variety of circumstances might be mentioned, as occasioning the unmerited neglect of this science; but of these the institution of *domestic slavery* in the ancient world, and the darkness of the period when the plan of education in the universities of modern Europe was first formed, seem to have had the greatest influence.

The citizens of Greece and Rome considered it degrading to engage in those occupations which form the principal business of the inhabitants of modern Europe. Instead of endeavouring to enrich themselves by their own exertions, they trusted to the reluctant labour of slaves, and to subsidies extorted from conquered countries. In some of the Grecian States, the citizens were prohibited from engaging in any species of manufacturing and commercial industry; and in Athens and Rome, where this prohibition did not exist, these employments were universally regarded as unworthy of freemen, and were, in consequence, exclusively carried on either by slaves or by the very dregs of the people. Even Cicero, who had mastered all the philosophy of the ancient world,

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and raised himself above many of the prejudices of his age and country, does not scruple to affirm, that there can be nothing ingenuous in a workshop; that commerce, when conducted on a small scale, is mean and despicable; and when most extended, barely tolerable—*Non admodum vituperanda!** Agriculture, indeed, was treated with more respect. Some of the most distinguished characters in the earlier ages of Roman history had been actively engaged in rural affairs; but, notwithstanding their example, the cultivation of the soil, in the flourishing period of the Republic, and under the Emperors, was almost entirely carried on by slaves, belonging to the landlord, and employed on his account. The mass of Roman citizens were either engaged in the military service, † or derived a precarious and dependant subsistence from the supplies of corn furnished by the conquered provinces. In such a state of society the relations subsisting in modern Europe between land-

* "Illiberales autem et sordidi questus mercenariorum, omniumque quorum operæ, non quorum artes emuntur. Est enim illis ipsa merces auctoramentum servitutis. Sordidi etiam putandi, qui mercantur a mercatoribus quod statim vendant, *nihil enim proficiunt, nisi admodum mentiantur!* Opificesque omnes in sordida arte versantur, *nec enim quidquam ingenuum potest habere officina* * * * Mercatura autem, si tenuis est, sordida putanda est; sin autem magna et copiosa, multa undique apportans, multisque sine vanitate impertiens, non est admodum vituperanda." (*De Officiis*, Lib. I. sect. 42.)

† "Rei militaris virtus præstat cæteris omnibus; hæc populo Romano, hæc huic urbi æternam gloriam peperit."—(Cicero pro Murena.)

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lords and tenants, and masters and servants, were unknown; and the ancients were, in consequence, entire strangers to all those interesting and important questions arising out of the rise and fall of rents and wages, which form so important a branch of economical science. The spirit of philosophy in the ancient world was also extremely unfavourable to the cultivation of Political Economy. The luxurious or more refined mode of living, of the rich, was regarded by the ancient moralists as an evil of the first magnitude. They considered it as subversive of those warlike virtues, which were the principal objects of their admiration; and they, therefore, denounced the passion for accumulating wealth as fraught with the most injurious and destructive consequences. It was impossible that Political Economy could become an object of attention to minds imbued with such prejudices; or that it could be studied by those who contemned the objects about which it is conversant, and vilified the labour by which wealth is produced.

At the establishment of our universities, the clergy were almost the exclusive possessors of the little knowledge then in existence. It was natural, therefore, that their peculiar feelings and pursuits should have a marked influence on the plans of education they were employed to frame. Grammar, rhetoric, logic, school divinity, and civil law, comprised the whole course of study. To have appointed professors to explain the principles of commerce, and the means by which labour might be rendered most effective, would have been considered as equally superfluous and de-

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grading to the dignity of science. The ancient prejudices against commerce, manufactures, and luxury, retained a powerful influence in the middle ages. None were then possessed of any clear ideas concerning the true sources of national wealth, happiness, and prosperity. The intercourse among states was extremely limited, and was maintained rather by marauding incursions, and piratical expeditions in search of plunder, than by a commerce founded on the gratification of real and reciprocal wants.

These circumstances sufficiently account for the late rise of this science, and the little attention paid to it up to a very recent period. And since it has become an object of more general attention and inquiry, the differences which have subsisted among the most eminent of its professors, have proved exceedingly unfavourable to its progress, and have generated a disposition to distrust its best established conclusions.

It is clear, however, that those who distrust the conclusions of Political Economy, because of the variety of systems that have been advanced to explain the phenomena about which it is conversant, might on the same ground distrust the conclusions of almost every other science. The discrepancy between the various systems that have successively been sanctioned by the ablest physicians, chemists, natural philosophers, and moralists, is quite as great as the discrepancy between those advanced by the ablest political economists. But who would therefore conclude, that medicine, chemistry, natural philosophy, and morals, rest on no solid foundation, or that they

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are incapable of presenting us with a system of well-established and consentaneous truths? We do not refuse our assent to the demonstrations of Newton and Laplace, because they are subversive of the hypotheses of Ptolemy, Tycho Brahe, and Descartes; and why should we refuse our assent to the demonstrations of Smith and Ricardo, because they have subverted the false theories that were previously advanced respecting the sources and the distribution of wealth? Political Economy has not been exempted from the common fate of the other sciences. None of them has been instantaneously carried to perfection; more or less of error has always insinuated itself into the speculations of their earliest cultivators. But the errors with which Political Economy was formerly infected have now nearly disappeared; and a very few observations will suffice to show, that it really admits of as much certainty in its conclusions as any science founded on *fact and experiment* can possibly do.

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The principles on which the production and accumulation of wealth and the progress of civilization depend, are not the offspring of legislative enactments. Man must exert himself to produce wealth, because he cannot exist without it; and the desire implanted in the breast of every individual of rising in the world and improving his condition, impels him to save and accumulate. The principles which form the basis of this science make, therefore, a part

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of the original constitution of man, and of the physical world; and their operation, like that of the mechanical principles, is to be traced by the aid of observation and analysis. There is, however, a material distinction between the physical and the moral and political sciences. The conclusions of the former apply in *every* case, while those of the latter apply only in the *majority* of cases. The principles on which the production and accumulation of wealth depend are inherent in our nature, and exert a powerful, but not always the *same* degree of influence over the conduct of every individual; and the theorist must, therefore, satisfy himself with framing his general rules so as to explain their operation in the majority of instances, leaving it to the sagacity of the observer to modify them so as to suit individual cases. Thus, it is an admitted principle in the science of Morals, as well as of Political Economy, that by far the largest proportion of the human race have a much clearer view of what is conducive to their own interests, than it is possible for any other man or select number of men to have; and, consequently, that it is sound policy to allow each individual to follow the bent of his inclination, and to engage in any branch of industry he thinks proper. This is the general theorem; and it is one which is established on the most comprehensive experience. It is not, however, like the laws which regulate the motions of the planetary system,—it will hold good in nineteen out of twenty instances, but the twentieth may be an exception.

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But it is not required of the economist, that his theories should quadrate with the peculiar bias of the mind of a particular person. His conclusions are drawn from observing the principles which are found to determine the condition of mankind, as presented on the large scale of nations and empires. He has to deal with man in the aggregate—with states, and not with families—with the passions and propensities which actuate the great bulk of the human race, and not with those which are occasionally found to influence the conduct of a solitary individual.

It should always be kept in view, that it is never any part of the business of the economist to inquire into the means by which the fortunes of individuals may have been increased or diminished, except to ascertain their general operation and effect. The *public interests* ought always to form the exclusive objects of his attention. He is not to frame systems, and devise schemes, for increasing the wealth and enjoyments of *particular classes;* but to apply himself to discover the sources of *national wealth*, and *universal prosperity*, and the means by which they may be rendered most productive.

Nothing, indeed, is more common than to hear it objected to some of the best established truths in political and economical science, that they are at variance with such and such facts, and that, therefore, they must be rejected. It is cerain, however, that these objections most frequently originate in an entire misapprehension of the nature of the science.



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Itwould be easy to produce a thousand instances of individuals who have been enriched by monopolies, as they are sometimes by robbery and plunder; but it would be not a little rash to conclude from thence, without farther inquiry, that the community in general can be enriched by such means! This, however, is the single consideration to which the political economist has to attend. The question never is, whether a greater or smaller number of individuals can be enriched by the adoption of a particular measure, or by a particular institution, but whether its tendency is to enrich *the public*. Admitting that monopolies and restrictive regulations frequently enable individuals to accumulate ample fortunes, this is so far from being, as is often contended, any proof of their real advantageousness, that it is distinctly and completely the reverse. It is demonstrably certain, that if monopolies and exclusive privileges enrich the *few*, they must, to the same extent, impoverish the *many*; and are, therefore, as destructive of that NATIONAL WEALTH, to promote which ought to be the principal object of every institution, as they are of natural freedom of industry.

To arrive at a well-founded conclusion in economical science, it is not, therefore, enough to observe results in particular cases, or as they affect particular individuals; we must further inquire whether these results are *constant* and *universally applicable*—whether the same circumstances which have given rise to them in one instance, would in every instance, and in every state of society, be productive of the



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same or similar results.—A theory which is inconsistent with an *uniform* and *constant* fact must be erroneous; but the observation of a particular result at variance with our customary experience, and when we may not have had the means of discriminating the circumstances attending it, ought not to induce us hastily to modify or reject a principle which accounts satisfactorily for the greater number of appearances.

The example of the few arbitrary princes who have been equitable, humane, and generous, is not enough to overthrow the principle which teaches that it is the nature of irresponsible power to debauch and vitiate its possessors—to render them haughty, cruel, and suspicious: nor is the example of those who, attentive only to present enjoyment, and careless of the future, lavish their fortunes in boisterous dissipation or vain expence, sufficient to invalidate the general conclusion, that the passion for accumulation is infinitely stronger and more universal than the passion for expence. Had this not been the case, mankind could never have emerged from the condition of savages. The multiplied and stupendous improvements which have been made in different ages and nations —the forests that have been cut down—the marshes and lakes that have been drained and subjected to cultivation—the harbours, roads, and bridges that have been constructed—the cities and edifices that have been raised—are *all* the fruits of a saving of income, and establish, in despite of a thousand particular instances of prodigality, the vast ascendancy and superior force of the accumulating principle.

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It is from the want of attention to these considerations that much of the error and misapprehension with which the science of Political Economy has been, and still is infected, has arisen. Almost all the absurd theories and opinions that have successively appeared have been supported by an appeal to facts. But a knowledge of facts, without a knowledge of their mutual relation—without being able to show why the one is a cause and the other an effect—is, to use the illustration of M. Say, really no better than the indigested erudition of an almanack-maker, and can afford no means of judging of the truth or falsehood of a general principle.

Neither should it be forgotten, that the alleged facts so frequently brought forward to show the fallacy of general principles, are, in most cases, so carelessly observed, and the circumstances under which they have taken place so indistinctly defined, as to render them altogether unworthy of attention. To observe accurately, requires a degree of intelligence and acuteness, a freedom from prejudice, and a patience of investigation belonging to a few only. "There is," to use the words of the celebrated Dr Cullen, "a variety of circumstances tending to vitiate the statements dignified with the name of experience. The simplest narrative of a case almost always involves some theories. It has been supposed that a statement is more likely to consist of unsophisticated facts, when reported by a person of no education; but it will be found an invariable rule, that the lower you descend in the medical profession, the more hy-

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pothetical are the prevailing notions. Again, how seldom is it possible for any case, however minutely related, to include all the circumstances with which the event was connected. Hence, in what is commonly called experience, we have only a rule transferred from a case imperfectly known, to one of which we are equally ignorant. Hence, that most fertile source of error, the applying deductions drawn from the result of one case to another case, the circumstances of which are not precisely similar. *Without principles deduced from analytical reasoning, experience is an useless and a blind guide.*" *

Every one who has had occasion to compare the discordant statements of the mass of common observers, with respect to the practical bearing and real operation of any measure affecting the public interests, must be convinced that Dr Cullen's reasoning is still more applicable to political and economical science than to medicine. Circumstances which altogether escape the notice of ordinary observers, often exercise the most powerful influence over national prosperity; and those again which strike them as being most important, are often comparatively insignificant. The condition of nations, too, is affected by so many circumstances, that without the greatest skill and caution, joined to a searching and refined analysis, and a familiar command of scientific principles, it is in most cases quite impossible to discri-

* Cullen's MS. *Lectures.*

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minate between cause and effect, and to avoid ascribing results to one set of causes that have been occasioned by another set. No wonder, therefore, when such is the difficulty of observing, that "the number of false facts, afloat in the world, should infinitely exceed that of the false theories."* And after all, however carefully an *isolated* fact may be observed, still, for the reasons already stated, it can never form a foundation for a general theorem either in the moral or political sciences. Those, indeed, who bring forward theories resting on so narrow a basis, are almost invariably *empirics*, whose vanity or interest prompts them to set up conclusions drawn from their own limited and imperfect range of observation, in opposition to those that are sanctioned by the general experience of mankind.

But although we are not to reject a received principle because of the apparent opposition of a few results, with the particular circumstances of which we are unacquainted, we can have no confidence in its solidity unless it be deduced from a very comprehensive and careful induction. To arrive at a true knowledge of the laws regulating the production, distribution, and consumption of wealth, the economist must draw his materials from a very wide surface. He should study man in every different situation—he should have recourse to the history of society, arts, commerce, and civilization—to the works of philoso-

* A remark of Dr Cullen.

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phers and travellers—to every thing, in short, that can throw light on the causes which accelerate or retard the progress of civilization: He should mark the changes which have taken place in the fortunes and condition of the human race in different regions and ages of the world: He should trace the rise, progress, and decline of industry: And, above all, he should carefully analyze and compare the effects of different institutions and regulations, and discriminate the various circumstances wherein an advancing and declining society differ from each other. These investigations, by disclosing the real causes of national opulence and refinement, and of poverty and degradation, furnish the economist with the means of giving a satisfactory solution of almost all the important problems in the science of wealth; and of devising a scheme of public administration calculated to ensure the continued advancement of the society in the career of improvement.

Such inquiries cannot fail to excite the deepest interest in every ingenuous mind. The laws by which the motions of the celestial bodies are regulated, and over which man cannot exercise the smallest influence or control, are yet universally allowed to be noble and rational objects of study. But the laws which regulate the movements of human society—which cause one people to advance in opulence and refinement, at the same time that another is sinking into the abyss of poverty and barbarism—have an infinitely stronger claim on our attention; both because they relate to objects which exercise a direct influence over human

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happiness, and because their effects may be, and in fact are, continually modified by human interference. National prosperity does not depend nearly so much on advantageous situation, salubrity of climate, or fertility of soil, as on the adoption of measures fitted to excite the inventive powers of genius, and to give perseverance and activity to industry. The establishment of a wise system of public economy can compensate for every other deficiency: It can render regions naturally inhospitable, barren, and unproductive, the comfortable abodes of an elegant and refined, a crowded and wealthy population; but where it is wanting, the best gifts of nature are of no value; and countries possessed of the greatest capacities of improvement, and abounding in all the materials necessary for the production of wealth, with difficulty furnish a miserable subsistence to hordes distinguished only by their ignorance, barbarism, and wretchedness.

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When we reflect on the variety and extent of the previous knowledge required for the construction of a sound theory of Political Economy, we cease to feel any surprise at the errors into which economists have been betrayed, or at the discrepancy of the opinions that are still entertained on some important points. Political Economy is of very recent origin. Though various treatises of considerable merit had previously appeared on some of its detached parts, it was not treated as a whole, or in a scientific man-

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ner, until about the middle of last century. This circumstance is of itself enough to account for the number of erroneous systems that have since appeared. Instead of deducing their general conclusions from a comparison of particular facts, and a careful examination of the phenomena attending the operation of different principles, and of the same principles in different circumstances, the first cultivators of almost every branch of science have begun by framing their theories on a very narrow and insecure basis. Nor is it really in their power to go to work differently. Observations are scarcely ever made or particulars noted for their own sake. It is not until they begin to be sought after, as furnishing the only test by which to ascertain the truth or falsehood of some popular theory, that they are made in sufficient numbers, and with sufficient accuracy. It is, in the peculiar phraseology of this science, the *effectual demand* of the theorist that occasions the production of the facts or raw materials, which he is afterwards to work into a system. The history of Political Economy strikingly exemplifies the truth of this remark. Being, as already observed, entirely unknown to the ancients, and but little attended to by our ancestors up to a comparatively late period, those circumstances which would have enabled us to judge with the greatest precision of the wealth and civilization of the inhabitants of the most celebrated states of antiquity, and of Europe during the middle ages, have either been thought unworthy of the notice of the historian, or have been very imperfectly and carelessly detailed.

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Those, therefore, who first began to trace the general principles of the science had but a comparatively limited and scanty experience on which to build their conclusions. Nor did they even avail themselves of the few historical facts with which they might easily have become acquainted; but almost exclusively confined their attention to such as happened to come within the sphere of their own observation.

The once prevalent opinion, that wealth consists exclusively of Gold and Silver, naturally grew out of the circumstance of the money of all civilized countries being almost entirely formed of these metals. Having been used both as standards whereby to measure the relative value of different commodities, and as the equivalents for which they were most frequently exchanged, gold and silver, or money, acquired a factitious importance, not in the estimation of the vulgar only, but in that of persons of the greatest discernment. The simple and decisive consideration, that all buying and selling is really nothing more than the bartering of one *commodity* for another—of a certain quantity of corn or cloth, for example, for a certain quantity of gold or silver, and *vice versa*—was entirely overlooked. The attention was gradually transferred from the *money's worth* to the money itself; and the wealth of individuals and of states was measured, not by the abundance of their disposable products—by the quantity and value of the commodities with which they could afford to purchase the precious metals—but by the quantity of these metals actually in their possession—And hence the policy,

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as obvious as it was universal, of attempting to increase the amount of national wealth by forbidding the exportation of gold and silver, and encouraging their importation.

It appears from a passage in Cicero, that the exportation of the precious metals from Rome had been frequently prohibited during the period of the Republic; * and this prohibition was repeatedly renewed, though to very little purpose, by the Emperors. † Neither, perhaps, has there been a state in modern Europe whose early laws have not expressly forbidden the exportation of gold and silver. It is said to have been interdicted by the law of England previously to the Conquest; and reiterated statutes were subsequently passed to the same effect; one of which, (3d Henry VIII. cap. 1.) enacted so late as 1512, declared, that all persons carrying over sea any coins, plate, jewels, &c. should, on detection, forfeit double the value of these articles.

The extraordinary extension of commerce during the fifteenth and sixteenth centuries occasioned the substitution of a more refined and complex system for increasing the supply of the precious metals, in

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* "*Exportari aurum non oportere, cum sæpe antea senatus, tum me consule, gravissime judicavit. Orat.* pro L. Flacco, sect. 28.

† Pliny, when enumerating the silks, spices, and other Eastern products imported into Italy, says, "*Minimaque computatione millies centena millia sestertium annis omnibus, India et Seres, peninsulaque illa* (*Arabia*) *imperia nostro demunt.*" (*Hist. Nat.* Lib. xii. cap. 18.)

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place of the coarse and vulgar one that had previously obtained. The establishment of a direct intercourse with India by the Cape of Good Hope, seems to have had the greatest influence in effecting this change. The precious metals have always been among the most advantageous articles of export to the East: And notwithstanding the old and deeply rooted prejudices against their exportation, the East India Company obtained, when first instituted, in 1600, leave annually to export foreign coins, or bullion, of the value of L. 30,000; on condition, however, that they should import, within six months after the termination of every voyage, except the first, as much gold and silver as should together be equal to the value of the silver exported by them. But the enemies of the Company contended, that this condition was not complied with; and that it was besides *contrary to all principle*, and highly injurious to the public interests, to permit gold and silver to be sent out of the kingdom. The merchants, and others interested in the support of the Company, could not controvert the reasonings of their opponents, without openly impugning the ancient policy of absolutely preventing the exportation of the precious metals. They did not, however, venture to contend, nor is there indeed any good reason for thinking that it really occurred to them, that the exportation of bullion to the East was advantageous, on the ground that the commodities purchased by it were of greater value in England. But they contended, that the exportation of bullion to India was advantageous,

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because the commodities imported from thence were chiefly re-exported to other countries, from which a much greater quantity of bullion was obtained than had been required to pay them in India. Mr Thomas Mun, the ablest of the Company's advocates, ingeniously compares the operations of the merchant in conducting a trade carried on by the exportation of gold and silver, to the seed-time and harvest of agriculture. "If we only behold," says he, "the actions of the husbandman in the seed-time, when he casteth away much good corn into the ground, we shall account him rather a madman than a husbandman. But when we consider his labours in the harvest, which is the end of his endeavours, we shall find the worth and plentiful increase of his actions." *

Such was the origin of what has been called the MERCANTILE SYSTEM: And, when compared with the previous prejudice—for it hardly deserves the name of system—which wholly interdicted the exportation of gold and silver, it must be allowed that its adoption was a considerable step in the progress to sounder opinions. The supporters of the mercantile system, like their predecessors, held that

* *Treasure by Foreign Trade,* orig. ed. p. 50.—This work was published in 1664, a considerable period after Mr Mun's death. Most probably it had been written about 1635, or 1640. Mun had previously advanced the same doctrines, and nearly in the same words, in his Defence of the East India Trade, originally published in 1609, and reprinted in 1621, and in a petition drawn up by him, and presented by the East India Company to Parliament in 1628.

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gold and silver alone constituted wealth; but they thought that sound policy dictated the propriety of allowing their exportation to foreigners, provided the commodities imported in their stead, or a portion of them, were afterwards sold to other foreigners for a greater amount of bullion than had been originally laid out on their purchase; or, provided the importation of the foreign commodities caused the exportation of so much more native produce than would otherwise have been exported, as would more than equal their cost. These opinions necessarily led to the celebrated doctrine of the *Balance of Trade.* It was obvious that the precious metals could not be imported into countries destitute of mines, except in return for exported commodities; and the grand object of the supporters of the mercantile system was to monopolize the largest possible supply of the precious metals, by the adoption of various complex schemes for encouraging exportation, and restraining the importation of almost all products, except gold and silver, that were not intended for future exportation. In consequence, the *excess of the value of the Exports over that of the Imports* came to be considered as being at once the sole cause and measure of the progress of a country in the career of wealth. This excess, it was taken for granted, could not be balanced otherwise than by the importation of an equal value of gold or silver, or of the only real wealth it was then supposed a country could possess.

The principles and conclusions of the mercantile system, though absolutely false and erroneous, afford

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a tolerable explanation of a few very obvious phenomena; and what did more to recommend them, they were in perfect unison with the popular prejudices on the subject. The merchants, and practical men, who were the founders of this system, did not consider it necessary to subject the principles they assumed to any very refined analysis or examination. But, reckoning them as sufficiently established by the common consent and agreement of mankind, they applied themselves almost exclusively to the discussion of the practical measures calculated to give them the greatest efficacy.

"Although a kingdom," says Mr Mun, "may be enriched by gifts received, or by purchase taken, from some other nations, yet these are things uncertain, and of small consideration, when they happen. The ordinary means, therefore, to increase our wealth and treasure, is by foreign trade, wherein we must ever observe this rule—*to sell more to strangers yearly than we consume of theirs in value*. For, suppose, that when this kingdom is plentifully served with cloth, lead, tin, iron, fish, and other native commodities, we do yearly export the overplus to foreign countries to the value of L. 2,200,000, by which means we are enabled, beyond the seas, to buy and bring in foreign wares for our use and consumption to the value of L. 2,000,000: By this order duly kept in our trading, we may rest assured that the kingdom shall be enriched yearly L. 200,000, which must be brought to us as so much treasure; because that part of our stock which is not return-



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ed to us in wares, must necessarily be brought home in treasure." *

The gain on our foreign commerce is here supposed to consist exclusively of the gold and silver which, it is taken for granted, must necessarily be brought home in payment of the excess of exported commodities. Mr Mun lays no stress whatever on the circumstance of foreign commerce enabling us to obtain an infinite variety of useful and agreeable products, which it would either have been impossible for us to produce at all, or to produce so cheaply at home. We are desired to consider all this accession of wealth—all the vast addition made by commerce to the motives which stimulate, and to the comforts and enjoyments which reward the labour of the industrious, as *nothing*,—and to fix our attention exclusively on the balance of L. 200,000 of gold and silver! This is much the same as if we were desired to estimate the comfort and advantage derived from a suit of clothes, by the number and glare of the metal buttons by which they are fastened. And yet the rule for estimating the advantageousness of foreign commerce, which Mr Mun has here given, was long regarded by the generality of merchants and practical statesmen as infallible; and such is the inveteracy of ancient prejudices, that we are still annually congratulated on the excess of our exports over our imports!

There were many other circumstances, however,

* *Treasure by Foreign Trade*, p. 11.

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besides the erroneous notions respecting the precious metals, which led to the enactment of regulations restricting the freedom of industry, and secured the ascendancy of the mercantile system. The feudal governments established in the countries that had formed the western division of the Roman Empire, early sunk into a state of confusion and anarchy. The princes, unable of themselves to restrain the usurpations of the greater barons, or to control their violence, endeavoured to strengthen their influence and consolidate their power, by attaching the inhabitants of cities and towns to their interests. For this purpose, they granted them charters, enfranchising the inhabitants, abolishing every existing mark of servitude, and forming them into corporations, or bodies politic, to be governed by a council and magistrates of their own selection. The order and good government that were thus established in the cities, and the security of property enjoyed by their inhabitants, while the rest of the country was a prey to rapine and disorder, stimulated their industry, and gave them a decided superiority over the cultivators of the soil. It was from the cities that the princes derived the greater part of their supplies of money; and it was by their assistance and co-operation that they were enabled to control and subdue the pride and independence of the barons. But the citizens did not render this assistance to their sovereigns merely by way of compensation for the original gift of their charters. They were continually soliciting and obtaining new privileges.

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And it was not to be expected that princes, whom they had laid under so many obligations, and who justly regarded them as forming the most industrious and deserving portion of their subjects, should feel any great disinclination to gratify their wishes. To enable them to obtain cheap provisions, and to carry on their industry to the best advantage, the exportation of corn, and of the raw materials of their manufactures, was strictly prohibited; at the same time that heavy duties and absolute prohibitions were interposed to prevent the importation of manufactured articles from abroad, and to secure the complete monopoly of the home-market to the home manufacturers. These, together with the privilege granted to the citizens of corporate towns of preventing any individual from exercising any branch of business until he had obtained leave from them; and a variety of subordinate regulations intended to force the importation of the raw materials required in manufactures, and the exportation of manufactured goods, form the principal features of the system of public economy adopted, in the view of encouraging *manufacturing* industry, in every country in Europe, in the fourteenth, fifteenth, sixteenth, and seventeenth centuries. The freedom of industry recognized by their ancient laws was almost totally destroyed. It would be easy to mention a thousand instances of the excess to which this artificial system was carried in England and other countries; but as many of these instances must be familiar to the reader, I shall only observe, as illustrative of its spirit, that, by an



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act passed in 1678, for the encouragement of the English woollen manufacture, it was ordered that all *dead bodies* should be wrapped in a woollen shroud!

But the exclusion of foreign competition, and the monopoly of the home-market, were not enough to satisfy the manufacturers and merchants. Having obtained all the advantage they could from the public, they next attempted to prey on each other. Such of them as possessed most influence, procured the privilege of carrying on particular branches of industry to the exclusion of every other individual. This abuse was carried to a most oppressive height in the reign of Elizabeth, who granted an infinite number of new patents. At length, the grievance became so insupportable, as to induce all classes to join in petitioning for its abolition: which, after much opposition on the part of the Crown, by whom the power of erecting monopolies was considered a very valuable branch of the prerogative, was effected by an act passed in 1624. This act has been productive of the greatest advantage; but it did not touch any of the fundamental principles of the mercantile or manufacturing system; and the exclusive privileges of all bodies-corporate were exempted from its operation.

In France the interests of the manufacturers were warmly espoused by the justly celebrated M. Colbert, minister of finances during the most splendid period of the reign of Louis XIV.; and the year 1664, when the famous tariff, compiled under his di-



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rection, was first promulgated, has been sometimes considered, by the Continental writers, though, as we have seen, most erroneously, as the real era of the mercantile system. *

The restrictions in favour of the manufacturers were all zealously supported by the advocates of the mercantile system, and the balance of trade. The facilities given to the exportation of goods manufactured at home, and the obstacles thrown in the way of importation from abroad, seemed peculiarly well fitted for making the exports exceed the imports, and procuring a favourable balance. Instead, therefore, of regarding these regulations as the offspring of a selfish monopolizing spirit, they looked on them as having been dictated by the soundest policy. The interests of the manufacturers and merchants were thus naturally identified; and were held to be the same with those of the public. The acquisition of a favourable balance of payments was the grand *object* to be accomplished; and heavy duties and restrictions on importation, and bounties and premiums on exportation, were the *means* by which this object was to be attained. It cannot excite our surprise that a system having so many popular prejudices in its favour, and which afforded a plausible apology for the exclusive privileges enjoyed by the manufacturing and commercial classes, should have early attained, or that it should still preserve, notwithstanding

* See Mengotti, *Dissertazione sul Colbertismo,* cap. 11.

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the overthrow of its principles, a powerful practical influence. *

"It is no exaggeration to affirm," says a late foreign writer, "that there are very few political errors which have produced more mischief than the mercantile system. Armed with power, it has commanded and forbid where it should only have *protected.* The regulating mania which it has inspired has tormented industry in a thousand ways, to force it from its natural channels. It has made each particular nation regard the welfare of its neighbours as incompatible with its own; hence the reciprocal desire of injuring and impoverishing each other; and hence that spirit of commercial rivalry which has been the immediate or remote cause of the greater number of modern wars. It is this system which has stimulated nations to employ force or cunning to extort commercial treaties, productive of no real advantage to themselves, from the weakness or ignorance of others. It has formed colonies, that the mother country might enjoy the monopoly of their trade, and force them to resort exclusively to her markets. In short, where this system has been productive of the least injury, it has retarded the pro-

* Melon and Forbonnais in France,—Genovesi in Italy,—Mun, Sir Josiah Child, Dr Davenant, the authors of the British Merchant, and Sir James Stewart, in England—are the ablest writers who have espoused, some with more and some with fewer exceptions, the leading principles of the Mercantile system.

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gress of national prosperity; every where else it has deluged the earth with blood, and has depopulated and ruined some of those countries whose power and opulence it was supposed it would carry to the highest pitch. *

The shock given to previous prejudices and systems by those great discoveries and events, which will for ever distinguish the fifteenth and sixteenth centuries, and the greater attention which the progress of civilization and industry naturally drew to the sources of national power and opulence, prepared the way for the downfall of the mercantile system. The advocates of the East India Company, whose interests had first prompted them to question the prevailing doctrines as to the exportation of bullion, began gradually to assume a higher tone; and at length boldly contended that bullion was *nothing but a commodity*, and that its exportation ought to be rendered as free as the exportation of any other commodity. Nor were these opinions confined to the partners of the East India Company. They were gradually communicated to others; and many eminent merchants were taught to look with suspicion on several of the most received maxims; and were thus led to acquire more correct and comprehensive views in respect to the just principles of commercial intercourse. The new ideas ultimately made their way into the House of Commons; and in 1663, the

* Storch, *Cours d'Economie Politique*, Tome I. p. 122.

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statutes prohibiting the exportation of *foreign coin and bullion* were repealed, and full liberty given to the East India Company, and to private traders, to export these articles in unlimited quantities.

In addition to the controversies respecting the East India trade, the discussions to which the foundation of the colonies in America and the West Indies, the establishment of a compulsory provision for the support of the poor, and the acts prohibiting the exportation of wool, &c. gave rise, attracted an extraordinary portion of the public attention to questions connected with the domestic policy of the country. In the course of the seventeenth century, a more than usual number of tracts were published on commercial and economical subjects. And although the greater number are strongly tinctured with the prevailing spirit of the age, it cannot be denied, that several of them rise above the prejudices of their contemporaries, and have an unquestionable right to be regarded as the foundation of the modern theory of commerce—as the earliest exposition of those sound and liberal doctrines, by which it has been shown, that the prosperity of states can never be promoted by restrictive regulations, or by the depression of their neighbours—that the genuine spirit of commerce is inconsistent with the dark, selfish, and shallow policy of monopoly—and that the *self-interest* of mankind, not less than their duty, requires them to live in peace, and to cultivate a fair and friendly intercourse with each other.

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Besides Mr Mun, Sir Josiah Child,* whose work, though it is founded on the principles of the mercantile system, contains many sound and liberal views, Sir William Petty,† and Sir Dudley North, are the most distinguished of the economical writers of the seventeenth century. The latter not only rose above the established predjudices of the time, but had sagacity enough to detect the more refined and less obvious errors that were newly coming into fashion. His tract, entitled, "*Discourses on Trade, principally directed to the Cases of Interest, Coinage, Clipping, and Increase of Money,*" published in 1691, contains a much more able statement of the true principles of commerce than any that had then appeared. He is throughout the intelligent advocate of all the great principles of commercial freedom. He is not, like the most eminent of his predecessors, well informed on one subject, and erroneous on another. His system is consistent and complete. He shows, that in commercial matters, nations have the same interests as individuals; and forcibly exposes the absurdity of supposing, that any trade which is advantageous to the merchant can be injurious to the public. His opinions respecting the imposition of a seignorage on the coinage of mo-

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* *A New Discourse of Trade,* first published in 1668, but greatly enlarged and improved in the second edition, published in 1690.

† *Quantulumcunque,* published in 1682; *Political Anatomy of Ireland,* published in 1672; and other works.

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ney, and the expediency of sumptuary laws, then very popular, are equally enlightened.

I shall subjoin, from the preface to this tract, an abstract of the general propositions maintained in it:

"THAT THE WHOLE WORLD AS TO TRADE IS BUT AS ONE NATION OR PEOPLE, AND THEREIN NATIONS ARE AS PERSONS.

"That the loss of a trade with one nation is not that only, separately considered, but so much of the trade of the world rescinded and lost, for all is combined together.

"THAT THERE CAN BE NO TRADE UNPROFITABLE TO THE PUBLIC; FOR IF ANY PROVE SO, MEN LEAVE IT OFF; AND WHEREVER THE TRADERS THRIVE, THE PUBLIC, OF WHICH THEY ARE A PART, THRIVE ALSO.

"That to force men to deal in any prescribed manner may profit such as happen to serve them; but the public gains not, because *it is taken from one subject to give to another.*

"That no laws can set prices in trade, the rates of which must and will make themselves. But when such laws do happen to lay any hold, it is so much impediment to trade, and therefore prejudicial.

"*That money is a merchandise, whereof there may be a glut, as well as a scarcity, and that even to an inconvenience.*

"THAT A PEOPLE CANNOT WANT MONEY TO SERVE THE ORDINARY DEALING, AND MORE THAN ENOUGH THEY WILL NOT HAVE.

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"That no man will be the richer for the making much money, nor have any part of it, but as he buys it for an equivalent price.

"*That the free coynage is a perpetual motion found out, whereby to melt and coyn without ceasing*, and so to feed goldsmiths and coyners at the public charge.

"That debasing the coyn is defrauding one another, and to the public there is no sort of advantage from it; for that admits no character, or value, but intrinsick.

"That the sinking by alloy or weight is all one.

"*That exchange and ready money are the same, nothing but carriage and re-carriage being saved.*

"That money exported in trade is an increase to the wealth of the nation; *but spent in war, and payments abroad, is so much impoverishment.*

"In short, that ALL FAVOUR TO ONE TRADE, OR INTEREST, IS AN ABUSE, AND CUTS SO MUCH OF PROFIT FROM THE PUBLIC."

Unluckily this admirable tract never obtained any considerable circulation. There is good reason, indeed, for supposing that it was designedly suppressed.* At all events, it speedily became excessively scarce; and I am not aware that it has ever been referred to by any subsequent writer on commerce.

The same enlarged and liberal views that had

* See the Honourable Roger North's *Life of his Brother, the Honourable Sir Dudley North*, p. 179.

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found so able a supporter in Sir Dudley North, were subsequently advocated to a greater or less extent by Locke,* the anonymous author of a pamphlet on the East India Trade,† Vanderlint,‡ Sir Matthew Decker, § Hume,|| and Harris¶. But their efforts were ineffectual to the subversion of the mercantile system. Their opinions respecting the nature of wealth were confused and contradictory; and as they neither attempted to investigate its sources, nor to trace the causes of national opulence, their arguments in favour of a liberal system of commerce had somewhat of an empirical aspect, and failed of making that impression which is always made by reasonings logically deduced from well established principles, and shown to be consistent with experience. Mr Locke, as we shall afterwards show, unquestionably entertained very correct opinions respecting the paramount influence of labour in the production of

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* *Considerations on the Lowering of Interest and Raising the Value of Money,* 1691; and *Further Considerations on Raising the Value of Money,* 1695.

† *Considerations on the East India Trade,* 1701. This is a very remarkable pamphlet. The author has successfully refuted the various arguments advanced in justification of the prohibition against importing East India manufactured goods; and has given a very striking illustration of the effects of the division of labour.

‡ *Money Answers all Things,* 1734.

§ *Essay on the Causes of the Decline of Foreign Trade,* 1744.

|| *Political Essays,* 1752.

¶ *Essay on Money and Coins,* 1757.

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wealth; but he did not prosecute his investigations in the view of elucidating the principles of this science, and made no reference to them in his subsequent writings. And though Mr Harris adopted Mr Locke's views, and deduced from them some practical inferences of great importance, his general principles are merely introduced by way of preface to his Treatise on Money; and are not explained at any length, or in that logical and systematic manner that is necessary in scientific investigations.

But, what the English writers had left undone was now attempted by a French philosopher, equally distinguished for the subtlety and originality of his understanding, and the integrity and simplicity of his character. This was the celebrated M. Quesnay, a physician, attached to the court of Louis XV. It is to him that the merit unquestionably belongs of having first attempted to investigate and analyze the sources of wealth, *with the intention of ascertaining the fundamental principles of Political Economy*; and who thus gave it a systematic form, and raised it to the rank of a science. Quesnay's father was a small proprietor, and having been educated in the country, he was naturally inclined to regard agriculture with more than ordinary partiality. At an early period of his life he had been struck with its depressed state in France, and had set himself to discover the causes which had prevented its making that progress which the industry of the inhabitants, the fertility of the soil, and the excellence of the climate, seemed to insure. In the course of this in-

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quiry he speedily discovered that the prevention of the exportation of corn to foreign countries, and the preference given by the regulations of Colbert to the manufacturing and commercial classes over the agriculturists, formed the most powerful obstacles to the progress and improvement of agriculture. But Quesnay was not satisfied with exposing the injustice of this preference, and its pernicious consequences. His zeal for the interests of agriculture led him, not merely to place it on the same level with manufactures and commerce, but to raise it above them,—by endeavouring to show that it was the only species of industry which contributed to increase the riches of a nation. Founding on the indisputable fact, that every thing that either ministers to our wants or gratifies our desires, must be originally derived from the earth, Quesnay assumed as a self-evident truth, and as the basis of his system, that the *earth is the only source of wealth*; and held that industry was altogether incapable of producing any new value, except when employed in agriculture, including under that term fisheries and mines. His observation of the striking effects of the *vegetative* powers of nature, and his inability to explain the real origin and causes of *rent*, confirmed him in this opinion. The circumstance, that of those who are engaged in industrious undertakings, none but the cultivators of the soil paid rent for the use of *natural agents*, appeared to him an incontrovertible proof, that agriculture was the only species of industry which yielded a net surplus *(produit net)* over



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and above the expences of production. Quesnay allowed that manufacturers and merchants were highly useful; but, as they realized no net surplus in the shape of rent, he contended they did not add any greater value to the raw material of the commodities they manufactured or carried from place to place, than was just equivalent to the value of the capital or stock consumed by them during the time they were necessarily engaged in these operations. These principles once established, Quesnay proceeded to divide society into three classes; the *first*, or *productive* class, by whose agency all wealth is produced, consists of the farmers and labourers engaged in agriculture, who subsist on a portion of the produce of the land reserved to themselves as the wages of their labour, and as a reasonable profit on their capital; the *second*, or *proprietary* class, consists of those who live on the rent of the land, or on the *net surplus produce* raised by the cultivators after their necessary expences have been deducted; and the *third*, or *unproductive* class, consists of manufacturers, merchants, menial servants, &c., whose labour, though exceedingly useful, adds nothing to the national wealth, and who subsist entirely on the wages paid them by the other two classes. It is obvious, supposing this classification made on just principles, that all taxes must fall on the landlords. The third, or unproductive class, have nothing but what they receive from the other two classes; and if any deduction were made from the fair and reasonable profits and wages of the husbandmen, it would have the

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effect to paralyse their exertions, and consequently to spread poverty and misery throughout the land, by drying up the only source of wealth. It necessarily follows, therefore, on M. Quesnay's theory, that the entire expences of government, and the various public burdens, must, howsoever imposed, be ultimately defrayed out of the *produit net*, or rent of the landlords; and consistently with this principle, he proposed that all the existing taxes should be repealed, and that a single tax *(Impot unique,)* laid directly on the net produce, or rent, of the land, should be imposed in their stead.

But, however much impressed with the importance of agriculture over every other species of industry, Quesnay did not solicit for it any exclusive favour or protection. He successfully contended that the interests of the agriculturists, and of all the other classes, would be best promoted by establishing a system of perfect freedom. "Qu'on maintienne," says he in one of his general Maxims, "l'entière liberté du commerce; *car la police du commerce interieur et exterieur la plus sure, la plus exacte, la plus profitable à la nation et à l'etat, consiste dans* LA PLEINE LIBERTÉ DE LA CONCURRENCE." * Quesnay showed that it could never be for the interest of the proprietors and cultivators of the soil to fetter or discourage the industry of merchants, artificers, and manufactu-

* *Physiocratie,* Première Partie, p. 119.

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rers; for the greater the liberty they enjoy, the greater will be their competition, and their services will, in consequence, be rendered so much the cheaper. Neither, on the other hand, can it ever be for the interest of the unproductive class to harass and oppress the agriculturists, either by preventing the free exportation of their products, or by any restrictive regulations whatsoever. When the cultivators enjoy the greatest degree of freedom, their industry, and, consequently, their net *surplus produce*—the only fund from which any accession of national wealth can be derived—will be carried to the greatest possible extent. According to this "liberal and generous system,"* the establishment of perfect liberty, perfect security, and perfect justice, is the only, as it is the infallible, means of securing the highest degree of prosperity to all classes of the society.

"On a vu," says the ablest expositor of this system, M. Mercier de la Riviere, "qu'il est de l'essence de l'ordre que l'interet particulier d'un seul ne puisse jamais etre separée de l'interet commun de tous; nous en trouvons une preuve bien convaincante dans les effets que produit naturellement et necessairement la plénitude de la liberté qui doit regner dans le commerce, pour ne point blesser la propriété. L'interet personnel encouragée par cette grande liberté, presse vivement et perpetuellement

* *Wealth of Nations,* Vol. III. p. 17.

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chaque homme en particulier, de perfectionner, de multiplier les choses dont il est vendeur ; de grossir ainsi la masse des jouissances qu'il peut procurer aux autres hommes, afin de grossir, par ce moyen, la masse des jouissances que les autres hommes peuvent lui procurer en echange. *Le monde* alors *va de lui meme ;* le desir de jouir, et la liberté de jouir, ne cessant de provoquer la multiplication des productions et l'accroissement de l'industrie, ils impriment à toute la société un mouvement qui devient une tendance perpetuelle vers son meilleur etat possible." *

We shall have other opportunities of examining the principles of this very ingenious theory. It is sufficient at present to remark, that, in assuming agriculture to be the only source of wealth, because the matter of which all commodities are composed must be originally derived from the earth, M. Quesnay and his followers mistook altogether the nature of production, and really supposed wealth to consist of matter ; whereas, in its natural state, matter is very rarely possessed of immediate and direct utility, and *is always destitute of value.* It is only by means of the *labour* which must be laid out in appropriating matter, and in fitting and preparing it for our use, that it acquires exchangeable value, and becomes wealth. Human industry does not produce wealth by making any additions to the matter of our globe ; this being a quantity susceptible neither of augmentation nor di-

* *L'Ordre Naturel et Essentiel des Sociétés Politiques,* Tome II. p. 444.

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minution. Its real and only effect is to produce wealth *by giving utility to matter already in existence;* and it has been repeatedly demonstrated, that the labour employed in manufactures and commerce is just as productive of utility, and consequently of wealth, as the labour employed in agriculture. Neither is the cultivation of the soil, as M. Quesnay supposed, the only species of industry which yields a surplus produce after the expences of production are deducted. When agriculture is most productive, that is, when none but the best of the good soils are cultivated, no rent, or *produit net,* is obtained from the land; and it is only after recourse has been had to poorer soils, and when, consequently, the productive powers of the labour and capital employed in cultivation begin to diminish, that rent begins to appear: So that, instead of being a consequence of the superior productiveness of agricultural industry, rent is really a consequence of its becoming less productive than others!

The *Economical Table,* a formula constructed by M. Quesnay, and intended to exhibit the various phenomena attendant on the production of wealth, and its distribution among the productive, proprietary, and unproductive classes, was published at Versailles, with accompanying illustrations, in 1758; and the novelty and ingenuity of the theory which it expounded, its systematic and scientific shape, and the liberal system of commercial intercourse which it recommended, speedily obtained for it a very high de-



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gree of reputation.* It is to be regretted that the friends and disciples of Quesnay, among whom we have to reckon the Marquis de Mirabeau, Mercier de la Riviere, Dupont de Nemours, Saint Peravy, Turgot, and other distinguished individuals, in France, Italy, and Germany, should, in their zeal for his peculiar doctrines, which they enthusiastically exerted themselves to defend and propagate, have exhibited more of the character of partizans, than of (what there is the best reason to think they really were) sincere and honest inquirers after truth. Hence it is that they have always been regarded as a sect, known by the name of *Economists*, or *Physiocrats*;—and that their works are characterized by an unusual degree of sameness. †

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* See Appendix, Note A, for some further remarks on the Economical theory.

† The following are the principal works published by the French Economists:—

*Tableau Economique, et Maximes Generales du Gouvernement Economique*, par Francois Quesnay, 4to, Versailles, 1758.

*Theorie de l'Impot*, par M. de Mirabeau, 4to, 1760.

*La Philosophie Rurale*, par M. de Mirabeau, 4to, and 3 Tomes 12mo, 1763.

*L'Ordre Naturel et Essentiel des Societes Politiques* par Mercier da la Riviere, 4to, and 2 Tomes 12mo, 1767.

*Sur l'Origine et Progrès d'une Science Nouvelle*, par Dupont de Nemours, 1767.

*La Physiocratie, ou Constitution Naturelle du Gouvernement le plus avantageux au Genre Humain*; Recueil des Principaux Ouvrages Economiques de M. Quesnay, rédigé et publié par Dupont de Nemours, 2 Parties, 1767.

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But, in despite of all these defects, there can be no question that the labours of the French Economists powerfully contributed to accelerate the progress of economical science. In reasoning on subjects connected with national wealth, it was now found to be necessary to subject its sources, and the laws which regulate its production and distribution, to a more accurate and searching analysis. In the course of this examination, it was speedily ascertained that both the mercantile and economical theories were erroneous and defective; and that, to establish the science of Political Economy on a firm foundation, it was necessary to take a much more extensive survey, and to seek for its principles, not in a few partial and distorted facts, or in metaphysical abstractions, but in the connection and relation subsisting among the various phenomena manifested in the progress of civilization.

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*Lettres d'un Citoyen à un Magistrat, sur les Vingtiemes et les autres Impots*, par l'Abbé Baudeau, 12mo, 1768.

*Memoire sur les Effets de l'Impôt indirect; qui a remporté le Prix proposé par la Société Royale d' Agriculture de Limoges*, par Saint Peravy, 12mo, 1768.

*Reflexions sur la Formation, et la Distribution des Richesses*, par Turgot, 8vo, 1771. This is the best of all the works founded on the principles of the Economists; and is, in some respects, the best work on Political Economy published previously to the Wealth of Nations.

The *Journal d'Agriculture, &c.* and the *Ephemerides du Citoyen*, contain a variety of valuable articles contributed by Quesnay and other leading Economists. The *Ephemerides* was begun in 1767, and was dropped in 1775; it was first conducted by the Abbé Baudeau, and then by Dupont.

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The Count di Verri, whose *Meditations on Political Economy* were published in 1771, demonstrated the fallacy of the opinions entertained by the French Economists respecting the superior productiveness of the labour employed in agriculture; and showed that all the operations of industry really consist of *modifications of matter already in existence.** But Verri did not trace the consequences of this important principle; and, possessing no clear and definite notions of what constituted wealth, did not attempt to discover the means by which labour might be facilitated. He made some valuable additions to particular branches of the science, and had sufficient acuteness to detect errors in the systems of others; but the task of constructing a better system in their stead required talents of a far higher order.

At length, in 1776, our illustrious countryman Adam Smith published the "Wealth of Nations"—a work which has done for Political Economy what the Essay of Locke did for the philosophy of mind. In this work the science was, for the first time, treated in its fullest extent; and the fundamental principles, on which the *production* of wealth depend,

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* *Accostare et seperare* sono gli unici elementi che l'ingegno umano ritrova analizando l'idea della reproduzione; e tanto e riproduzione di valore e di richezza se la terra, l'aria, e l'aqua ne' campi si trasmutino in grano, come se colla mano dell' uomo il gluttine di un insetto si trasmuti in velluto, o vero alcuni pezzetti di metallo si organizzino a formare una ripetizione.—*Meditazioni sulla Economia Politica,* § 3.

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placed beyond the reach of cavil and dispute. In opposition to the French Economists, Dr Smith has shown that *labour* is the only source of wealth, and that the wish to augment our fortunes and to rise in the world—a wish that comes with us from the womb, and never leaves us till we go into the grave —is the cause of wealth being saved and accumulated: He has shown that labour is productive of wealth when employed in manufactures and commerce, as well as when it is employed in the cultivation of the land: He has traced the various means by which labour may be rendered most effective; and has given a most admirable analysis and exposition of the prodigious addition made to its powers by its *division* among different individuals, and by the employment of accumulated wealth, or *capital*, in industrious undertakings. Dr Smith has also shown, in opposition to the commonly received opinions of the merchants, politicians, and statesmen of his time, that wealth does not consist in the abundance of gold and silver, but in the abundance of the various necessaries, conveniences, and enjoyments of human life: He has shown that it is in every case sound policy, to leave individuals to pursue their own interest in their own way; that, in prosecuting branches of industry advantageous to themselves, they necessarily prosecute such as are, at the same time, advantageous to the public; and that every regulation intended to force industry into particular channels, or to determine the species of commercial intercourse to be carried on between

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different parts of the same country, or between distant and independent countries, is impolitic and pernicious—injurious to the rights of individuals—and adverse to the progress of *real* opulence and lasting prosperity.

The fact that the distinct statement of several of the most important of these principles, and that traces of them all, may be found in the works of previous writers, does not in the least detract from the real merits of Dr Smith. In adopting the discoveries of others, he has made them his own; he has demonstrated the truth of principles on which his predecessors had, in most cases, stumbled by chance; has separated them from the errors by which they were previously incumbered; has traced their remote consequences, and pointed out their limitations; has shown their practical importance and real value—their mutual dependence and relation; and has reduced them into a consistent, harmonious, and beautiful system.

But, however excellent in many respects, still it cannot be denied that there are errors, and those too of no slight importance, in the "Wealth of Nations." Dr Smith does not say that in prosecuting such branches of industry as are *most advantageous* to themselves, individuals necessarily prosecute such as are at the same time MOST *advantageous to the public*. His leaning to the system of the Economists—a leaning perceptible in every part of his work—made him so far swerve from the principles of his own system, as to admit that individual advantage is

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not always a *true test* of the public advantageousness of different employments. He considered agriculture, though not the only productive employment, as the most productive of any; and he considered the home trade as more productive than a direct foreign trade, and the latter than the carrying trade. It is clear, however, that all these distinctions are fundamentally erroneous. A state being nothing more than an aggregate collection of individuals, it necessarily follows, that whatever is most advantageous to them must be most advantageous to the state; and it is obvious, that the self-interest of those concerned will always prevent them from engaging in manufacturing and commercial undertakings, unless when they yield as large profits, and are, consequently, as publicly beneficial as agriculture. His opinion with respect to the unproductiveness of all labour, not realized in a fixed and vendible commodity, appears, at first sight, to rest on no better foundation than the opinion of the Economists with respect to the unproductiveness of commerce and manufactures; and its fallacy has been fully established by several late writers. These, however, are blemishes of inferior importance. The radical defect of the "Wealth of Nations" consists in the erroneous doctrines Dr Smith has advanced with respect to the invariableness of the value of corn, and the effect of fluctuations in the rate of wages on prices: These have prevented him from acquiring any clear and accurate notions respecting the nature and causes of rent, and the laws

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which govern the rate of profit; and have, in consequence, vitiated all that part of his work which treats of the distribution of wealth, and the principles of taxation.

But, after every allowance has been made for these defects, enough still remains to justify us in considering Dr Smith as the real founder of the modern system of Political Economy. If he has not left us a perfect work, he has, at all events, left us one which contains a greater number of useful truths than have ever been given to the world by any other individual; and he has pointed out and smoothed the route, by following which, subsequent philosophers have been enabled to perfect much that he had left incomplete, to rectify the mistakes into which he had fallen, and to make many new and important discoveries. Whether, indeed, we refer to the soundness of its leading doctrines, to the liberality and universal applicability of its practical conclusions, or to the powerful and beneficial influence it has had on the progress and perfection of economical science, and still more on the policy and conduct of nations, Dr Smith's work must be placed in the foremost rank of those that have helped to liberalize, enlighten, and enrich mankind. *

* The subsequent steps in the progress of the science will be pointed out in the course of this work. I have given a sketch of its history, up to the present time, in my *Discourse on the Rise, Progress, Peculiar Objects, and Importance of Political Economy.*

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The science of Political Economy was long confounded with that of Politics; and it is undoubtedly true that they are very intimately connected, and that it is frequently impossible to treat those questions which strictly belong to the one without referring more or less to the principles and conclusions of the other. But, in their leading features, they are sufficiently distinct. The laws which regulate the production and distribution of wealth are the same in every country and stage of society. Those circumstances which are favourable or unfavourable to the increase of riches and population in a republic may equally exist, and will have exactly the same effects, in a monarchy. That security of property, without which there can be no steady and continued exertion—that freedom of engaging in every different branch of industry, so necessary to call the various powers and resources of human talent and ingenuity into action—and that economy in the public expenditure, so conducive to the accumulation of national wealth—are not the exclusive attributes of any particular species of government. If free states generally make the most rapid advances in wealth and population, it is an indirect rather than a direct consequence of their political constitution. It results more from the greater probability that the right of property will be held sacred—that the freedom of industry will be less fettered and restricted,—and that the public income will be more judiciously levied and expended under a popular government, than from the mere circumstance of a greater proportion of the

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people being permitted to exercise political rights and privileges. Give the same securities to the subjects of an absolute monarch, and they will make the same advances. Industry does not require to be stimulated by extrinsic advantages. The additional comforts and enjoyments which it procures have always been found sufficient to ensure the most persevering and successful exertions. And whatever may have been the form of government, those countries have always advanced in the career of improvement, in which the public burdens have been moderate, the freedom of industry permitted, and every individual enabled peaceably to enjoy the fruits of his labour. It is not, therefore, so much on its political organization, as on the talents and *spirit* of its rulers, that the wealth of a country is principally dependent. Economy, moderation, and intelligence on the part of those in power, have frequently elevated absolute monarchies to a very high degree of opulence and of prosperity; while, on the other hand, all the advantages derived from a more liberal system of government have not been able to preserve free states from being impoverished and exhausted by the extravagance, intolerance, and short-sighted policy of their rulers.

The sciences of Politics and of Political Economy are, therefore, sufficiently distinct. The politician examines the principles on which government is founded; he endeavours to determine in whose hands the supreme authority may be most advantageously placed; and unfolds the reciprocal duties and obliga-

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tions of the governing and governed portions of society. The political economist does not take so high a flight. It is not of the constitution of the government, but of its ACTS only, that he is called upon to judge. Whatever measures affect the production or distribution of wealth, necessarily come within the scope of his observation, and are freely canvassed by him. He examines whether they are in unison with the just principles of economical science. If they *are*, he pronounces them to be advantageous, and shows the nature and extent of the benefits of which they will be productive; if they *are not*, he shows in what respect they are defective, and to what extent their operation will be injurious. But he does this without inquiring into the constitution of the government by which these measures have been adopted. The circumstance of their having emanated from the privy council of an arbitrary monarch, or the representative assembly of a free state, though in other respects of supreme importance, cannot affect the immutable principles by which the economist is to form his opinion upon them.

Besides being confounded with Politics, Political Economy has sometimes been confounded with Statistics; but they are still more easily separated and distinguished. The object of the statistician is to describe the condition of a particular country at a particular period; while the object of the political economist is to discover the causes which have brought it into that condition, and the means by which its wealth and riches may be indefinitely in-

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creased. He is to the statistician what the physical astronomer is to the mere observer. He takes the facts furnished by the researches of the statistician, and after comparing them with those furnished by historians and travellers, he applies himself to discover their relation. By a patient induction—by carefully observing the circumstances attending the operation of particular principles, he discovers the effects of which they are really productive, and how far they are liable to be modified by the operation of other principles. It is thus that the relation between rent and profit—between profit and wages, and the various general laws which regulate and connect the apparently conflicting, but really harmonious interests of every different order in society, have been discovered, and established with all the certainty of demonstrative evidence.

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# PRINCIPLES

OF

# POLITICAL ECONOMY.

## PART II.

### PRODUCTION OF WEALTH.

### SECTION I.

*Definition of Production—Labour the only Source of Wealth.*

ALL the operations of nature and of art are reducible to, and really consist of *transmutations*,—of changes of form and of place. By production, in the science of Political Economy, we are not to understand the production of matter, for that is the exclusive attribute of Omnipotence, but the production of *utility*, and consequently of exchangeable value, by appropriating and modifying matter already in existence, so as to fit it to satisfy our wants, and to contribute to our enjoyments. The labour which is thus employed is the only source of wealth.* Na-

* This point has been strongly and ably stated by M. Destutt Tracy—" Non-seulement," says he, " nous ne créons jamais rien, mais il nous est même impossible de concevoir ce que

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ture spontaneously furnishes the matter of which all commodities are made; but, until labour has been expended in appropriating matter, or in adapting it to our use, it is wholly destitute of value, and is not, nor ever has been, considered as forming wealth.* Place us on the banks of a river, or in an orchard, and we shall infallibly perish, either of thirst or hunger, if we do not, *by an effort of industry*, raise the water to our lips, or pluck the fruit from its parent tree. It is seldom, however, that the mere appropriation of mat-

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c'est que *créer* ou *anneantir*, si nous entendons rigoureusement par ces mots, *faire quelque chose de rien*, ou *reduire quelque chose à rien;* car nous n'avons jamais vu un étre quelconque sortir du néant ni y rentrer. De là cet axiome admis par toute l'antiquite: rien ne vient de *rien*, et ne peut redevenir *rien*. Que faisons-nous donc par notre travail, *par notre action sur tous les etres qui nous entourent?* Jamais rien, qu'opérer dans ces etres des changements de forme ou de lieu qui les approprient à notre usage, qui les rendent utiles à la satisfaction de nos besoins. Voila ce que nous devons entendre par *produire;* c'est *donner aux choses une utilité qu'elles n'avoient pas.* Quel que soit notre travail, s'il n'en resulte point d'utilité, il est infructeux; s'il en resulte, il est *productif.* (*Elemens d'Ideologie*, Tom III. p. 162.)

* The writer of an article in the Quarterly Review, (No. 60, Art. 1.) contends that the *earth* is a source of wealth, because it supplies us with the matter of commodities. But this, it is obvious, is just the old error of the Economists reproduced in a somewhat modified shape. It would, in truth, be just as correct to say, that the earth is a source of pictures and statues, because it supplies the materials made use of by painters and statuaries, as to say, that it is a source of wealth, because it supplies the matter of commodities.



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ter is sufficient. In the vast majority of cases, labour is required not only to appropriate it, but also to convey it from place to place, and to give it that peculiar figure and shape, without which it may be totally useless, and incapable of either ministering to our necessities or our comforts. The coal used in our fires is buried deep in the bowels of the earth, and is absolutely worthless until the labour of the miner has extracted it from the mine, and brought it into a situation where it can be made use of. The stones and mortar of which our houses are built, and the rugged and shapeless materials from which the various articles of convenience and ornament with which they are furnished have been prepared, were, in their original state, alike destitute of value and utility. And of the innumerable variety of animal, vegetable, and mineral products which form the materials of our food and clothes, none were originally serviceable, while many were extremely noxious to man. It is his *labour* that has given them utility, that has subdued their bad qualities, and made them satisfy his wants, and minister to his comforts and enjoyments. "Labour was the first price, the original purchase-money that was paid for all things. It was not by gold or by silver, but by labour, that all the wealth of the world was originally purchased.*

If we observe the progress, and trace the history of the human race in different countries and states of society, we shall find that their comfort and hap-

* *Wealth of Nations*, Vol. I. p. 44, 8vo. edit.

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piness have been always very nearly proportioned to the power which they possessed of rendering their labour effective in appropriating the raw products of nature, and in fitting and adapting them to their use. The savage, whose labour is confined to the gathering of wild fruits, or to the picking up of shell-fish on the sea coast, is placed at the very bottom of the scale of civilization, and is, in point of comfort, decidedly inferior to many of the lower animals. The *first* step in the progress of society is made when man learns to hunt wild animals, to feed himself with their flesh, and to clothe himself with their skins. But labour, when confined to the chace, is extremely barren and unproductive. Tribes of hunters, like beasts of prey, whom they are justly said to resemble closely in their habits and modes of subsistence, are but thinly scattered over the surface of the countries which they occupy; and notwithstanding the fewness of their numbers, any unusual deficiency in the supply of game never fails to reduce them to the extremity of want. The *second* step in the progress of society is made when the tribes of hunters and fishers learn to apply their labour, like the ancient Scythians and modern Tartars, to the domestication of wild animals and the rearing of flocks. The subsistence of herdsmen and shepherds is much less precarious than that of hunters, but they are almost entirely destitute of all those comforts and elegancies which give to civilized life its chief value. The *third* and most decisive step in the progress of civilization—in



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the great art of producing the necessaries and conveniences of life—is made when the wandering tribes of hunters and shepherds renounce their migratory habits, and become agriculturists and manufacturers. It is then, properly speaking, that man, shaking off that indolence which is natural to him, begins fully to avail himself of his productive powers. He then becomes laborious, and, by a necessary consequence, his wants are then, for the first time, fully supplied, and he acquires an extensive command over the articles necessary for his comfort as well as his subsistence.

The importance of labour in the production of wealth was very clearly perceived both by Hobbes and Locke. At the commencement of the 24th chapter * of the *Leviathan*, published in 1651, Hobbes says, "The *nutrition* of a commonwealth consisteth in the *plenty* and *distribution* of *materials* conducing to life.

"As for the plenty of matter, it is a thing limited by nature to those commodities which, from (the two breasts of our common mother) *land* and *sea*, God usually either freely giveth, or for labour selleth to mankind.

"For the matter of this nutriment, consisting in animals, vegetables, minerals, God hath freely laid them before us, in or near to the face of the earth; so as there needeth no more but the labour and industry of receiving them. Insomuch that *plenty*

* *Of the Nutrition and Procreation of a Commonwealth.*



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*dependeth* (next to God's favour) *on the labour and industry of man.*"

But Mr Locke had a much clearer apprehension of this doctrine. In his *Essay on Civil Government*, published in 1689, he has entered into a lengthened, discriminating, and able analysis to show that it is from labour that the products of the earth derive almost all their value. "Let any one consider," says he, "what the difference is between an acre of land planted with tobacco or sugar, sown with wheat or barley, and an acre of the same land lying in common, without any husbandry upon it, and he will find that the improvement of labour makes the far greater part of the value. I think it will be but a very modest computation to say, that of the products of the earth useful to the life of man, *nine-tenths* are the effects of labour; nay, if we will rightly consider things as they come to our use, and cast up the several expences about them, what in them is purely owing to nature, and what to labour, we shall find, that in most of them *ninety-nine hundredths* are wholly to be put on the account of labour.

"There cannot be a clearer demonstration of any thing, than several nations of the Americans are of this, who are rich in land, and poor in all the comforts of life; whom nature have furnished as liberally as any other people with the materials of plenty; *i. e.* a fruitful soil apt to produce in abundance what might serve for food, raiment, and delight; yet for *want of improving it by labour*, have not one hundredth part of the conveniences we enjoy; and the

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king of a large and fruitful territory there feeds, lodges, and is worse clad than a day-labourer in England.

"To make this a little clear, let us but trace some of the ordinary provisions of life through their several progresses, before they come to our use, and see how much of their value they receive from human industry. Bread, wine, and cloth, are things of daily use, and great plenty; yet, notwithstanding, acorns, water, and leaves, or skins, must be our bread, drink, and clothing, did not labour furnish us with these more useful commodities; for whatever bread is more worth than acorns, wine than water, and cloth or silk than leaves, skins, or moss, that is solely owing to labour and industry; the one of these being the food and raiment which unassisted nature furnishes us with; the other provisions which our industry and pains prepare for us; which how much they exceed the other in value, when any one hath computed, he will then see how much labour makes the far greatest part of the value of things we enjoy in this world; and the ground which produces the materials is scarce to be reckoned on as any, or, at most, but a very small part of it; so little, that even amongst us, land that is wholly left to nature, that hath no improvement of pasturage, tillage, or planting, is called, as indeed it is, *waste;* and we shall find the benefit of it amount to little more than nothing.

"An acre of land that bears here twenty bushels of wheat, and another in America, which, with the

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same husbandry, would do the like, are, without doubt, of the same natural intrinsic value (utility.) But yet, the benefit mankind receives from the one in a year is worth L. 5, and from the other possibly not worth *one penny ;* if all the profits an Indian received from it were to be valued and sold here, at least, I may truly say, not $\frac{1}{1000}$.—'Tis labour, then, which puts the greatest part of value upon land, *without which it would scarcely be worth any thing :* 'Tis to that we owe the greatest part of its useful products; for all that the straw, bran, bread of that acre of wheat, is more worth than the product of an acre of good land, which lies waste, is all the effect of labour. For 'tis not merely the ploughman's pains, the reaper's and thrasher's toil, and the baker's sweat, is to be counted into the bread we eat, the labour of those who broke the oxen, who digged and wrought the iron and stones, who fitted and framed the timber employed about the plough, mill, oven, or any other utensils, which are a vast number, requisite to this corn, from its being seed to be sown, to its being made bread, must all be charged on the account of *labour*, and received as an effect of that. Nature and the earth furnishing only the almost worthless materials as in themselves. —'Twould be a strange *catalogue of things that industry provided and made use of about every loaf of bread*, before it came to our use, if we could trace them. Iron, wood, leather, barks, timber, stone, brick, coals, lime, cloth, dyeing-drugs, pitch, tar, masts, ropes, and all the materials made use of in

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the ship that brought away the commodities made use of by any of the workmen, to any part of the work; all which, it would be almost impossible, at least too long to reckon up."*

Had Mr Locke carried his analysis a little further, he could not have failed to perceive that neither water, leaves, skins, nor any of the spontaneous productions of nature, have any *value*, except what they owe to the labour required to appropriate them. The value of water to a man placed on the bank of a river depends on the labour necessary to raise it from the river to his lips; and its value, when carried ten or twenty miles off, is equally dependent on the labour necessary to convey it there. All the rude products, and all the productive powers and capacities of nature, are gratuitously offered to man. Nature is not niggardly or parsimonious. She nei-

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* *Of Civil Government*, Book II. § 40, 41, 42, and 43. This is a very remarkable passage. It contains a far more distinct and comprehensive statement of the fundamental doctrine, that labour is the constituent principle of value, than is to be found in any other writer previous to Dr Smith, or than is to be found even in the *Wealth of Nations*. But Mr Locke does not seem to have been sufficiently aware of the real value of the principle he had elucidated, and has not deduced from it any important practical conclusion. On the contrary, in his tract on *Raising the Value of Money*, published in 1691, he lays it down broadly that all taxes, howsoever imposed, must ultimately *fall on the land;* whereas, it is plain he ought, consistently with the above principle, to have shown that they would fall, not exclusively on the produce of land, but generally on *produce of industry*, or on all species of commodities.

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ther demands nor receives an equivalent for her favours. An object which it does not require any portion of labour to appropriate or to adapt to our use, may be of the very highest utility; but, as it is the free gift of nature, it is utterly impossible it can be possessed of the smallest value.*

"Si je retranche," to use a striking illustration of this doctrine given by M. Canard, "de ma montre, par la pensée, tous les travaux qui lui ont été successivement appliquées, il ne restera que quelques

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* Bishop Berkeley entertained very just opinions respecting the source of wealth. In his *Querist*, published in 1735, he asks,—"Whether it were not wrong to suppose *land* itself to be wealth? And whether the *industry of the people* is not first to be considered, as that which constitutes wealth, which makes even land and silver to be wealth, neither of which would have any value, but as means and motives to industry?

"Whether, in the wastes of America, a man might not possess twenty miles square of land, and yet want his dinner, or a coat to his back."—*Querist*, Numbers 38 and 39.

M. Say appears to think (*Discours Preliminaire*, p. 37.) that Galiani was the *first* who showed, in his treatise *Della Moneta*, published in 1750, that labour was the only source of wealth. But the passages now laid before the reader prove the erroneousness of this opinion. Galiani has entered into *no analysis or argument to prove the correctness of his statement*; and, as it appears from other parts of his work, that he was well acquainted with Mr Locke's *Tracts on Money*, a suspicion naturally arises that he had seen the *Essay on Civil Government*, and that he was really indebted to it for a knowledge of this principle. This suspicion derives strength from the circumstance of Galiani being still less aware than Mr Locke of the value of the discovery.—See *Trattato Della Moneta*, p. 39, ediz. 1780.

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grains de minérai placées dans l'interieur de la terre d'ou on les a tirés, et ou ils n'ont aucune valeur. De même si je decompose le pain que je mange, et que j'en retranche successivement tous les travaux successifs qu'il a reçus, il ne restera que quelques tiges d'herbes graminées, eparses dans des deserts incultes, et sans aucune valeur." *

It is to labour, therefore, and to labour only, that man owes every thing possessed of exchangeable value. Labour is the talisman that has raised him from the condition of the savage—that has changed the desert and the forest into cultivated fields—that has covered the earth with cities and the ocean with ships—that has given us plenty, comfort, and elegance, instead of want, misery, and barbarism.

This fundamental principle once established, it necessarily follows, that the great practical problem involved in that part of the science of Political Economy which treats of the *production* of wealth, must resolve itself into a discussion of the means whereby labour may be rendered most efficient, or whereby *the greatest amount of necessary, useful, and desirable products may be obtained with the least possible quantity of labour.* Every measure that has any tendency to add to the power of labour, or to reduce the cost of the commodities produced by its agency, must add proportionally to our power of obtaining wealth and riches; while every measure or regulation that has any tendency to waste labour, or to raise the cost of producing commodities, must

* *Principes d'Economie Politique,* p. 6.

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equally lessen this power. This, then, is the simple and decisive test by which we are to judge of the expediency of every measure affecting the wealth of the country, and of the value of every invention. If they render labour more productive—if they have a tendency to reduce the exchangeable value of commodities, to render them more easily obtainable, and to bring them within the command of a greater portion of society, they must be advantageous; but if their tendency be different, they must as certainly be disadvantageous. Considered in this point of view, that great branch of the science of Political Economy which treats of the *production* of wealth, will be found to be abundantly simple, and easily understood.

Labour, according as it is applied to the raising of raw produce—to the fashioning of that raw produce, when raised, into articles of utility, convenience or ornament—or to the conveyance of raw and wrought produce from one country and place to another—is said to be agricultural, manufacturing, or commercial. An acquaintance with the particular processes, and most advantageous methods, of applying labour in each of these grand departments of industry, forms the peculiar and appropriate study of the agriculturist, manufacturer, and merchant. It is not consistent with the objects of the political economist to enter into the details of particular businesses and professions. He confines himself to an investigation of the means by which labour in general may be rendered most productive, and how its powers may be increased in *all* the departments of industry.

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## SECTION II.

*Means by which the Productive Powers of Labour are increased.—1. Security of Property.—2. Division of Employments among Individuals.—3. Accumulation and Employment of Capital.—4. Division of Employments among Different Countries, or Commerce—Money.*

THE most careless and inattentive observer of the progress of mankind from poverty to affluence must have early perceived that there are *three* circumstances, without whose conjoint existence and co-operation they could never have emerged from barbarism. The *first*, and most indispensable, is the *security of property*, or a lively and well-founded conviction in the mind of every individual that he will be allowed to dispose at pleasure of the fruits of his labour. The *second* is the introduction of exchange or barter, and the consequent appropriation of particular individuals to particular employments. And the *third* is the accumulation and employment of the produce of previous labour, or, as it is more commonly termed, of capital, or stock. All the improvements that have ever been made, or that ever can be made, in the great art of producing the necessaries, comforts, and conveniencies of human life, must be classed under some one or other of these three heads. It is, therefore, indispensable that principles, so important, and which lie at the very bottom of the science, should be well understood.

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I. Security of Property.—Security of property is the first and most indispensable requisite to the production of wealth. Its utility in this respect is, indeed, so obvious and striking, that it has been more or less respected in every country, and in the earliest and rudest periods of society. All have been impressed with the reasonableness of the maxim which teaches that those who sow ought to be permitted to reap—that the labour of a man's body and the work of his hands are to be considered as exclusivley his own. No savage horde has ever been discovered in which the principle of *meum* and *tuum* was not recognized. Nothing, it is plain, could ever tempt any one to engage in any laborious employment—he would neither domesticate wild animals, nor clear and cultivate the ground, if, after months and years of toil, when his flocks had become numerous, and his harvests were ripening for the sickle, a stranger were to be allowed to rob him of the produce of his industry. No wonder, therefore, that the utility of some general regulations, which should secure to every individual the peaceable enjoyment of the produce he had raised, and of the ground he had cultivated and improved, suggested itself to the first legislators. The author of the book of *Job* places those who removed their neighbour's land-marks at the head of his list of wicked men; and some of the earliest profane legislators subjected those who were guilty of this offence to a capital punishment. *

* Goguet, *De l'Origine des Loix, &c.* Tom. I. p. 30. 4to ed.

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Dr Paley has said that the *law of the land* is the real foundation of the right of property. But the obvious *utility* of securing to each individual the produce which has been raised by his industry, has undoubtedly formed the irresistible reason which has induced every people emerging from barbarism to establish this right. It is, in truth, the foundation on which almost all the other institutions of society rest; and Cicero has not scrupled to affirm, that it was chiefly for the protection of property that civil government was instituted.—*Hanc enim ob causam maxime, ut sua tuerentur, respublicæ civitatesque constitutæ sunt. Nam etsi duce naturæ, congregabantur homines, tamen spe custodiæ rerum suarum, urbium præsidia quærebant.** Until property had been publicly guaranteed, men must have looked on each other as enemies, rather than as friends. The idle and improvident are always desirous of seizing on the earnings of the laborious and frugal; and, if they were not restrained by the strong arm of the law—if they were permitted to prosecute their attacks—they would, by generating a feeling of insecurity, effectually check both industry and accumulation, and sink all classes to the same level of hopeless misery as themselves. The security of property is even more necessary to accumulation than to production. No man ever did or ever will deny himself an immediate gratification when it is within his power, unless he thinks, that, by doing so, he has a fair prospect of obtaining

* *De Officiis*, Lib. ii. cap. 21.

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a greater accession of comforts and enjoyments, or of avoiding a greater evil at some future period. Where the right of property is vigilantly protected, an industrious man, who produces as much by one day's labour as is sufficient to maintain him two days, does not lie idle the second day, but accumulates the surplus produce above his wants as a capital; the increased consequence and enjoyments which the possession of capital brings along with it, being, in the great majority of cases, more than sufficient to counterbalance the desire of immediate gratification. But, wherever property is insecure, we look in vain for the operation of the principle of accumulation. "It is plainly better for us," is then the invariable language of the people, "to enjoy while it is in our power, than to accumulate property which we shall not be permitted to use, and which will either expose us to the extortion of a rapacious government, or to the unrestrained depredations of those who exist only by the plunder of their more industrious neighbours."

But the security of property is not violated merely when a man is deprived of the power of peaceably enjoying the fruits of his industry; it is also violated, and perhaps in a still more glaring and unjustifiable manner, when he is prevented from using the powers with which nature has endowed him, in any way, not injurious to others, that he considers most beneficial to himself. Of all the species of property which a man can possess, *the faculties of his mind and the powers of his body* are most particularly his own. He ought, therefore, to be permitted to enjoy, that is, to use or



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exert these powers at his discretion. And hence the right of property is as much, or more infringed upon, when a man is interdicted from engaging in a particular branch of business, as it is when he is forcibly bereft of the property he has produced and accumulated. Every monopoly which gives to a few individuals the exclusive power of carrying on certain branches of industry, is thus, in fact, established in direct violation of the property of all other individuals. It prevents them from using their natural capacities or powers in the manner which they might have considered best; and, as every man who is not a slave is held, and justly held, to be the best, and, indeed, the only judge of what is advantageous for himself, the principles of natural law and the right of property are both subverted when he is excluded from any employment. In like manner, the right of property is violated whenever any regulation is made to force an individual to employ his labour or capital in a particular way. The property of a landlord is violated when he is compelled to adopt any system of cultivation, even supposing it to be really preferable to that which he was previously following: The property of the capitalist is violated when he is obliged to accept a particular rate of interest for his stock; and the property of the labourer is violated whenever he is obliged to employ himself in any particular occupation.

The finest soil, the finest climate, and the finest intellectual powers, can prevent no people from becoming barbarous, poor, and miserable, if they have the misfortune to be subjected to a government which

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does not respect and maintain the right of property. This is the greatest of all calamities. The ravages of civil war, of pestilence, and of famine, may be repaired; but nothing can enable a nation to contend against the deadly influence of an established system of violence and rapine. It is the want of security—the want of any lively and well-founded expectation among the inhabitants of their being permitted freely to dispose of the fruits of their industry, that is the principal cause of the wretched state of the Ottoman dominions, as it was of the decline of industry and arts in Europe during the middle ages. When the Turkish conquerors overran those fertile and beautiful countries in which, to the disgrace of the other European powers, they are still permitted to encamp, they parcelled them among their followers, on condition of their performing certain military services, on a plan corresponding, in many important particulars, to the feudal system of our ancestors. But none of these possessions, except those which have been assigned to the church, is hereditary. They all revert, on the death of the present possessors, to the Sultan, the sole proprietor of all the immoveable property in the empire. The occupiers of land in Turkey, having, in consequence of this vicious system, no security that their possessions will be allowed to descend, on their death, to their children or legatees, are comparatively careless of futurity; and as no one can feel any interest in the fate of an unknown successor, no one ever executes any improvement of which he does not

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expect to be able to reap all the advantage during his own life. This is the cause why the Turks are so extremely careless about their houses. They never construct them of solid or durable materials. And it would be a gratification to them to be assured that they would fall to pieces the moment after they had breathed their last. Under this miserable government the palaces have been changed into cottages, and the cities into villages. The long continued want of security has extinguished the very spirit of industry, and destroyed not only the power, but even the desire to emerge from barbarism. *

Had it been possible for arbitrary power to profit by the lessons of experience, it must long since have perceived that its own wealth, as well as the wealth of its subjects, would be most effectually promoted by maintaining the inviolability of property. Were the Turkish government to establish a vigilant system of police—to secure to each individual the unrestricted power of disposing of the fruits of his labour—and to substitute a regular plan of taxation in place of the present odious system of extortion and tyranny, industry would revive, capital and popula-

* Thornton's *Account of the Turkish Empire,* II. p. 63. "The Turks," says Denon, "batissent le moîns qu'ils peuvent; ils ne reparent jamais rien: un mur menace ruine, ils l'etaient; il s'eboule, ce sont quelques chambres de moins dans la maîson; ils s'arrangent à coté des decombres: l'edifice tombe enfin, ils en abandonnent le sol, où, s'ils sont obligés d'en deblayer l'emplacement, ils n'emportent le plâtras que le moins loin qu'ils peuvent.—Denon, Tom. I. p. 193.

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tion would be augmented, and moderate duties, imposed on a few articles in general demand, would bring a much larger sum into the coffers of the treasury than all that is now obtained by force and violence. The *stated* public burdens to which the Turks are subjected are light when compared with those imposed on the English, the Hollanders, or the French. But the latter know that when they have paid the taxes due to government, they will be permitted peaceably to enjoy or to accumulate the remainder of their earnings; whereas the Turk has no security but that the next moment after he has paid his stated contribution, the Pacha, or one of his satellites, may strip him of every additional farthing he possesses! Security is the foundation—the principal element in every well digested system of finance. When maintained inviolate, it enables a country to support, without much difficulty, a very heavy load of taxes; but where there is no security—where property is a prey to rapine and spoliation—to the attacks of the needy, the powerful, or the profligate—the smallest burdens are justly regarded as oppressive, and uniformly exceed the means of the impoverished and spiritless inhabitant.

Mr Brydone states, that it was customary for those intelligent Sicilians, with whom he had any conversation respecting the natural riches of their celebrated island, and its capacity of improvement, to observe,—" Yes, if these were displayed, you would have reason, indeed, to speak of them. Take a look of these mountains, they contain rich veins of every

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metal, and many of the Roman mines still remain. But to what end should we explore them? *It is not we that should reap the profit.* Nay, a discovery of any thing very rich might possibly prove the ruin of its possessor. No, in our present situation, the hidden treasures of the island must ever remain a profound secret. Were we happy enough to enjoy the blessings of your constitution, you might call us rich, indeed. Many hidden doors of opulence would then be opened, which now are not even thought of, and we should soon reassume our ancient name and consequence." *

The Jews have been supposed to afford an instance of a people, whose property has been long exposed to an almost uninterrupted series of attacks, and who have, notwithstanding, continued to be rich and industrious. But when rightly examined, it will be found that the case of the Jews forms no exception to the general rule. The absurd prejudices with which the Jews have been almost universally regarded, had long the effect to prevent their acquiring any property in land, and have excluded them from participating in the funds of the charitable institutions of the different countries among which they are scattered. Having, therefore, no adventitious support on which to depend, in the event of their becoming infirm or destitute, they had a powerful additional motive to save and accumulate; and being excluded from agriculture, they were of necessity compelled to addict themselves to

* *Tour in Sicily and Malta*, p. 381.



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commerce and the arts. In an age when the mercantile profession was generally looked upon as mean and sordid, and when, of course, they had comparatively little competition, they must have made considerable profits; but these have been very greatly exaggerated. It was natural that those who were indebted to the Jews should represent their gains as enormous; for this inflamed the existing prejudices against them, and afforded a miserable pretext for defrauding them of their just claims. There are a few rich Jews in most of the large cities of Europe; but the majority of that race have ever been, and still are, as poor as their neighbours.

Let us not, therefore, deceive ourselves by supposing that it is possible for any people to emerge from barbarism, or to become wealthy, prosperous, and civilized, without the security of property. Security is indispensably necessary to the successful exertion of the powers of industry. Where it is wanting, it is idle to expect either riches or civilization.*

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* "Ce n'est que la ou les proprietés sont assurés, ou l'emploi des capitaux est abandonné au choix de ceux qui les possedent; ce n'est que la dis-je, que les particuliers seront encouragés à se soumettre aux privations les plus dures pour compenser par leurs épargnes les retards que la profusion du gouvernement peut apporter aux progrès de la richesse national. Si l'Angleterre, malgré ses guerres ruineuses, est parvenue à un haut degré d'opulence: si malgré les contributions enormes dont le peuple y est chargé, son capital est pourtant accrue dans le silence par l'economie des particuliers, il ne faut attribuer ces èffets qu'à la liberté des personnes et à la sureté des proprietés qui y regnent, plus

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Rousseau and some other sentimental writers have made an objection to the institution of the right of property, which has been, in some measure, sanctioned by the Marquis Beccaria, and the Abbé Mably. * They allow that the security of property is advantageous for those who possess it; but they contend, that it is disadvantageous for those who are poor and destitute. It has condemned, they affirm, the greater portion of mankind to a state of misery, and has provided for the exaltation of the few by the depression of the many! The sophistry of this reasoning is so apparent, as hardly to require to be pointed out. The right of property has not made *poverty*, but it has made *wealth*. Previously to the institution of this right, those nations which are now most civilized, were sunk to the same level of wretchedness and misery as the savages of New Holland and Kamtschatska. All classes have been benefited by the change; and it is mere error and delusion to suppose that the rich have been benefited at the expence of the poor. The institution of the right of property gives no advantage to any one man over any other man. It deals out justice impartially to all. It does not say, labour, and I shall reward you; but it says, "*labour, and I shall take care that none shall be permitted to rob you of the*

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que dans aucun autre pays de l'Europe, la Suisse excepté." (Storch, *Cours d'Economie Politique*, Tom I. p. 260.)

* Speaking of theft, Beccaria calls it, "Il delitto di quella infelice parte di uomini, a cui *il diritto di proprietà (terribile, e forse non necessario diritto,) non ha lasciato, che una nuda essistenza.*"—*Dei Delitti e delle Pene* § 22.

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*produce of your exertions.*" The institution of the right of property has not made all men rich, because it could not make all men fortunate, frugal, and industrious. But it has done more than all the other institutions of society put together to produce this effect. It is not, as it has been sometimes ignorantly or knavishly represented, a bulwark thrown up to protect and secure the property of a few favourites of fortune. It is a rampart raised by society against its common enemies—against rapine and violence, plunder and oppression. Without its protection, the rich man would become poor, and the poor man would never be able to become rich—all would sink to the same bottomless abyss of barbarism and poverty. "It is the security of property," to use the just and forcible expressions of an able writer, "that has overcome the natural aversion of man from labour, that has given him the empire of the earth, that has given him a fixed and permanent residence, that has implanted in his breast the love of his country and of posterity. To enjoy immediately—to enjoy without labour, is the natural inclination of every man. This inclination must be restrained; for its obvious tendency is to arm all those who have nothing against those who have something. The law which restrains this inclination, and which secures to the humblest individual the quiet enjoyment of the fruits of his industry, is the most splendid achievement of legislative wisdom—the noblest triumph of which humanity has to boast."*

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* Bentham, *Traité de Legislation*, Tome II. p. 37.

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II. Division of Employments among Individuals.—The division of employments can only be imperfectly established in rude societies, and thinly-peopled countries. But in every state of society—in the rudest, as well as in the most improved—we can trace the operation and effects of this principle. The various talents and propensities with which men are endowed, fit them for different occupations; and a regard to mutual interest and convenience naturally leads them, at a very early period, to establish a system of barter and a separation of employments. Each individual finds that he can obtain a greater quantity of all sorts of commodities by devoting himself to some particular business, and exchanging his surplus produce for such parts of the produce of other people's labour as he may have occasion for and they may be disposed to part with, than if he had attempted directly to produce all the articles which he consumes. As society advances, the division of employments becomes more and more extended. One man becomes a tanner, or dresser of skins; another, a shoemaker; a third, a weaver; a fourth, a house-carpenter; a fifth, a smith, and so on: and each endeavours to cultivate and bring to perfection whatever talent or genius he may possess for the species of industry in which he is engaged. The wealth and comforts of all classes are, in consequence, prodigiously augmented. In a country where the division of labour has been carried to a considerable extent, agriculturists are not obliged to spend their time in clumsy at-

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tempts to manufacture their own produce; and manufacturers cease to interest themselves about the raising of corn and the fattening of cattle. The facility of exchanging is the vivifying principle of industry. It stimulates agriculturists to adopt the best system of cultivation and to raise the largest crops, because it enables them to exchange whatever portion of the produce of their lands exceeds their own wants for other commodities contributing to their comforts and enjoyments; and it equally stimulates manufacturers and artists to increase the quantity and to improve the quality of their goods, that they may thereby be enabled to obtain a greater supply of raw produce. A spirit of industry is thus universally diffused; and that apathy and languor, which is characteristic of a rude state of society, entirely disappear.

But it is not the mere facility of exchanging, or the circumstance of being able to barter the surplus produce of our own labour for such parts of the surplus produce of other people's labour, as we may be desirous of obtaining and they may choose to part with, that renders the separation of employments of the greatest advantage. The introduction of barter and the division of labour not only enables each individual to addict himself in preference to those departments which suit his taste and disposition, but it also makes a very large addition to the efficacy of his powers, and enables him to produce a much greater quantity of commodities than he could

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have done had he engaged indiscriminately in different employments. Dr Smith, who has treated this subject in the most masterly manner, has classed the circumstances which conspire to increase the productive powers of industry, when labour is divided, under the following heads:—*First*, The increase of the skill and dexterity of each workman; *second*, the saving of time, which is commonly lost in passing from one employment to another; and, *third*, the circumstance of the division of employments having a tendency to facilitate the invention of machines and processes for abridging and saving labour. A few observations on each of these heads are subjoined.

1*st*, *With respect to the improvement of the skill and dexterity of the labourer:*—It is sufficiently plain, that when a person's whole attention is devoted to one branch of business, when all the energies of his mind and the powers of his body are made to converge, as it were, to a single point, he must attain to a degree of proficiency in that particular branch, to which no individual engaged in a variety of occupations can be expected to reach. A peculiar play of the muscles, or *sleight of hand*, is necessary to perform the simplest operation in the best and most expeditious manner; and this can only be acquired by habitual and constant practice. Dr Smith has given a striking example, in the case of the nail-manufacturer, of the extreme difference between training a workman to the precise occupation in which he is to be employed, and training him to a similar and closely allied occupation. "A common

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smith," says he, "who, though accustomed to handle the hammer, has never been used to make nails, if, upon some particular occasion, he is obliged to attempt it, will scarce, I am assured, be able to make above two or three hundred nails in a day, and those very bad ones. A smith who has been accustomed to make nails, but whose sole or principal business has not been that of a nailer, can seldom, with his utmost diligence, make more than eight hundred or a thousand nails in a day. But I have seen several boys under twenty years of age, who had never exercised any other trade but that of making nails, who, when they exerted themselves, could make, each of them, upwards of *two thousand three hundred nails in a day*;"* or nearly three times the number of the smith who had been accustomed to make them, but who was not entirely devoted to that particular business!

*2d*, The effect of the division of labour in preventing that *waste of time in moving from one employment to another*, which must always take place when an individual is engaged in different occupations, is even more obvious than the advantage derived from the improvement of the skill and dexterity of the labourer. When the same individual carries on different employments, in different and perhaps distant places, and with different sets of tools, it is plainly impossible he can avoid losing a considerable portion

* *Wealth of Nations*, I. p. 12.



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of time in passing between them. If the different businesses in which a labourer is to be engaged could be carried on in the same workshop, the loss of time would be less, but even in that case it would be considerable. "A man," as Dr Smith has justly observed, "commonly saunters a little in changing from one business to another. When he first begins his work, he is seldom keen or hearty; his mind is said not to go along with it, and for some time he rather trifles than applies himself in good earnest. The habit of sauntering and of indolent and careless application, which is naturally, or rather necessarily acquired by every country workman, who is obliged to change his work and his tools every half hour, and to apply his hand in working different ways almost every day of his life, renders him almost always slothful and lazy, and incapable of any vigorous application, even on the most pressing occasion. Independent, therefore, of his deficiency in point of dexterity, this cause alone must always reduce considerably the quantity of work which he is capable of performing.*

*3d*, With regard to the effect of the division of employments in *facilitating the invention of machines, and processes for abridging and saving labour*, it is obvious that those engaged in any branch of industry must be more likely to discover easier and readier methods for carrying it on, when the

* *Wealth of Nations*, I. p. 14.

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whole attention of their minds is devoted exclusively to it, than if it were dissipated among a variety of objects. But it is a mistake to suppose, as has been sometimes done, that it is the inventive genius of workmen and artificers only that is whetted and improved by the division of labour. As society advances, the study of particular branches of science, and of philosophy, becomes the principal or sole occupation of the most ingenious men. Chemistry becomes a distinct science from natural philosophy; the physical astronomer separates himself from the astronomical observer, the political economist from the politician, and each meditating exclusively, or principally, on his peculiar department of science, attains to a degree of proficiency and expertness in it to which the general scholar seldom or never reaches. And hence, in labouring to promote our own ends, we all necessarily adopt that precise course which is most advantageous to all. Like the different parts of a well-constructed engine, the inhabitants of a civilized country are all mutually dependant on, and connected with each other. Without any previous concert, and obeying only the powerful and steady impulse of self-interest, they universally conspire to the same great end; and contribute, each in his respective sphere, to furnish the greatest possible supply of necessaries, luxuries, conveniences, and enjoyments.

But it is necessary to observe, that the advantages derived from the division of labour, though they may be, and in fact are, partially enjoyed in every coun-

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try and state of society, can only be carried to their full extent, where there is a great power of exchanging, or an *extensive market*. There are an infinite variety of employments which cannot be separately carried on out of the precincts of a large city; and, in all cases, the division becomes more perfect, according as the demand for the produce is extended. It is stated by Dr Smith that ten labourers employed in different departments in a pin manufactory can produce 48,000 pins a day; but it is evident that if the demand was not sufficiently extensive to take off this quantity, ten men could not be constantly employed in the pin-making business; and the division of employments could not, of course, be carried so far. The same principle holds universally. A cotton mill could not be constructed in a small country which had no intercourse with its neigbours. The demand and competition of Europe and America have been necessary to carry the manufactures of Glasgow, Manchester, and Birmingham, to their present state of improvement.

The effect of the division of labour in increasing the quantity and perfection of the products of industry had been noticed by several of the writers who preceded Dr Smith, and especially by Mr Harris and M. Turgot. But neither of these writers did what Dr Smith has done. None of them has fully traced its operation, or shown that the power of engaging in different employments depends on the

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*power of exchanging*; and that, consequently, the advantages derived from the division of labour are necessarily dependent upon, and regulated by, the extent of the market. This is a principle of very great importance, and by establishing it Dr Smith shed a new light on the whole science, and laid the foundation of many important practical conclusions. "Présentée de cette manière," says M. Storch, "l'idée de la division du travail étoit absolument neuve; et l'effet qu'elle a fait sur les contemporains de Smith, prouve bien qu'elle l'etait réellement pour eux. Telle qu'elle se trouve indiquée dans les passages que je viens de citer, elle n'a fait aucune impression. Developpée par Smith, cette idée a d'abord saisi tous ses lecteurs; tous en ont senti la verité et l'importance; et cela sufit pour lui en assurer tout l'honneur, lors même que son genie eut été guidé par les indications de ses devanciers." *

III. Accumulation and Employment of Capital.—The capital of a country may be defined to be *that portion of the produce of industry existing in it, which can be made* DIRECTLY *available, either to the support of human existence, or to the facilitating of production.* This definition differs from that given by Dr Smith, and which has been adopted by most other economists. The whole produce of industry belonging to a country is said to form its *stock*; and its capital is supposed to consist of that

* Tome IV. p. 9.

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portion only of its stock which is employed in the view of producing some species of commodities: The other portion of the stock of a country, or that which is employed to maintain its inhabitants, without any immediate view to production, has been denominated its *revenue*, and is not supposed to contribute any thing to the increase of its wealth. These distinctions seem to rest on no good foundation. Portions of stock employed without any immediate view to production are often by far the most productive. The stock, for example, that Arkwright and Watt employed in their own consumption, and without which they could not have subsisted, was laid out as *revenue*; and yet it is quite certain that it contributed infinitely more to increase their own wealth, as well as that of the country, than any equal quantity of stock expended on the artisans in their service. It is always extremely difficult to say when any portion of stock is, or is not, productively employed; and any definition of capital which involves the determination of this point, can serve only to embarrass and obscure a subject that is otherwise abundantly simple. In our view of the matter, it is enough to constitute an article capital, if it can either directly contribute to the support of man, or assist him in appropriating or producing commodities. It may not, it is true, be employed for either of these purposes; but the question with respect to the mode of employing an article ought certainly to be held to be, what it obviously is, perfectly distinct from the question, whether that article is capital. For, any

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thing that we can *a priori* know to the contrary, a horse yoked to a gentleman's coach may be just as productively employed as if he were yoked to a brewer's dray; though it is quite plain that, whatever difference may really obtain in the two cases, the *identity* of the horse is not affected—he is equally possessed, in the one case as in the other, of the capacity to assist in production; and, so long as he possesses that capacity, he ought to be viewed, independently of all other considerations, as a portion of the capital of the country.

It is evident, on the slightest reflection, that the possession and employment of capital are indispensable to the successful prosecution of almost every species of industry. Without it no sort of labour could be undertaken which did not promise an almost immediate return, and which might not be carried on by the hand only. Capital comprises all the food and other articles applicable to the subsistence of man, and it also comprises all the lower animals, and all the instruments and machines, which either are or may be made to assist in production. The former species has been denominated *circulating*, the latter *fixed* capital. Now, it is quite obvious, that it is by the amount of the circulating capital of a country, or of the food and other articles applicable to the subsistence of man, in its possession at any given period, that its power to support population must be measured; and it is also obvious, that the productiveness of its industry must very much depend on the efficacy of the fixed capital, or of the tools and engines used in facilitating production. The possession and employ-



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ment of both these descriptions of capital are equally essential; and it is only by their conjoined operation that wealth can be largely produced, and universally diffused. An agriculturist might have an ample supply of carts and ploughs, of oxen and horses, and generally of all the instruments and animals used in his department of industry, but if he were destitute of *circulating* capital, or of food and clothes, he would not be able to avail himself of their assistance, and instead of tilling the ground, would have to resort immediately to some species of appropriative industry: And, on the other hand, supposing the agriculturist to be abundantly supplied with provisions, what could he do without the assistance of *fixed* capital or tools? What could the most skilful husbandman perform if he were deprived of his spade and his plough?—a weaver if he were deprived of his loom?—a carpenter if he were deprived of his saw, his hatchet, and his planes?

The division of labour is a consequence of the previous accumulation of capital. Before labour can be divided, "a stock of goods of different kinds must be stored up somewhere, sufficient to maintain the labourer, and to supply him with the materials and tools for carrying on his work. A weaver, for example, could not apply himself entirely to his peculiar business, unless there was beforehand stored up somewhere, either in his own possession, or in that of some other person, a stock sufficient for his maintenance, and for supplying him with the materials and implements required to carry on his work, till he has not

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only completed but sold his web. This accumulation must evidently be previous to his applying himself for so long a time to a peculiar business." *

As the accumulation of capital must have preceded the division of labour, so its subsequent division can only be extended as capital is more and more accumulated. Accumulation and division act and react on each other. The quantity of raw materials which the same number of people can work up increases in a great proportion, as labour comes to be more and more subdivided; and acccording as the operations of each workman are reduced to a greater degree of identity and simplicity, he has, as already explained, a greater chance of discovering machines and processes for facilitating and abridging his labour. The quantity of industry, therefore, not only increases in every country with the increase of the stock or capital which sets it in motion; but, in consequence of this increase, the division of labour becomes extended, new and more powerful implements and machines are invented, and the same quantity of labour is thus made to produce an infinitely greater quantity of commodities.

Besides enabling labour to be divided, capital contributes to facilitate labour, and produce wealth in the three following ways:

*First.*—It enables us to execute work that could not be executed, or to produce commodities that could not be produced without it.

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* *Wealth of Nations,* Vol. I. p. 408.

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*Second.*—It saves labour in the production of almost every species of commodities.

*Third.*—It enables us to execute work better, as well as more expeditiously.

With regard to the first of these modes in which we are benefited by the employment of capital, or to the circumstance of its *enabling us to produce commodities that could not be produced without it,* it is plain, as already observed, that the production of all such commodities as require a considerable period for their completion, could not be attempted unless a stock of circulating capital, or of food and clothes sufficient for the maintenance of the labourer while employed on them, was previously provided. But the employment of fixed is frequently as necessary to the production of commodities as the employment of circulating capital. It would, for example, be quite impossible to produce a pair of stockings without the aid of wires; and, although the ground might be cultivated without the aid of a plough, it could not be cultivated without the aid of a spade or a hoe. If we run over the vast catalogue of the various arts practised in a highly polished and civilized country, it will be found that there are very few that can be carried on by the mere employment of the fingers, or rude tools with which man is furnished by nature. It is almost always necessary to provide ourselves with the results of previous industry, and to strengthen our feeble hands by arming them, if we may so speak, "with the force of all the elements."

In the *second* place, the employment of capital



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not only enables us to produce many species of commodities that never could have been produced without its co-operation, but it also enables us to *save labour in the production of many others*, and, by lowering their price, brings them within the reach of a far greater number of consumers. We have been so long accustomed to make use of the productive services of the most powerful machines, that it requires a considerable effort of abstraction to render ourselves fully aware of the advantages we derive from them. But if we compare the state of the arts practised alike by civilized man and the savage, we cannot fail to be convinced that it is to the employment of fixed capital that we owe a very large proportion of our superior comforts and enjoyments. Consider the advantages which man has derived from the employment of the lower animals, which, in an economical point of view, are to be regarded only as machines! Consider the advantages that have been derived from the formation of roads, bridges, harbours, and canals—the effect they have had in facilitating the conveyance of commodities, and consequently in distributing them most advantageously, and in reducing their price to the consumer! Consider the advantages that have been derived from the construction of ships, and the improvement of navigation!—But it is in vain to attempt even to glance at the numberless benefits which the employment of fixed capital has conferred on society, by cheapening and multiplying necessaries, conveniencies, and luxuries. It is by its



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means that our fields are cultivated, our houses constructed, our clothes manufactured, our ships built, and the treasures of knowledge and of art transported from one hemisphere to another! If we consult the history of the human race—if we trace their slow and gradual advancement from barbarism to refinement, we shall be convinced that their progress from their lowest and most abject, to their highest and most polished state, has been always accompanied, and chiefly promoted, by the accumulation of fresh capital, and the invention and improvement of tools and engines.

The *third* advantage derived from the employment of capital consists in the circumstance of its enabling us to execute work *better*, as well as more expeditiously, than it could be done without it. Cotton, for example, might be spun by the hand; but the admirable machinery invented by Hargreaves, Arkwright, and others, besides enabling us to spin an hundred or a thousand times as great a quantity of yarn as could be spun by means of a common spindle, has also improved its quality, and given it a degree of fineness, and of evenness, or equality, in its parts, which was never previously attained. It would require a painter months, or it might be years, to paint with a brush the cottons, or printed cloths used in the hanging of a single room; and it would be very difficult, if not impossible, for the best artist to give the same perfect identity to his figures that is given to them by the admirable machinery now in use for that purpose. Not to men-

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tion the other and more important advantages of which the invention of moveable types and printing has been productive, it is certain that the most perfect manuscript—one on which years of patient and irksome labour have been expended—is unable, in point of delicacy and correctness, to match a well printed work, executed in the hundredth part of the time, and at a hundredth part of the expence required to copy the manuscript. The great foreign demand for English manufactured goods results no less from the superiority of their manufacture, than from their greater cheapness; and for both these advantages we are principally indebted to the excellence of our machinery.

There are other considerations which equally illustrate the extreme importance of the accumulation and employment of capital. The produce of the labour of a nation cannot be increased otherwise than by an increase in the number of its labourers, or in their productive powers. But without an increase of capital it is in most cases impossible to employ another workman with advantage. If the food and clothes destined for the support of the labourers, and the tools and machines with which they are to operate, be all required for the maintenance and efficient employment of those already in existence, there can be no additional demand for others. In such circumstances, the rate of wages cannot rise; and if the number of inhabitants are increased, they must be worse provided for. Neither is it at all probable that the productive powers of the labourer should be augmented,

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without a previous increase of capital. It is only by the better education and training of workmen, by the greater subdivision of their employments, or by an improvement of machinery, that their productive powers can ever be materially increased; and in almost all these cases, additional capital is required. It is only by its means that workmen can be better trained, or that the undertaker of any work can either provide them with better machinery, or make a more proper distribution of labour among them. When the work to be done consists of a number of parts, to keep every man constantly employed in one particular part, requires a much larger stock than when every man is occasionally employed in every different part of the work. "When," says Dr Smith, "we compare the state of a nation at two different periods, and find that the annual produce of its land and labour is greater at the latter than at the former, that its lands are better cultivated, its manufactures more numerous and more flourishing, and its trade more extensive, we may be assured that its capital must have increased during the interval between these two periods, and that more must have been added to it by the good conduct of some, than had been taken from it, either by the private misconduct of others, or by the public extravagance of the government."* It is, therefore, apparent, that no country can ever reach the stationary state, so long as she continues to accumulate additional capital. While she does

* *Wealth of Nations*, Vol. II. p. 23.

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this, she will always have a constantly increasing demand for labour, and will be constantly augmenting the mass of necessaries, luxuries, and conveniencies, and, consequently, also, the numbers of her people. But with every diminution of the rate at which capital had been preivously accumulating, the demand for labour will decline. When no additions are made to capital, no more labour will be, or, at least, can be advantageously employed. And should the national capital be diminished, the condition of the great body of the people would be greatly deteriorated; the wages of labour would be reduced, and pauperism, with its attendant train of vice, misery, and crime, would spread its ravages throughout the largest portion of society.

Having thus endeavoured to show what capital is, the importance of its employment, and the manner in which it operates to facilitate production, we shall proceed to explain the circumstances most favourable for its accumulation.

Capital of all descriptions is nothing more, as formerly observed, than the accumulated, or hoarded produce of previous industry. When a savage kills more game in a day than is required for his own consumption, he preserves the surplus either in the view of consuming it directly himself, on some future occasion, or of exchanging it with his fellow savages for some article belonging to them. Now, this surplus is capital; and it is from such small beginnings as this that all the accumulated riches of the world have taken their rise. It is evident, therefore, inasmuch as capital consists of the excess of the products

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applicable either to the support of human existence, or to the facilitating of production, obtained in a given period over those consumed in the same period, that *the means of amassing capital will be greatest, where the productiveness of industry is greatest;* or, in other words, where the net profits of stock, or the profits accruing to the capitalists who engage in industrious undertakings, after every incidental expence is deducted, are greatest. The man who can produce a bushel of wheat in *three* days has it plainly in his power to accumulate twice as much as the man who, either from a deficiency of skill, or from his being obliged to cultivate a bad soil, is forced to labour *six* days to produce the same quantity; and the capitalist who can invest stock so as to yield him a profit of ten *per cent.* has it equally in his power to accumulate twice as fast as the capitalist who can only obtain five *per cent.* for his stock.* It is true that high profits only give the means of amassing capital—that, if men had *always lived up to their incomes,* that is, if they had always consumed the whole produce of their industry in the gratification of their immediate wants, or desires, there could have been no such thing as capital in the world. But such is the wise arrangement of nature, that while high profits afford greater *means* of saving, they give additional force to the parsimonious prin-

* This is in reality understated. It is plain, inasmuch as both parties must live on their profits, that those who gain double could accumulate more than twice as fast as the others.

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ciple. Economy is in no respect different from the other virtues; and it would be unreasonable to expect that it should be strongly manifested, where it does not bring along with it a corresponding reward. Before a man can accumulate, he must live: and if the sum that remains to him, after his necessary expences are deducted, be but small and trifling, the probability is, that he will rather choose to consume it immediately, than to hoard it up in the expectation, that, by the addition of farther savings, it may, at some future and very distant period, become the means of making a small addition to his income. But, wherever profits are high, there is a proportionally great power of accumulation; and we deny ourselves immediate gratifications, because we have a certain prospect that, by doing so, we shall speedily attain to a state of comparative affluence, and that our means of obtaining an increased supply of conveniences and luxuries will in the end be greatly increased by our present forbearance. Give to any people the power of accumulating, and we may depend upon it they will not be disinclined to use it effectively. If we examine the state of the different countries of the world, we shall find that the power of accumulation, or, which is the same thing, the rate of profit, is always greatest in those countries which are mostly rapidly augmenting their wealth and population, and conversely. In the United States, for example, the rate of profit is twice as high as in Great Britain or France; and it is to this that the more rapid accumulation of capital in that Republic, and,

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consequently, her more rapid advancement in wealth and population, is wholly to be ascribed. The desire of adding to our fortune, and improving our condition in society, is inherent in the human constitution, and is the fundamental principle—the *causa causans* of all the improvements that have ever been made. No instance can be produced of any people having ever missed an opportunity to amass. Wherever the bulk of the citizens have had the power of adding to their stock, they have never failed to do so, and the wealth and population of the society have been continually augmented.

Perhaps it will be said, in opposition to these principles, that the rate of profit is high in Eastern countries, and that they are, notwithstanding, either retrograding, or advancing only by very slow degrees. It may be doubted, however, whether the rate of profit is really higher in Eastern countries than in Europe. That the rate of *interest* there is higher, is certain; but that is a consequence of the hazard to which the principal is exposed because of the prejudices against usury, and the vicious and defective system of government. * It is not meant, however, to affirm, that great productiveness of industry, or a

* All taking of interest is prohibited by the Coran; and it is for this very reason, that it is so much higher in the East. L'usure," says Montesquieu, "augmente dans les pays Mahometans *à proportion de la séverité de la defense.* Le preteur s'indemnise du peril de la contravention.'—(*Esprit des Loix*, liv. 21. cap. 19.)

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high rate of profit is *necessarily*, and in every instance, accompanied by a great degree of prosperity. Countries with every imaginable capability for the profitable employment of industry and stock, may have the misfortune to be subjected to an arbitrary government, which does not respect the right of property; and the insecurity resulting from this circumstance, may be of itself sufficient to paralyse all the exertions of those who are otherwise placed in the most favourable situation for the accumulation of capital and wealth. But I have no hesitation about laying it down as a principle which holds in every case, and from which there is really no exception, that *if the governments of any two or more countries be about equally tolerant and liberal, and property in each equally well protected and secured, their comparative prosperity will be in proportion to the rate of profit in each.* Wherever profits are high, capital is rapidly augmented, and there is a proportionally rapid increase of wealth and population; but, on the other hand, wherever profits are low, the means of employing additional labour are proportionally limited, and the progress of society rendered so much the slower.

It is not, therefore, by the absolute amount of its capital, but by *its power of employing that capital with advantage*—a power which will be always correctly measured by the common and average rate of profit—that the capacity of any country to increase in wealth and population is to be estimated. Before the laws regulating the rate of profit and the increase of capital had been thoroughly investigated, the

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great wealth and commercial prosperity of Holland, where profits, from 1650 downwards, were comparatively low, were considered by Sir Josiah Child, and many later writers on economical subjects, as the natural result, and were consequently regarded by them as a convincing proof, of the superior advantages of low profits and interest. But this was really, as will be afterwards shown, mistaking the *effect of heavy taxation* for the *cause of wealth!* A country, whose average rate of profit is considerably less than the average rate of profit in surrounding countries, may, notwithstanding, abound in wealth, and be possessed of immense capital; but it is the height of error to suppose, that this lowness of profits could have facilitated their accumulation. The truth is, that the low rate of profit in Holland during the 18th century, was at once a cause and a symptom of her decline. Sir William Temple, in his Observations on the Netherlands, written about 1670, mentions, that the trade of Holland had then passed its zenith; and it is certain, that the vast capitals of the Dutch merchants had been principally amassed previously to the wars in which the Republic was engaged with Cromwell, Charles II., and Louis XIV., when the rate of profit was much higher than at any subsequent period.

But without referring to the case either of America, or Holland, or any other country, the smallest reflection on the motives which induce men to engage in any branch of industry, is sufficient to show that the advantages derived from it must be always *direct-*

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*by as the rate of profit.* What is the object which every man has in view when he employs either his capital or his personal powers in any industrious undertaking? Is it not to gain the greatest possible amount of profit on his capital, or the greatest possible reward for his labour? One branch of industry is said to be advantageous, for the single and sufficient reason that it yields a comparatively large profit; and another is, with equal propriety, said to be disadvantageous, because it yields a comparatively small profit. It is always to this *standard*—to the high or low rate of profit which they yield—that every individual refers in judging of the comparative benefits of different undertakings;—and what is true of individuals, must be true of States.

No certain conclusion respecting the prosperity of any country can ever be drawn from considering the amount of its commerce or its revenue, or the state of its agriculture or its manufactures. Every branch of industry is liable to be affected by secondary or accidental causes. They are always in a state of flux or reflux; and some of them are frequently seen to flourish when others are very much depressed. The AVERAGE RATE OF PROFIT is the real barometer—the true and infallible criterion of national prosperity. A rise of profits is the effect of industry having become *more* productive; and it shows that the power of the society to amass capital, and to add to its wealth and population, has been increased, and its progress accelerated: A fall of profits, on the contrary, is the effect of industry having become *less* pro-

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ductive, and shows that the power to amass capital has been diminished, and that the progress of the society has been clogged and impeded. However much a particular, and it may be an important branch of industry, is depressed, still, if *the average rate* of profit is high, we may be assured the particular depression cannot continue, and that the condition of the country is really prosperous. On the other hand, though there should be no distress in any one branch —though agriculture, manufactures, and commerce, should be carried to a greater extent than they have ever been carried before—though a nation should have numerous, powerful, and well-appointed armies and fleets, and though the style of living among the higher classes should be more than ordinarily sumptuous,—still, if the rate of profit has become *comparatively low*, we may confidently affirm, that the condition of such a nation, however prosperous in appearance, is bad and unsound at bottom; that the plague of poverty is secretly creeping on the mass of her citizens; that the foundations of her power and greatness have been shaken; and that her decline may be confidently anticipated, unless measures can be devised for relieving the pressure on the national resources, by adding to the productiveness of industry, and, consequently, to the rate of profit.

It has been wisely ordered, that the principle which prompts men to save and amass should be as powerful as it is advantageous. "With regard to profusion," says Dr Smith, "the principle which prompts to expence is the desire of present enjoyment; which,

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though sometimes violent, and very difficult to be restrained, is in general only momentary and occasional. But the principle which prompts to save is the desire of bettering our condition; a desire which, though generally calm and dispassionate, comes with us from the womb, and never leaves us till we go into the grave. In the whole interval which separates these two moments, there is scarce, perhaps, a single instance in which any man is so perfectly and completely satisfied with his situation as to be without any wish of alteration or improvement of any kind. An augmentation of fortune is the means by which the greater part of men propose and wish to better their condition. It is the means the most vulgar and the most obvious; and the most likely way of augmenting their fortune is to save and accumulate some part of what they acquire, either regularly and annually, or upon some extraordinary occasions. Though the principle of expence, therefore, prevails in almost all men upon some occasions, yet in the greater part of men, taking the whole course of their life at an average, the principle of frugality not only predominates, but predominates very greatly." *

It is this principle which carries society forward. The spirit of parsimony, and the efforts which the frugal and industrious classes make to improve their condition, in most instances balance not only the profusion of individuals, but also the more wasteful profusion and extravagance of governments. The

* *Wealth of Nations,* Vol. II. p. 19.

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spirit of economy has been happily compared by Smith to the unknown principle of animal life—the *vis medicatrix naturæ*,—which frequently restores health and vigour to the constitution, in spite both of disease and of the absurd prescriptions of the physician.

But, however great the capacity of the principle of accumulation to repair the waste of capital, we must not fall into the error of supposing, as many have done, that its operation is promoted by profuse public expenditure. It is obvious that the more government spends, the less must remain for individuals to save. Necessity may compel a man to exert himself to pay heavy taxes; but it is *choice*, and not necessity, which makes him withdraw a portion of the produce of his industry from immediate consumption, and hoard it up. This distinction must be kept constantly in view. It cannot be denied that necessity forces farmers and manufacturers to sell a portion of their produce to pay the taxes to which they are subjected; but when these taxes are paid, government is satisfied; and it is plainly their own free option—their desire to improve their condition, and to rise higher in the world, and not compulsion, that induces them to accumulate *another* portion of their produce as capital. Those who continue to accumulate, after the share of the produce of their labour taken from them by government has been increased, would evidently have had greater *means* of accumulation, had that share not been increased, or increased in a less proportion. But accumulation, like the other passions, increases as the means of gratifying it

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increase. In point of fact, the greatest accumulations are invariably made where there is the greatest power to make them. There are no internal taxes in America; she is possessed of vast tracts of fertile and uncultivated soil; and industry is, in consequence, extremely productive. And, conformably to what has now been stated, America doubles her capital and population every five-and-twenty years, and is advancing in the career of wealth and civilization with a rapidity unknown in any other country.

Ambition to rise is the animating principle of society. Instead of remaining satisfied with the condition of their fathers, the great object of mankind in every age has been to rise above it—to elevate themselves in the scale of wealth. To continue stationary, or to retrograde, is not natural to society. Man from youth grows to manhood, then decays and dies; but such is not the destiny of nations. The arts, sciences, and capital of one generation become the patrimony of that which succeeds them, and in their hands are improved and augmented, and rendered more powerful and efficient; so that, if not counteracted by the want of security, or by other adventitious causes, the principle of improvement would always operate, and would secure the constant advancement of nations in wealth and population.

It is to this same principle that we owe the discovery and improvement of machinery. Mankind have, in every stage of society, endeavoured to increase their productive powers, and to improve their condition, by availing themselves of the assistance of na-

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tural agents, and making them contribute to the performance of tasks which must otherwise have been performed by the hand only. The savage avails himself of the aid of a club and a sling to facilitate the acquisition of game, and abridge his labour; and the same principle which prompted him to resort to and construct these rude instruments, never ceases to operate. It is always producing some new improvement; and in an advanced and refined period, gives us ships for canoes, muskets for slings, steam-engines for clubs, and cotton-mills for distaffs. "The hand of man," says Colonel Torrens, "is not armed with any efficient natural instrument, such as the beak of the bird, or the claw of the quadruped, for operating directly upon the materials presented to him; but it is admirably adapted for receiving and applying artificial implements, and for employing the powers of one substance to produce the desired changes in another. Hence almost all the grand results in manufacturing industry are brought about by means of capital. Throughout the world there are no very striking inequalities in the muscular force by which direct labour is performed; and it is mainly owing to the differences in the quantity of capital, and in the skill with which it is applied, that in one country man is found naked and destitute, and that in another all the rude productions of the earth, and all the forces of nature, are made to contribute to his comfort, and to augment his power." *

* *On the Production of Wealth*, p. 89.



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A great effect has sometimes been ascribed to credit in the production of wealth; but this is a mistake. It is capital and not credit that produces. Credit is nothing more than the borrowing and lending of capital; and nations, or individuals, are said to be in high or low credit according to the greater or less facility they possess of obtaining loans. The advantage of credit consists in its tendency to distribute capital in the best manner. It enables those who have capitals, and who do not choose to superintend their employment, to lend them to those who are desirous to obtain them. The state of credit, in any country, is always directly as the amount of its capital, and the freedom to dispose of it with security. Where there is no capital there can be no credit; and any obstruction given to borrowers and lenders in adjusting the terms of loans, or any disinclination on the part of government to give full effect to these terms, has a certain and obvious tendency to diminish credit. * But, whatever may be the state of credit in any country, it is still true that it is by the amount of its capital, and by its capacity of employing such capital with advantage, that its means of supporting population, and of producing wealth, must always be estimated.

However extended the sense previously attached to the term capital may at first sight appear, I

* For an examination of the policy of the restraints on the interest of loans, see Mr Bentham's celebrated *Defence of Usury*, and the Art. INTEREST in the *Supplement to the Encyclopædia Britannica.*

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am satisfied that it ought to be interpreted still more comprehensively. Instead of understanding by capital all that portion of the produce of industry extrinsic to man, which may be made applicable to his support, and to the facilitating of production, there does not seem to be any good reason why man himself should not, and very many why he should, be considered as forming a part of the national capital. Man is as much the produce of labour as any of the machines constructed by his agency; and it appears to us that in all economical investigations he ought to be considered in precisely the same point of view. Every individual who has arrived at maturity, though he may not happen to be instructed in any particular art or profession, may, with perfect propriety, be viewed as a machine which it has cost twenty years of assiduous attention, and the expenditure of a considerable capital to construct. And if a farther sum has been laid out in educating or qualifying him for the exercise of a business or profession requiring unusual skill, his value will be proportionally increased, and he will be entitled to a greater reward for his exertions—just as a machine becomes more valuable when new powers are given to it by the expenditure of additional capital or labour in its construction.

Dr Smith has fully admitted the justice of this principle, though he has not reasoned consistently from it. He states, that the acquired and useful talents of all the inhabitants and members of the society ought to be considered as forming a portion of the national capital. "The acquisition of such ta-

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lents," he justly observes, "during the education, study, or apprenticeship of the acquirer, always costs a real expence, which is a capital fixed and realized as it were in his person. Those talents, as they make a part of his fortune, so do they likewise of that of the society to which he belongs. The improved dexterity of a workman may be considered in the same light as a machine or instrument of trade, which facilitates and abridges labour, and which, though it costs a certain expence, repays that expence with a profit." *

Instead, then, of being entirely overlooked, as is most frequently the case, the dexterity, skill, and intelligence of the mass of its inhabitants ought to be most particularly attended to in estimating the capital and productive capacities of a country. Much stress is uniformly and justly laid on the comparative power and efficacy of the machines which man has constructed to assist him in his undertakings; but man is himself the most important of all machines, and every addition made to his skill and dexterity is an acquisition of the utmost consequence. The discrepancies that actually obtain in the physical organization and capacities of the various races of men are comparatively trifling. And yet, how vast is the difference, in an economical point of view, between an American Indian or an African, and an Englishman or a Frenchman! The former, ignorant and uninstructed, is poor and miserable though placed in countries bless-

* Vol. I. p. 417.

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ed with a soil of exhaustless fertility and a genial climate:—the latter, intelligent and educated, is wealthy, prosperous, and happy, though placed under comparatively unfavourable circumstances. Lord Bacon's aphorism, that *knowledge is power*, is true as well in a physical as in a moral sense. It not only enables individuals to obtain an ascendancy over their less instructed neighbours, but it makes immeasurable additions to their productive capacities. An ignorant and uneducated people would, though possessing all the materials and all the powers necessary for the production of wealth, be sunk in poverty and barbarism. And until their mental powers had begun to expand, and they had been taught to exercise the empire of mind over matter, the avenues to improvement would be shut against them, and they would neither have the power nor the wish to emerge from their low and degraded condition.

It has been said, and truly, that it was the rapid growth and extension of the cotton manufacture that bore us triumphantly through the late dreadful contest, and gave us wealth and power sufficient to overcome the combined force of almost all Europe, though wielded by a chief of the most consummate talent. But, what is the cotton manufacture? Is it not wholly the result of the discoveries and inventions of Hargreaves, Arkwright, and Watt? It was their sagacity that discovered and explored this mighty channel for the profitable employment of millions upon millions of capital, and of thousands upon thousands of workmen; so that all the various

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and innumerable benefits and advantages we have derived from it, are to be ascribed to them as to their original authors and inventors.

To those who are impressed with a conviction of the truth of the principles thus briefly stated—who are duly sensible of the vast importance of science to the advancement of nations in prosperity and civilization, nothing can afford a higher gratification than the progress that has of late years been made in diffusing instruction among the great mass of the community. The discoveries of Bell and Lancaster, and the schools founded on their principles, have had the most powerful influence in spreading a knowledge of the elementary branches of instruction among the poorer classes of the people: while the Mechanics' Institutions that are now forming in the metropolis, and in the different great towns of the empire, will give the labouring part of the population an opportunity to perfect themselves in their respective arts, by making them acquainted with the principles on which they depend, and from the better application of which every new improvement must be derived. It is impossible to form any accurate estimate of the beneficial influence of this general instruction on the future fortunes of the empire; but it is abundantly certain that it must be very great. More discoveries will be made, according to the degree in which more individuals are placed in a situation to make them. And it is neither impossible, nor at all improbable, that the lustre which now attaches to the names of Arkwright and Watt may be dimmed, though it

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can never be wholly effaced, by the more numerous, and, it may be, more important discoveries that will, at no distant period, be made by those who would have passed from the cradle to the tomb in the same obscure and beaten track that had been trod by their unambitious ancestors, had not the education now so generally diffused, served to elicit and ripen the seeds of genius implanted in them for the general advantage of mankind.

IV. Division of employments among different countries, or commerce.—Besides that sort of division of labour which enables each individual in a limited society to confine himself to a particular employment, there is another and most important branch of the division of labour, which not only enables particular individuals, but the inhabitants of entire districts, and even nations, to addict themselves, in preference, to certain branches of industry. It is on this *territorial division of labour*, as it has been appropriately termed by Colonel Torrens, that the commerce which is carried on between different districts of the same country, and between different countries, is founded. The various soils, climates, and capacities of production, possessed by the different districts of an extensive country, fit them for being appropriated in preference to certain species of industry. A district where coal is abundant, which has an easy access to the ocean, and a considerable command of internal navigation, is the natural seat of manufactures. Wheat and other

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species of grain are the proper products of rich arable soils; and cattle, after being reared in mountainous districts, are most advantageously fattened in meadows and low grounds. Nothing is more obvious, than that an infinitely greater aggregate quantity of useful and desirable commodities will be produced, by the inhabitants of these different districts, separately confining themselves to the particular branches of industry, for the successful prosecution of which they have some peculiar *natural capability*, than if they attempted, indiscriminately, to carry on every different employment. Who can doubt that vastly more manufactured goods, corn, and cattle, are produced by the inhabitants of Glasgow, the Carse of Gowrie, and Argyleshire, respectively confining themselves to manufactures, agriculture, and the rearing of cattle, than if those of each district had endeavoured directly to supply themselves with these various products, without the intervention of an exchange?

But it is easy to see that foreign trade, or the territorial division of labour between different and independent countries, contributes to increase the wealth of each in precisely the same manner that the trade between different provinces of the same kingdom contributes to increase their wealth. There is a still greater difference between the productive powers wherewith nature has endowed different and distant countries, than there is between the productive powers of the provinces of the same country. The establishment of a free intercourse between

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them must, therefore, be proportionally advantageous. It would evidently cost an infinitely greater expence to raise the wines of France or Spain in England than to make Yorkshire yield the same products as Devonshire. Indeed, there are a multitude of products, and some of them of the very greatest utility, which cannot possibly be raised except in particular situations. Were it not for commercial intercourse, we should not be able to obtain the smallest supplies of tea, coffee, raw cotton, raw silk, gold bullion, and a thousand other equally useful and valuable commodities. Providence, by giving different soils, climates, and natural productions, to different countries, has evidently provided for their mutual intercourse and civilization. If all restrictions on commerce were abolished, each people would naturally devote themselves to such employments as are most beneficial to each: And this pursuit of individual advantage is admirably connected with the good of the whole. By exciting industry, by rewarding ingenuity, and by using most efficaciously the peculiar powers bestowed by nature on different countries, commerce distributes labour as best suits the genius and capacities of each. It gives us new tastes and new appetites, and it also gives us the means and the desire of gratifying them: It enables each people to profit by the inventions and discoveries of all the rest; forces routine to give way to emulation; and stimulates the industry and invention of the home producers by bringing them into competition with foreigners. The grand principle

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of the division of labour is thus carried to its full extent. The mass of necessary and useful products is vastly augmented, and opulence generally diffused. But these are not the only effects of commerce. Its influence, in a moral point of view, is not less powerful and salutary. It is the grand engine by which the blessings of civilization are diffused, and the treasures of knowledge and of science conveyed to the remotest corners of the habitable globe; while, by making the inhabitants of each country dependent on the assistance of those of others for a large proportion of their comforts and enjoyments, it forms a powerful principle of union, and binds together the universal society of nations by the common and powerful ties of mutual interest and reciprocal obligation.

"Combien," to use the words of a late French writer, "le spectacle de tous les travaux concourant à la production de la richesse, sans autre préeminence ni distinction que celle que leur assure l'echange de leurs produits, est encourageant pour les classes laborieuses, stimulant pour les peuples, favorable à la civilisation, honorable pour l'humanité! Dans ce systeme tous les hommes suivent leur penchant, developpent, perfectionnent leurs facultés, s'encouragent par une noble emulation, sont avertis à chaque instant du besoin qu'ils ont les uns des autres, se lient entre eux par des rapports habituels, s'attachent par leurs interêts reciproques, et renouent les liens de la grande famille du genre humain que la separation des familles nationales avoit brisés. Ces familles

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éparses sur le globe, ne sont plus étrangères entre elles, travaillent l'un pour l'autre, et correspondent ensemble malgré les gouffres des mers et l'aspérité des climats, les montagnes inaccessibles, et les deserts inhospitaliers. Grâces au genie du commerce, et aux inepuisables ressources l'industrie, tous les perils sont bravés, toutes les difficultés sont vaincues, tous les obstacles sont surmontés, et les bienfaits du travail general circulent dans le monde entier." *

It cannot indeed be denied, that mistaken views of commerce, like the mistaken views so frequently entertained of religion, have been the cause of many wars and of much bloodshed. But the folly of the monopoly system, and the ruinous nature of the contests to which it has given rise, have been made obvious. It has been fully and clearly demonstrated, that nothing can be more irrational and absurd, than that dread of the progress of others in wealth and civilization that was once so prevalent; and that the true glory and real interest of every people will be more certainly advanced by endeavouring to emulate and outstrip their neighbours in the career of science and civilization, than by labouring to attain a barren pre-eminence in the bloody and destructive art of war.

The influence of commerce in giving increased efficacy to labour, and augmenting national wealth, may be easily illustrated. Thus, in the case of the

* Ganilh, *des Systemes d'Economie Politique*, Tome I. p. 173. ed. 1821.

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intercourse, or territorial division of labour, carried on between England and Portugal, it is plain that the superiority of the wool of England, our command of coals, of skilful workmen, of improved machinery, and of all the instruments of manufacturing industry, enables us to produce cloth at a much cheaper rate than the Portuguese: But, on the other hand, the soil and climate of Portugal being peculiarly favourable for the cultivation and growth of the grape, she is enabled to produce wine at an infinitely cheaper rate than it can be produced here. And hence it is obvious, that England, by confining herself to the manufacture of cloth, in which she has a natural advantage on her side, and exchanging it with the Portuguese for wine, will obtain a vastly larger supply of that commodity than if she had attempted to cultivate the grape at home: And Portugal, by exchanging her wine for the cloth of England, will, on her part, obtain a much greater quantity of cloth than if she had attempted to counteract the intention of nature, by converting a portion of her capital and industry from the raising of wine, in which she has an advantage, to the manufacture of cloth, in which the advantage is on the side of another.

What we have already stated is sufficient to expose the sophism involved in the reasoning of the French economists, who contended, that as an equivalent must be always given for such commodities as are obtained from foreigners, it was impossible foreign commerce could ever add any thing to national wealth. How, they asked, can the wealth



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of a country be increased by giving equal values for equal values? They admitted, that commerce made a *better distribution* of the wealth of the world; but as it did nothing more than exchange one sort of wealth for another, they denied that it could ever make any addition to its amount. At first sight, this sophistical and delusive statement appears sufficiently conclusive; but a very few words will be sufficient to demonstrate its fallacy. The advantage of commerce does not consist in its enabling any of the parties who carry it on to obtain commodities of greater value than those they brought to market. It may have cost as much, or more, to produce the cloth with which the English merchant purchases the wine of Portugal, as it did to produce the latter. But then, it must be observed, that in making the exchange, *the value of the wine is estimated by what it takes to produce it in Portugal*, which has peculiar natural capabilities for that species of industry, and *not* by what it would take to produce it in England were the trade put an end to; and, in like manner, the value of the cloth is estimated by what it takes to produce it in England, and not by what it would cost to produce it in Portugal. The advantage of the intercourse between the two countries consists in this, that it enables each of them to obtain commodities, for the production of which they have no natural capability, and which it would, therefore, cost a comparatively large sum to produce directly at home, for what it costs to produce them under the most favourable circumstances, and with

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the least possible expence. The gain of the one party is not the loss of the other. Both of them are benefited by this intercourse: For it enables both of them to save labour and expence in the production of commodities; and, in consequence, the wealth of the two countries is not only better distributed, but it is also greatly increased by the territorial division of labour established between them.

To set this important principle in a clearer point of view, let us suppose that in England a given number of men can, in a given time, manufacture 10,000 yards of cloth, and raise 1000 quarters of wheat, and that the same number of men can, in the same time, manufacture in Poland 5000 yards of cloth and raise 2000 quarters of wheat. It is plain, that the establishment of a free intercourse between the two countries would, under these circumstances, enable England, by manufacturing cloth and exporting it to Poland, to obtain *twice* the quantity of corn in exchange for a given expenditure of capital and labour that she could obtain in return for the same expenditure directly laid out in the cultivation of land at home; and Poland would, on the other hand, be enabled to obtain *twice* as much cloth in exchange for her corn as she could have done had she attempted directly to manufacture it. How ridiculous then to contend, that commerce is not a means of adding to the efficacy of labour, and, consequently, of increasing wealth! Were the intercourse between England and Portugal, and the West Indies put an end to, it

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would require, at the very least, a hundred, or perhaps a thousand times the expence to produce Port wine, sugar, and coffee, directly in this country, that it does to produce the equivalents sent to Portugal and the West Indies in exchange for them.

"The commerce of one country with another is," to use the words of Mr Mill, "merely an extension of that division of labour by which so many benefits are conferred on the human race. As the same country is rendered richer by the trade of one province with another; as its labour becomes thus infinitely more divided and more productive than it could otherwise have been; and as the mutual interchange of all those commodities which one province has and another wants, multiplies the accommodations and comforts of the whole, and the country becomes thus in a wonderful degree more opulent and happy; so the same beautiful train of consequences is observable in the world at large, that vast empire of which the different kingdoms may be regarded as the provinces. In this magnificent empire, one province is favourable to the production of one species of produce, and another province to another. By their mutual intercourse, mankind are enabled to distribute their labour as best fits the genius of each particular country and people. The industry of the whole is thus rendered incomparably more productive; and every species of necessary, useful, and agreeable accommodation is obtained in much greater abundance, and with infinitely less expence." *

* *Commerce Defended*, p. 38.

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It would be quite inconsistent with the objects and limits of a work intended only to exhibit a systematic and general view of the principles of economical science, to enter on a detailed investigation of the policy of the various restrictions that have been imposed on the freedom of commerce—And, therefore, in the few observations I am now to offer on this subject, I shall chiefly confine myself to an examination of those restrictions that have for their object to promote the industry and employment of particular countries, by either partially or wholly preventing the importation of such articles from other countries as can be produced at home.

It cannot be doubted that, if either the whole or any considerable portion of an article, in general demand, be imported from abroad, the prevention of such importation will give an immediate advantage to the home producers of the article in question. But it should always be borne in mind that it is not with the interests of any particular class that the legislator ought to concern himself.—The circumstance of restrictions being advantageous to a single class, is not enough to show that they are expedient: To establish this it must also be shown that they are advantageous, or at least not injurious, to the consumers, or, in other words, to the *public in general.* If restrictions are advantageous to the latter, they ought to be maintained, but if they are injurious to them, they ought as certainly to be abolished. *Consumption* is the sole end and purpose of production; and the interests of the producer ought to be attended to

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only so far as may be necessary for promoting the interests of the consumers.

We have already seen that no country can possibly employ a greater number of workmen than its capital can feed and maintain. But it is plain that no restrictive regulation can of itself add one single atom to that capital. It may, and indeed most frequently does, divert a portion of it into channels into which it would not otherwise have flowed: This, however, is its *only effect*, and the real question for our consideration is,—whether the artificial direction which is thus given to a portion of the national capital, renders it more or less productive than it would have been, had it been left at liberty to seek out channels of employment for itself?

In discussing this question it may be observed, in the *first* place, that every individual is constantly exerting himself to find out the most advantageous methods of employing his capital and labour. It is true that it is his *own* advantage, and not that of the society, which he has in view; but as a society is nothing more than an *aggregate collection of individuals*, it is plain that each, in steadily pursuing his own aggrandizement, is following that precise line of conduct which is most for the public advantage. It is a consequence of this principle, that if no particular branches of industry were encouraged more than others, those would be preferred which naturally afforded the greatest facilities for acquiring individual fortunes, and, consequently, for increasing the capital of the country. *Self-interest* is the



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most powerful stimulus that can be applied to excite the industry, and to sharpen the intellect and ingenuity of man; and no proposition can be more true than that each individual can, in his local situation, judge better what is advantageous and useful for himself than any other person. "The statesman," says Dr Smith, "who should attempt to direct private people in what manner they ought to employ their capitals, would not only load himself with a most unnecessary attention, but assume an authority which could safely be trusted, not only to no single person, but to no council or senate whatever, and which would no where be so dangerous as in the hands of a man who had folly and presumption enough to fancy himself fit to exercise it." *

But, in the *second* place, it is evident, that the prevention of the importation of foreign produce has in effect the consequence, so justly censured by Dr Smith, of dictating to individuals in what manner they shall employ their capital and labour. If no such preventive regulations existed, no produce would ever be raised in one country that it could import at a cheaper rate from another. The conduct of the society would then be regulated by the same principles that regulate the conduct of each individual in private life; and it is the maxim of every prudent master of a family, not to attempt to make at home what it would cost him more to

* *Wealth of Nations*, II. p. 182.

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make than to buy. Each individual avails himself of the peculiar productive powers and capacities of every other individual. The tailor, as Dr Smith has remarked, does not attempt to make his own shoes, but buys them from the shoemaker. The shoemaker, on his part, does not attempt to make his own clothes, but employs a tailor. And the farmer makes neither the one nor the other, but exchanges his corn and cattle for the clothes and shoes of these artificers. In all civilized societies, each individual finds it for his advantage to employ his industry in some particular business; and to exchange a part of his peculiar produce for such parts of the produce of the industry of others as he may have occasion for. And it is certainly no easy matter to discover why that conduct which is universally admitted to be wise and proper in individuals, should be foolish and absurd in the case of a state,—that is, in the case of the total number of individuals inhabiting a particular tract of country!

It must be remembered that the utmost freedom of commerce will not enable foreigners to supply us with those commodities that can be as cheaply produced here as in other countries. Home producers have always great advantages over foreigners. The price of their commodities is not enhanced by the expence of conveyance from distant countries; and they are intimately and familiarly acquainted with the language, laws, fashions, and credit of those with whom they deal. A foreigner is deprived of almost all these advantages—advantages with which nothing

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but the comparative cheapness of his goods could ever enable him to contend. But if a foreigner can supply us with any article cheaper than we can raise it at home, why should we not buy it from him? Why should we not extend the same principle to foreigners we find so extremely advantageous in conducting our intercourse with our next neighbours? Though our ports were open for the reception of all the commodities of all the commercial nations in the world, it is certain no one would purchase any portion of them unless he found it for his advantage,—that is, unless he obtained the article purchased from the foreigners by a *less* sacrifice than he could have obtained it for from his own countrymen. And it is obvious, that, in allowing this purchase to be made, or this intercourse to take place, we not only allow our own citizens to buy the goods which they want in the *cheapest* market, but we also allow them to sell their own goods in the *dearest* market, or to exchange them where they get the greatest quantity of other produce in their stead.

It has been said, and I believe truly, that, had it not been for restrictions on importation, several manufactures that now furnish employment to a considerable population, would most probably never have had any existence amongst us. But, while I admit this statement, I deny that it forms any valid objection to the principles now laid down. It is just as little for the interest of nations as of individuals to engage indiscriminately in every possible employment. The grand principle of the division of

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labour ought to be equally respected by communities as by single families. Every people will always find it for their advantage to addict themselves in preference to those branches of industry in which they have a superiority over others. For it is by this means only that they can ever fully avail themselves of the peculiar capacities of production given to each particular nation, and that their capital, and the labour of their husbandmen and artizans, can be rendered most efficient.

It is most certainly true, that, after a restrictive and artificial system has been long acted upon, its abolition must necessarily be productive of considerable embarrassment and hardship to individuals: And for this reason, no wise, just, and liberal government will ever rashly adopt any measure, however expedient and proper in itself, that might have the immediate effect to injure a considerable class of its subjects. Every change in the public economy of a great nation ought to be cautiously and gradually effected. Those who have capital employed in businesses, carried on under the protection of a restrictive regulation, ought to be afforded a reasonable time, and every facility, either to withdraw entirely from their businesses, or to prepare to withstand the free competition of foreigners. But this is *all* they can justly claim. The fact of our having departed, on one or more occasions, from the sound principle of the freedom of industry, can never be alleged as a sufficient reason why we should obstinately persevere in a course of policy which has been ascertained to be

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most inimical to the public interests, or why we should refuse to avail ourselves of the earliest opportunity of reverting to a better system. To act on such a principle would be to perpetuate the worst errors and absurdities, and would be a proceeding utterly inconsistent with all the ends and objects of government.

It is abundantly certain, too, that the loss and inconvenience that must always follow the exchange of an exclusive for a liberal commercial system, have been very greatly exaggerated. But, whatever might be the case in this respect in other countries, our superiority in the arts is so very great, that only a very inconsiderable proportion of our population would be driven from the employments now exercised by them by the freest importation of foreign products. Admitting, however, that this measure might have the effect to force a few thousand workmen to abandon their present employments, it is material to observe, that *equivalent new ones* would, in consequence, be opened to receive them; and that the total aggregate demand for labour would not be in any degree diminished by the abolition of the restrictive system. Suppose that, under a system of free trade, we imported a considerable proportion of silks and linens now wholly manufactured at home: It is quite certain, inasmuch as neither the French nor Germans would send us their commodities gratis, that an equivalent amount of British commodities would have to be sent abroad to pay those we imported from them: And hence it is obvious that such of our artificers

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as had previously been engaged in our silk and linen manufactures, and were thrown out of these employments, would immediately obtain employment in the manufacture of the products that must be exported as equivalents for the foreign silks and linens. Should we import ten or twenty millions worth of foreign commodities this year more than we imported last year, it is undeniably certain we shall have to export ten or twenty millions worth more of our peculiar products to pay them. And, therefore, if *exportation* be a good thing, and the most ardent admirers of the restrictive system admit it to be such, *importation* must also be a good thing —for the two are inseparably and indissolubly connected; and to separate them, even in imagination, infers a total ignorance of the most obvious principles. All commerce, whether carried on by individuals of the same or of different countries, is founded on a *fair principle of reciprocity*. Buying and selling are in commerce, what action and reaction are in physics, always *equal and contrary*. If we will not buy from others, it is utterly impossible that others can buy from us. Every sale infers an equal purchase; and every purchase infers an equal sale. To prohibit buying is, therefore, exactly the same thing, in effect, as to prohibit selling. No merchant ever did, or ever will, export a single bale of goods, if he is prevented from importing a greater value in its stead. But it is impossible that he can do this, if the commodities which foreigners have to give as equivalents for ours are excluded. In whatever degree, there-

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fore, an unrestricted foreign trade might lead us to receive commodities from other countries, in the same degree it would render those countries customers for our commodities—would promote our manufactures and extend our trade. So long as we cooperate with nature, we cannot be undersold by others; while, from the reciprocity of commerce, every increase in the productive powers of labour which should enable us to consume, or, which is the same thing in a commercial point of view, to furnish an equivalent for an increased quantity of foreign commodities, would occasion a proportional enlargement of the market. It is therefore obvious, that if, instead of imprudently endeavouring to raise at home what might be more cheaply imported from abroad, we were to employ our capital and industry, exclusively, in those branches in which our insular situation, our inexhaustible supplies of coal, and our improved machinery, give us a natural and real advantage, we should carry our commercial prosperity to a far higher pitch than it has hitherto attained, and establish it on a broad and unassailable foundation.

The arguments thus briefly stated, to show the benefits of commercial freedom, and the impolicy of attempting to promote industry at home by laying restraints on importation from abroad, have been repeatedly advanced. The advantages of the freedom of commerce were exhibited, as already stated, in a very striking point of view, by Sir Dudley North, nearly one hundred and forty years since; and Sir

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Matthew Decker and the celebrated David Hume subsequently illustrated and enforced the same principles, and showed the ruinous consequences of the prohibitive system. But the complete overthrow of that system was reserved for Dr Smith; who has examined and refuted the various arguments in favour of the restrictions laid on commercial industry in the most able and masterly manner, and with an amplitude of illustration that leaves nothing to be desired. Such, however, and so powerful were the prejudices in favour of the old system, and such the obstacles opposed to the progress of more enlarged and liberal opinions, that, notwithstanding Dr Smith's work has been in general circulation for about half a century, it is only within these very few years that statesmen and merchants have given a practical assent to its doctrines, and have attempted to act on them. But, fortunately, a new era has at length begun—*novus sæclorum nascitur ordo!* The principles of free trade are no longer viewed as barren and unprofitable speculations—as the visions of theorists, dreaming in their closets of public happiness never to be realized. They have received the sanction of the Parliament of England. To the glory of being the first to promulgate and demonstrate the truth of this just and beneficent system, we can now claim the higher praise, of being the first to give it a practical bearing and real effect. It is true, that monopoly is still deeply ingrafted on our commercial policy, and that we still allow some most important branches of trade to labour under the most oppressive

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and vexatious restraints. But it is a great deal to have commenced the return to a better system; and to have publicly declared our conviction, that the freedom of commerce is productive alike of private happiness and public prosperity. "And if," to use the words of a distinguished statesman, "in the long and honourable career which is still open to the adversaries of commercial restrictions, monopoly, and preference, the same spirit shall animate, the same resolution uphold the country and the Legislature—if full and uncompromising effect be finally given to a system confirmed by experience, and sanctioned by public applause, not this age, nor this country alone, will have reason to bless our exertions. There is no period so remote, there is no nation so barbarous, in which we may not confidently anticipate that these successful researches of British philosophy, this auspicious example of British policy, will become, under the favour of Providence, a pure and ample source of continually increasing human happiness."*

Money.—When the division of labour was first introduced, one commodity was directly bartered for another. Those, for example, who had an excess of corn and were in want of wine, endeavoured to find out those who were in the opposite circumstances, or who had an excess of wine and wanted corn, and then exchanged the one for the other. It

* *Lord Grenville's Speech, at the Dissolution of the Levant Company,* 11th February 1825.

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is obvious, however, that the power of exchanging, and, consequently, of dividing employments, must have been confined within very narrow limits, so long as it was restricted to mere barter. A might have had a surplus of wine, and B might have been anxious to purchase it; but if B had no commodity that A stood in need of, no exchange could take place between them. To avoid the inconvenience of such situations, every prudent man, in every age of the world, after the first establishment of the division of labour, must naturally, as Dr Smith has observed, have endeavoured to manage his affairs in such a manner, as to have at all times by him, besides the peculiar produce of his own industry, a certain quantity of some one commodity or another, such as he imagined few people would be likely to refuse in exchange for the produce of their industry. *

Now this commodity, whatever it may be, is *money*.

An infinite variety of commodities have been used as money in different countries and periods. But none can be advantageously used as such, unless it is possessed of several very peculiar qualities. The slightest reflection on the purposes to which money is applied, must, indeed, be sufficient to convince any one that it is indispensable, or, at least, exceedingly desirable, that the commodity selected to serve as money in a civilized society should, (1.) be divisible into the smallest portions; (2.) that it

* *Wealth of Nations*, I. p. 34.

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should admit of being kept for an indefinite period without deteriorating; (3.) that it should, by possessing great value in small bulk, be easily transported; (4.) that one piece of money of a certain denomination, should always be precisely equivalent to every other piece of money of the same denomination; and (5.) that its value should be comparatively steady, or as little subject to variation as possible. Without the *first* of these qualities, or the capacity of being divided into portions of every different magnitude and value, money, it is evident, would be of almost no use, and could only be exchanged for the few commodities that might happen to be of the same value as its indivisible portions, or as whole multiples of them: Without the *second*, or the capacity of being kept or hoarded without deteriorating, no one would choose to exchange commodities for money, except only when he expected to be able immediately to re-exchange that money for some other commodity he was desirous to obtain: Without the *third*, or facility of transportation, money could not be conveniently used in transactions between places at any considerable distance: Without the *fourth*, or perfect sameness, it would be extremely difficult to appreciate the value of different pieces of money: And without the *fifth* quality, or comparative steadiness of value, money could not serve as a standard by which to measure the value of other commodities; and no one would be disposed to exchange the produce of his industry for an article that might shortly decline considerably in its power of purchasing.

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The union of the different qualities of comparative steadiness of value, divisibility, durability, facility of transportation, and perfect sameness, in the precious metals, has, doubtless, formed the irresistible reason that has induced mankind, in every civilized community, to employ them as money. The value of gold and silver is certainly not invariable, but, generally speaking, it changes only by slow degrees; they are divisible into any number of parts, and have the singular property of being easily reunited, by means of fusion, without loss; they do not deteriorate by being kept; and, from their firm and compact texture, they are very difficult to wear. Their cost of production, especially of gold, is so considerable, that they possess great value in small bulk, and can, of course, be transported with comparative facility; and an ounce of pure gold and silver, taken from the mines in any quarter of the world, is precisely equal, in point of quality, to an ounce of pure gold or silver dug from the mines in any other quarter. No wonder, therefore, when all the qualities necessary to constitute money are possessed in so eminent a degree by the precious metals, that they have been used as such, in civilized societies, from a very remote era. "They became universal money," as M. Turgot has observed, "not in consequence of any arbitrary agreement among men, or of the intervention of any law, but by the nature and force of things."

The greatest drawback attendant on the use of

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gold and silver as money consists in the high value of these metals, and in the consequent expence they occasion; and there can be no doubt that a desire to lessen this expence has been one of the chief causes that has induced all highly civilized and commercial nations to fabricate a portion of their money of some less valuable material. Of the various substitutes that have been resorted to for this purpose, paper is, in every respect, the most eligible. By using paper instead of gold, we substitute the cheapest in room of the most expensive currency; and enable the society, without loss to any individual, to exchange all the coins which the use of paper money has rendered superfluous, for raw materials or manufactured goods, by the use of which both its wealth and its enjoyments are increased. Ever since the introduction of bills of exchange, almost all great commercial transactions have been carried on by means of paper only. It has also been used to a very great extent in the ordinary business of society. And as paper notes of given denominations may be rendered exchangeable at the pleasure of the holder, for given and unvarying quantities of gold or silver, their value may be maintained on a par with the value of these metals; and all injurious fluctuations in the value of money may be as effectually avoided, as if it consisted wholly of the precious metals.

We shall afterwards endeavour to unfold the principles that determine the value of commodities, and, consequently, of money, which is nothing whatever

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but a commodity. And as the observations now made seem to be sufficient to give such a general idea of the nature and functions of money, as is necessary to facilitate the acquisition of a knowledge of the principles of Political Economy, the reader is referred to the authors who have treated expressly of Money for a further elucidation of the various questions connected with it.

## Section III.

*Different Employments of Capital and Labour—Agriculture, Manufactures, and Commerce, equally advantageous—The investment of Capital in different Businesses determined by the Rate of Profit which they respectively yield.*

In the previous section, it has been shown, that the increase and diminution of capital is the grand point on which national prosperity hinges,—that if you increase capital, you instantly increase the means of supporting and employing additional labourers—and that if you diminish capital, you instantly take away a portion of the comforts and enjoyments, and perhaps also of the necessaries, of the productive classes, and spread poverty and misery throughout the land; and it has also been shown, that the increase or diminution of the rate of profit is the great cause of the increase or diminution of capital. Now, if such be the case, it seems impossible to resist coming to the conclusion, that the employments which yield the *greatest profit*, or in which industry is most

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productive, are the most advantageous. But Dr Smith, Mr Malthus, and most other political economists, have objected to this standard. They allow that if two capitals yield equal profits, the employments in which they are engaged are *equally beneficial to their possessors;* but they contend, that, if one of these capitals be employed in agriculture, it will be productive of greater *public* advantage. It is not difficult, however, to discover that this opinion rests on no good foundation; and to show that the *average rate of profit* is, under all circumstances, the single and infallible test by which we are to judge which employment is most and which is least advantageous.

A capital may be employed in *four* different ways; either, *first*, in the production of the raw produce required for the use and consumption of the society; or, *secondly*, in manufacturing and preparing that raw produce for immediate use and consumption; or, *thirdly*, in transporting the raw and manufactured products from one place to another according to the demand; or, *fourthly*, in dividing particular portions of either into such small parcels as suit the convenience of those who want them. The capitals of all those who undertake the improvement or cultivation of lands, mines, or fisheries, are employed in the first of these ways; the capital of all master-manufacturers is employed in the second; that of all wholesale merchants in the third; and that of all retailers in the fourth. It is difficult to conceive that a capital can be employed in any way which may not be classed under some one or other of these heads.



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On the importance of the employment of capital in the acquisition of raw produce, and especially in the cultivation of the soil, it is unnecessary to enlarge. It is from the soil, including under that term mines and fisheries, that the *matter* of all commodities that either minister to our necessities, our comforts, or our enjoyments, must have been originally derived. The industry which appropriates the raw productions of the earth, as they are offered to us by nature, preceded every other. But these spontaneous productions are always extremely limited. And it is by agriculture only, that is, by the united application of immediate labour and of capital, to the cultivation of the ground, that large supplies of those species of raw produce, which form the principal part of the food of man, can be obtained. It is not quite certain that any of the species of grain, as wheat, barley, rye, oats, &c. have ever been discovered growing spontaneously. But, although this must originally have been the case, still the extreme scarcity of such spontaneous productions in every country with which we are acquainted, and the labour which it requires to raise them in considerable quantities, prove beyond all question that it is to agriculture that we are almost exclusively indebted for them. The transition from the pastoral to the agricultural mode of life is decidedly the most important step in the progress of society. Whenever, indeed, we compare the quantity of food, and of other raw products, obtained from a given surface of a well cultivated country, with those obtained from an equal surface of an



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equally fertile country, occupied by hunters or shepherds, the powers of agricultural industry in increasing useful productions appear so striking and extraordinary, that we cease to feel surprise at the preference which has been so early and generally given to agriculture over manufactures and commerce; and are disposed to subscribe without hesitation to the panegyric of Cicero when he says, "*Omnium autem rerum ex quibus aliquid aquiritur, nihil est agricultura melius, nihil uberius, nihil dulcius, nihil homine, nihil libero dignius.*"

But are there really any just grounds for this preference? Are not manufactures and commerce equally advantageous as agriculture? It is plain, that without agriculture we could never possess any considerable supply of the *materials* out of which food and clothes are made; but is it not equally plain, that without a knowledge of the arts by which these materials are converted into food and clothes, the largest supply of them could be of little or no service? The labour of the miller who grinds the corn, and of the baker who bakes it, is equally necessary to the production of bread, as the labour of the husbandman who tills the ground. It is the business of the agriculturist to raise flax and wool; but if the labour of the spinner and weaver had not given them utility, and fitted them for being made a comfortable dress, they would have been nearly, if not entirely worthless. Without the labour of the miner who digs the mineral from the bowels of the earth, we could not have obtained the matter out of

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which many of our most useful implements and splendid articles of furniture have been made; but if we compare the ore when dug from the mine with the finished articles, we shall certainly be convinced that the labour of the purifiers and refiners of the ore, and of the artists who have afterwards converted it to useful purposes, has been quite as advantageous as the industry of the miner.

But not only is it certain that manufacturing industry, or that species of industry which fits and adapts the raw produce of nature to our use, is requisite to render its acquisition of any considerable value; but it is also certain, that without manufacturing industry this very raw produce could never have been obtained in any considerable quantity. The labour of the mechanic who fabricates the plough is as efficacious in the production of corn as the labour of the husbandman who guides it. But the plough-wright, the mill-wright, the smith, and all those artizans who prepare tools and machines for the husbandmen, are really manufacturers, and differ in no respect whatever from those who are employed to give utility to wool and cotton, except that they work on *harder* materials. The fixed capital vested in tools and machines is the product of the labour of the tool and engine manufacturer; and without the aid of this fixed capital, it is impossible that agricultural labour, or that any other sort of labour, could ever have become considerably productive.

"Distinguer," says the Marquis Garnier, "le travail des ouvriers de l'agriculture d'avec celui des

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autres ouvriers, est une abstraction presque toujours oiseuse. Toute richesse, dans le sens dans lequel nous la concevons, est nécessairement le résultat de ces deux genres de travail, et la consommation ne peut pas plus se passer de l'un que de l'autre. Sans leur concours simultané il ne peut y avoir de chose consommable, et par conséquent point de richesse. Comment pourrait-on donc comparer leurs produits respectifs, puisque, en séparant ces deux espèces de travail, on ne peut plus concevoir de véritable produit, de produit consommable et ayant une valeur réelle ? La valeur du blé sur pied résulte de l'industrie du moissonneur qui recueillera, du batteur qui le séparera de la paille, du meunier et du boulanger qui le convertiront successivement en farine et en pain, tout comme elle résulte du travail du laboureur et du semeur. Sans le travail du tisserand, le lin n'aurait pas plus le droit d'être compté au nombre des richesses, que l'ortie ou tout autre végétal inutile. A quoi pourrait-il donc servir de rechercher lequel de ces deux genres de travail contribue le plus à l'avancement de la richesse nationale ? N'est-ce pas comme si l'on disputait pour savoir lequel, du pied droit ou du pied gauche, est plus utile dans l'action de marcher ?"*

In fact, there is not at bottom any real distinction

* See page 58 of the *Discours Preliminaire* to the second edition of the translation of the *Wealth of Nations*, by the Marquis Garnier. The same passage is in the first edition, published in 1802.

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between agricultural and manufacturing industry. It is, as has already been shown, a vulgar error to suppose that the operations of husbandry add any thing to the stock of matter already in existence. All that man can do, and all that he ever does, is merely to give to matter that particular form or shape which fits it for his use. But it was contended by M. Quesnay and the French economists, and their opinions have in this instance been espoused by Dr Smith, that the labour of the husbandman in adapting matter to our use is powerfully facilitated by the aid derived from the vegetative powers of nature, while the labour of the manufacturer has to perform every thing itself without any such co-operation.—"No equal quantity of productive labour, or capital employed in manufactures," says Dr Smith, "can ever occasion so great a reproduction as if it were employed in agriculture. *In manufactures nature does* NOTHING, *man does* ALL; and the reproduction must always be proportioned to the strength of the agents that occasion it. The capital employed in agriculture, therefore, not only puts into motion a greater quantity of productive labour than any equal capital employed in manufactures, but in proportion, too, to the quantity of productive labour which it employs, it adds a much greater value to the annual produce of the land and labour of the country, to the real wealth and revenue of its inhabitants. *Of all the ways in which a capital can be employed, it is by far the most advantageous to the society.*"*

* *Wealth of Nations,* II. p. 53.

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This is perhaps the most objectionable passage in the *Wealth of Nations*; and it is really astonishing how so acute and sagacious a reasoner as Dr Smith could have maintained a doctrine so manifestly erroneous. It is indeed true, that nature powerfully assists the labour of man in agriculture. The husbandman prepares the ground for the seed, and deposits it there; but it is nature that unfolds the germ, that feeds and ripens the growing plant, and brings it to a state of maturity. But does not nature do as much for us in every other department of industry? The powers of water and of wind, which move our machinery, support our ships, and impel them over the deep,—the pressure of the atmosphere, and the elasticity of steam, which enable us to work the most stupendous engines, are they not the spontaneous gifts of nature? In fact, the single and exclusive advantage of machinery consists in its having enabled us to press the powers of nature into our service, and to make them perform the principal part of what would otherwise have been wholly the work of man. In navigation, for example, is it possible to doubt, that the powers of nature—the buoyancy of the water, the impulse of the wind, and the polarity of the magnet, contribute fully as much as the labour of the sailor to waft our ships from one hemisphere to another? In bleaching and fermentation the whole processes are carried on by natural agents. And it is to the effects of heat in softening and melting metals, in preparing our food, and in warming our houses, that we owe many of our most

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powerful and convenient instruments, and that these northern climates have been made to afford a comfortable habitation. So far, indeed, is it from being true that nature does much for man in agriculture, and nothing in manufactures, that the fact is nearly the reverse. There are no limits to the bounty of nature in manufactures, but there are limits, and those not very remote, to her bounty in agriculture. The greatest possible amount of capital might be expended in the construction of steam-engines, or of any other sort of machinery, and after they had been multiplied to infinity, the last would be as powerful and as efficient in saving labour and producing commodities as the first. Such, however, is not the case with the soil. Lands of the first quality are speedily exhausted; and it is impossible to apply capital indefinitely even to the best soils, without obtaining from it a constantly diminishing rate of profit. The rent of the landlord is not, as Dr Smith conceived it to be, the recompense of the work of nature remaining, after all that part of the product is deducted which can be regarded as the recompense of the work of man! But it is, as we shall hereafter show, the excess of produce obtained from the best soils in cultivation, over that which is obtained from the worst—it is a consequence not of the increase, but of the diminution of the productive power of the labour employed in agriculture.

But if the giving utility to matter be, as it really is, the single and exclusive object of every species of productive industry, it is plain that the capital and

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labour which is employed in carrying commodities from where they are produced to where they are to be consumed; and in dividing them into minute portions, so as to fit the wants of the consumers, is really as productive as either agriculture or manufactures. The labour of the miner gives utility to matter—to coal for example—by bringing it from the bowels of the earth to its surface; but the labour of the merchant, or carrier, who transports this coal from the mine whence it has been dug to the city, or place where it is to be burned, gives it a further, and perhaps a more considerable value. We do not owe our fires exclusively to the miner, or exclusively to the coal merchant. They are the result of the conjoint operations of both, and also of the operations of all those who have furnished them with the tools and implements used in their respective employments.

Not only, however, is it necessary that commodities should be brought from where they are produced to where they are to be consumed, but it is also necessary that they should be divided into such small and convenient portions, that each individual may have it in his power to purchase the precise quantity of them he is desirous of obtaining. "If," says Dr Smith, "there was no such trade as a butcher, every man would be obliged to purchase a whole ox or a whole sheep at a time. This would generally be inconvenient to the rich, and much more so to the poor. If a poor workman was obliged to purchase a month's, or six months' provisions at a time, a great part of the stock which he employs as a ca-

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pital in the instruments of his trade, or in the furniture of his shop, and which yields him a revenue, he would be forced to place in that part of his stock which is reserved for immediate consumption, and which yields him no revenue. Nothing can be more convenient for such a person than to be able to purchase his subsistence from day to day, or even from hour to hour, as he wants it. He is thereby enabled to employ almost his whole stock as a capital. He is thus enabled to furnish work to a greater value, and the profit which he makes by it in this way much more than compensates the additional price which the labour of the retailer gives to the goods. The prejudices of some political writers against shopkeepers and tradesmen are altogether without foundation. So far is it from being necessary, either to tax them, or to restrict their numbers, that they can never be multiplied so as to hurt the public interests, though they may so as to hurt their own individual interests. The quantity of grocery goods, for example, which can be sold in a particular town, is limited by the demand of that town and its neighbourhood. The capital, therefore, which can be advantageously employed in the grocery trade, cannot exceed the capital required to purchase and retail these goods. If this capital is divided between two different grocers, their competition will obviously tend to make both of them sell cheaper than if it were in the hands of one only; and if it were divided among twenty, their competition would be just so much the greater, and the chance of their

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combining together in order to raise the price just so much the less. Their competition might, perhaps, ruin some of themselves; but to take care of this is the business of the parties concerned, and it may safely be trusted to their discretion. It can never hurt either the consumer or the producer; on the contrary, it must tend to make the retailers both sell cheaper and buy dearer, than if the whole trade was monopolized by one or two persons. Some of them, perhaps, may occasionally decoy a weak customer to buy what he has no occasion for. This evil, is, however, of too little importance to deserve the public attention, nor would it necessarily be prevented by restricting their number."*

Thus it appears, that *all* the modes in which capital can be employed in productive industry, or, in other words, that the raising of raw produce, the fashioning of that raw produce after it is raised into useful and desirable articles, the carrying of the raw and manufactured products from one place to another, and the retailing of them in such portions as may suit the public demand, are *equally* advantageous: that is, the capital and labour employed in any one of these departments contributes equally with the capital and labour employed in the others, to increase the mass of necessaries, conveniencies, and luxuries. Without a previous supply of raw produce, we could have no manufactures; and without manufactures and commercial industry, the greater part of this raw

* *Wealth of Nations*, II. p. 48.

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produce would be entirely worthless, and could neither satisfy our wants nor contribute to our comforts. Manufacturers and merchants are to the body politic what the digestive powers are to the human body. We could not exist without food; but the largest supplies of food cannot lengthen our days when the machinery by which nature adapts this food to our use, and incorporates it with our body, is vitiated and deranged. Nothing, therefore, can be more silly and childish than the estimates that are so frequently put forth of the comparative advantages of agricultural, manufacturing, and commercial industry. They are all intimately and indissolubly connected, and depend upon, and grow out of each other. "Land and trade," to borrow the just and forcible expressions of Sir Josiah Child, "are TWINS, and have always, and ever will, *wax* and *wane together*. It cannot be ill with trade but lands will fall, nor ill with lands but trade will feel it." This reasoning cannot be controverted; and on its authority, we are entitled to condemn every attempt to exalt one species of industry, by giving it factitious advantages at the expence of the rest, as being alike impolitic and pernicious. No preference has ever been given, or can be given, to agriculturists over manufacturers and merchants, or to manufacturers and merchants over agriculturists, without occasioning the most extensively ruinous consequences. Men ought, in every instance, to be allowed to follow their own inclinations in the employment of their stock and industry. Where industry is free, the interest of individuals can never be

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opposed to the interests of the public. When we succeed best in increasing our own wealth, we must necessarily also succeed best in increasing the wealth of the state of which we are subjects.

This mutual dependence of the different branches of industry on each other, and the necessity of their co-operation to enable mankind to make any considerable progress in civilization, have been ably illustrated in one of the early numbers of the *Edinburgh Review*. "It may safely be concluded, that all those occupations which tend to supply the necessary wants, or to multiply the comforts and pleasures of human life, are equally productive, in the strict sense of the word, and tend to augment the mass of human riches, meaning, by riches, all those things which are necessary, or convenient, or delightful to man. The progress of society has been productive of a complete separation of employments originally united. At first, every man provided, as well as he could, for his necessities as well as his pleasures, and for *all* his wants, as well as *all* his enjoyments. By degrees a division of these cares was introduced; the subsistence of the community became the province of one class, its comforts of another, and its gratifications of a third. The different operations subservient to the attainment of each of these objects were then entrusted to different hands; and the universal establishment of barter connected the whole of these divisions and subdivisions together—enabled one man to manufacture for all, without danger of starving by not ploughing or hunting, and another to plough or hunt for



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all, without the risk of wanting tools or clothes by not manufacturing. It has thus become as impossible to say exactly who feeds, clothes, or entertains the community, as it would be to say which of the many workmen employed in the manufacture of pins is the actual pin-maker, or which of the farm-servants produces the crop. All the branches of useful industry work together to the common end, as all the parts of each branch co-operate to its particular object. If you say that the farmer feeds the community, and produces all the raw materials which the other classes work upon, we answer, that unless those other classes worked up the raw materials, and supplied the farmer's necessities, he would be forced to allot part of his labour to this employment, whilst he forced others to assist in raising raw produce. In such a complicated system, it is clear that all labour has the same effect, and equally increases the whole mass of wealth. Nor can any attempt be more vain than theirs who would define the particular parts of the machine that produce the motion, which is necessarily the result of the *whole powers combined*, and depends on each particular one of the mutually connected members." *

Much has been said respecting the extraordinary mortality of large manufacturing establishments. The ready communication of contagion where people are crowded together—the want of sufficient ventilation —the confinement of children—and the positive un-

* Vol. IV. p. 362.

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healthiness of some particular processes, are circumstances from which most writers have been led to infer that the mortality in manufacturing cities *must* be unusually great, without giving themselves the trouble to inquire whether the fact really was so. The returns under the population acts have shown the fallacy of these opinions. The proportion of manufacturers to the whole population of Great Britain was vastly greater in 1810 and 1820 than in 1780; and yet, notwithstanding the extraordinary increase of what we have been in the habit of considering unhealthy employments, the average mortality in England and Wales in 1810 was only one in every 52, and in 1820 only one in every 58 of the existing population, whereas in 1780 it was one in every 40! The diminution of mortality has been going on gradually since 1750; and has doubtless been owing partly to the greater prevalence of cleanliness and sobriety among the poor, and the improvements that have been made in their diet, dress, and houses, partly to the drainage of bogs and marshes, * and partly, and since 1800 chiefly, perhaps, to the discoveries in medical science, and the extirpation of the small-pox. † But

* The effect of marshes in increasing mortality is still strongly felt in the fenny counties of Lincoln, Cambridge, &c. See *Milne on Annuities*, II. p. 453.

† The dysentery, formerly so very fatal, has now almost disappeared. Heberden *on the Increase and Decrease of Diseases*, p. 34.

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whatever may be the causes of this increased healthiness, there is abundant evidence to show that they have not been counteracted by the extension of manufactures. On the contrary, the healthiness of the inhabitants of cities and towns, where manufactures are almost exclusively carried on, has increased in a much greater proportion than the healthiness of the inhabitants of the agricultural districts. In Manchester, for example, where the average mortality in 1770 was one in 28,* it is now reduced to less than one in 43; and a similar improvement has taken place in Glasgow, Paisley, and all the other large manufacturing towns. It is certain, too, that much of this diminution of mortality is a *direct*, and not an indirect consequence of the improvement and diffusion of manufactures. Every one knows of what vast importance it is to health that the poor should have the means of providing themselves with comfortable clothes at a cheap rate. And this is one of the many advantages which improvements in manufacturing industry always bring along with them. The reduction in the price of cotton goods only, occasioned by the greater facility with which they are now produced, has enabled the poorest individuals to clothe themselves in a warm, clean, and elegant dress; and has thus been productive of an increase of comfort and enjoyment, of which it is extremely difficult for us, who have so

* Dr Percival's *Observations on the State of the Population in Manchester*, p. 4.

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long experienced its beneficial effects, to estimate the extent.

The effect of the extreme subdivision of labour in manufacturing establishments, and the exclusive attention which it requires a workman to bestow on one single operation, has been supposed to exert a most pernicious influence on his mental faculties. The genius of the master is said to be cultivated, but that of the workman to be condemned to perpetual neglect. Most mechanical arts, we are told, succeed best under a total suppression of sentiment and reason. A habit of moving the hand or the foot is said to be independent of either; and the workshop has been ingeniously compared to an engine, the parts of which are men! * Dr Smith who has given so admirable an exposition of the benefits which society has derived from the division of labour, has notwithstanding concurred with the popular prejudices on this subject; and has gone so far as to affirm that constant application to one particular occupation in a large manufactory, "necessarily renders the workman as *stupid and ignorant as it is possible to make a human being.*" Nothing can be more marvellously incorrect than these representations. Instead of its being true that the workmen employed in manufacturing establishments are less intelligent and acute than those employed in agriculture, the fact is distinctly and completely the reverse. The weavers, and other mechanics of Glasgow, Manchester, and

* Ferguson *on Civil Society*, p. 303.

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Birmingham, possess infinitely more general and extended information than is possessed by the agricultural labourers of any county in the empire. And this is really what a more unprejudiced inquiry into the subject would have led us to anticipate. The various occupations in which the husbandman is made successively to engage, their constant liability to be affected by so variable a power as the weather, and the perpetual change in the appearance of the objects which daily meet his eyes, and with which he is conversant, occupy his attention, and render him a stranger to that ennui and desire for extrinsic and adventitious excitement which must ever be felt by those who are constantly engaged in burnishing the point of a pin, or in performing the same endless routine of precisely similar operations. This want of excitement cannot, however, be so cheaply or effectually gratified in any other way as it may be by cultivating—that is, by *stimulating* the mental powers. The generality of workmen have no time for dissipation; and if they had, the wages of labour in all old settled and densely peopled countries are too low, and the propensity to save and accumulate too powerful, to permit any very large proportion of them seeking to divert themselves by indulging in riot and excess. They are thus driven to seek for recreation in mental excitement; and the circumstances under which they are placed afford them every possible facility for amusing and diverting themselves in this manner. By working together, they have constant



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opportunities of entering into conversation; and a small individual contribution enables them to obtain a large supply of newspapers and of the cheaper class of periodical publications. But whatever difference of opinion may exist respecting the *cause*, there can be no doubt of the fact, that the intelligence of the workmen employed in manufactures has increased according as their numbers have increased, and as their employments have been more and more subdivided. There is no ground for supposing that they ever were less intelligent than the agriculturists; but, whatever may have been the case formerly, no one will now venture to affirm that they are inferior to them in intellectual acquirements, or that they are mere machines without sentiment or reason. Even Mr Malthus, whose leanings are all on the side of agriculture, has justly and eloquently observed, that "Most of the effects of manufactures and commerce on the general state of society are in the highest degree beneficial. They infuse fresh life and activity into all classes of the state, afford opportunity for the inferior orders to rise by personal merit and exertion, and stimulate the higher orders to depend for distinction upon other grounds than mere rank and riches. They excite invention; encourage science and the useful arts; spread intelligence and spirit; inspire a taste for conveniences and comforts among the labouring classes; and, above all, give a new and happier structure to society, by increasing the proportion of the *middle classes*—that body on which the

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liberty, public spirit, and good government of every country must mainly depend." *

Thus, then, we arrive, by a different *route*, at the same result we have already endeavoured to establish. The inextinguishable passion for gain—the *auri sacra fames*—will always induce capitalists to employ their stocks in those branches of industry which yield, all things considered, the *highest rate of profit*. And it is clear to demonstration, that those employments which yield the highest profits are always those in which it is most for the public interest that capital should be invested. The profits of a particular branch of industry are rarely raised except by an increased demand for its produce. Should the demand for cottons increase, there would be an increased competition for them; and as their price would, in consequence, be augmented, the manufacturers would obtain comparatively high profits. But the rate of profit in different employments has a natural tendency to equality; and it can never, when monopolies do not interpose, continue either permanently higher or lower in one than in the rest. As soon, therefore, as the rise in the price of cottons had taken place, additional capital would begin to be employed in their production. The manufacturers engaged in the cotton trade would endeavour to borrow additional capital, and the capitalists who were engaged in less lucrative employments would gradually contract their businesses, and transfer a portion of

* *Observations on the Effects of the Corn Laws*, p. 29.

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their stock to where it would yield them a larger return. The equilibrium of profit would thus be again restored. For the additional capital employed in the production of cottons, by proportioning their supply to the increased demand, would infallibly reduce their price to its proper level. Such is the mode in which the interests of individuals are, in every case, rendered subservient to those of the public. High profits attract capital; but high profits in particular businesses are the effect of high prices; and these are always reduced, and the commodities brought within the command of a greater number of purchasers, as soon as additional capital has been employed in their production. It is clear, therefore, that that employment of capital is the best which yields the greatest profit; and hence, if two capitals yield *equal* profits, it is a plain proof that the departments of industry in which they are respectively invested, however much they may differ in many respects, are equally beneficial to the country. Nothing can be more nugatory than to apprehend that the utmost freedom of industry can ever be a means of attracting capital to a comparatively disadvantageous employment. If capital flows to manufactures or commerce rather than to agriculture, it can only be because it has been found to yield larger profits to the individual, and consequently to the state.

Having thus endeavoured to unfold the circumstances most favourable for the production of wealth, the natural order of our subject would lead us, in the next place, to investigate the circumstances which

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determine the increase of population. But, before entering on this inquiry, I shall endeavour to vindicate the doctrines already laid down from some objections that have been stated against them, by showing, that the extension and improvement of machinery is always advantageous to the labourer, and that it is not the cause of *gluts*.

## Section IV.

*Improvements in Machinery similar in their Effects to Improvements in the Skill and Dexterity of the Labourer—Do not occasion a Glut of Commodities—Sometimes force Workmen to change their Employments, but have no tendency to lessen the effective demand for Labour—Case supposed by Mr Ricardo, with respect to Machinery, possible, but exceedingly unlikely ever to occur—True Cause of Gluts.*

Before proceeding to examine the various bad consequences that have been supposed to result from the indefinite extension and improvement of machinery, it may be observed, that the same consequences would equally result from the continued improvement of the skill and industry of the labourer. If the construction of a machine that would manufacture two pairs of stockings for the same expence that had previously been required to manufacture one pair, be under any circumstances injurious to the labourer, the injury would be equal were the same thing accomplished by increased dexterity and skill on the part of the knitters;—if, for example, the females who have been in the habit of knitting

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two or three pairs of stockings in the week, should in future be able to knit four or six pairs. There is obviously no difference in these cases. And if the demand for stockings was already sufficiently supplied, M. Sismondi could not, consistently with the principles he has advanced,* hesitate about condemning such an improvement as a very great evil—as a means of throwing *half* the people engaged in the stocking manufacture out of employment. The question respecting the improvement of machinery is, therefore, at bottom, the same with the question respecting the improvement of the science, skill, and industry of the labourer. The principles which regulate our decision in the one case, must also regulate it in the other. If it be advantageous that the skill of the labourer should be indefinitely extended—that he should be enabled to produce a vastly greater quantity of commodities with the same, or a less, quantity of labour, it must also be advantageous that he should avail himself of the assistance of such machines as may most effectually assist him in bringing about that result.

In order the better to appreciate the effects resulting either from the increased manual skill and dexterity of the labourer, or from an improvement in the tools or machines used by him, let us suppose that the productive powers of industry are *universally* augmented, and that the workmen engaged in every different employment can, with the same exertion,

* *Nouveaux Principes*, Tome II. p. 318.

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produce *ten* times the quantity of commodities as at present: Is it not evident that this increased facility of production would increase the wealth and enjoyments of every individual in a tenfold proportion? The shoemaker who had formerly only manufactured *one* pair of shoes a day, would now be able to manufacture *ten* pairs. But as an equal improvement would have taken place in every other department of industry, he would be able to obtain ten times the quantity of every other product in exchange for his shoes. In a country thus circumstanced, every workman would have a great quantity of his own work to dispose of, beyond what he had occasion for; and as every other workman would be in the same situation, each would be enabled to exchange his own goods for a great quantity, or, what comes to the same thing, for the price of a great quantity of those of others. The condition of such a society would be happy in the extreme. All the necessaries, luxuries, and conveniencies of life, would be universally diffused.

It may, however, be asked, would the *demand* be sufficient to take off this increased quantity of commodities?—Would their excessive multiplication not cause such a glut of the market, as to force their sale at a lower price than would be required to repay even the diminished cost of their production? But it is not necessary, in order to render an increase in the productive powers of labour advantageous to society, that these powers should always be fully exerted. If the labourer's command over the necessaries and comforts of life were suddenly raised to ten

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times its present amount, his consumption as well as his savings would doubtless be very greatly increased; but it is not at all likely that he would continue to exert his full powers. In such a state of society workmen would not be engaged twelve or fourteen hours a day in hard labour, nor would children be immured from their tenderest years in a cotton-mill. The labourer would then be able, without endangering his means of subsistence, to devote a greater portion of his time to amusement, and to the cultivation of his mind. It is only where the productive powers of industry are comparatively feeble—where supplies of food have to be drawn from soils of the fourth or fifth degree of fertility—and where the population is in excess, that workmen are compelled to make these excessive exertions. High wages are only advantageous because of the increased comforts they bring along with them; and of these, an addition to the time which may be devoted to purposes of amusement, is certainly not one of the least. Wherever wages are high, and little subject to fluctuation, the labourers are found to be active, intelligent, and industrious. But they do not prosecute their employments with the same intensity as those who are obliged, by the pressure of the severest necessity, to strain every nerve to the utmost. They are enabled to enjoy their intervals of ease and relaxation; and they would be censurable if they did not enjoy them.

Suppose, however, that the productive powers of industry are increased ten times; nay, suppose they

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are increased ten thousand times, and that they are exerted to the utmost, still it is easy to see they could not occasion any lasting glut of the market. It is true, that those individuals who are most industrious may produce commodities which those who are less industrious—who prefer indolence to exertion—may not have the means of purchasing, or for which they may not be able to furnish an *equivalent*. But the glut arising from such a contingency must speedily disappear. Every man's object, in exerting his productive powers, must be either directly to consume the produce of his labour himself, or to exchange it for such commodities as he wishes to obtain from others. If he does the last—if he produces commodities, and offers them in exchange to others who are *unable* to furnish him with those he is desirous of obtaining, he is guilty of a miscalculation—he should either have offered them in exchange to others, or he should have applied himself *directly to produce the commodities he wanted:* And if government do not interfere to relieve him from the consequences of his error, he will, if he cannot attain his object by the intervention of an exchange, immediately set about changing his employment, and will produce such commodities only as he means to consume. It is clear, therefore, that an *universally* increased facility of production, can never be the cause of a permanent overloading of the market. Suppose that the amount of capital and industry, engaged in every different employment in this country, is adjusted according to the

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effectual demand, and that they are *all* yielding the same net profit; if the productive powers of labour were universally increased, the commodities produced would all preserve the same relation to each other. Double or triple the quantity of one commodity would be given for double or triple the quantity of every other commodity. There would be a general augmentation of the wealth of the society; but there would be no excess of commodities in the market; the increased equivalents on the one side being precisely balanced by the increased equivalents on the other. But if, while one class of producers were industrious, another class chose to be idle, there would undoubtedly be a temporary excess. It is clear, however, that this excess arises entirely from the *deficient* production of the idle class. It is not a consequence of production being too much increased, but of its being too little increased. Increase it more—make the idle class equally productive with the others, and then they will be able to furnish them with equivalents for their commodities, and the surplus will immediately disappear. It is in vain that Mr Malthus attempts to meet this reasoning by supposing the existence of an *indisposition to consume.* There is no such indisposition in any country in the world;—not even in Mexico, to which Mr Malthus has specially referred.* The indisposition is not to consume, but to produce. In Mexico, as elsewhere, no one is entit-

* *Principles of Political Economy*, p. 382.

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led to consume the products of the industry of others, unless he furnishes them with an equivalent; but the Mexican prefers indolence to the gratification which the commodities he might procure by means of his labour would afford him. Mr Malthus has mistaken this indisposition to produce, for an indisposition to consume; and has, in consequence, been led to deny the proposition, that effective demand depends upon production.

Mr Malthus has justly stated, that the demand for a commodity depends "on the *will* combined with the *power* to purchase it;" that is, on the power to furnish an equivalent for it. But when did any one hear of a want of *will* to purchase commodities? If the will alone could procure the necessaries and luxuries of life, every beggar would become as rich as Crœsus, and the market would constantly be understocked with commodities. The *power* to purchase is the real and the *only* desideratum.—It is the incapacity of furnishing equivalents for the products they wish to obtain, that involves so many in want and wretchedness. The more, then, that this capacity is increased, that is, the more industrious every individual becomes, and the more the facility of production is increased, the more will the condition of society be improved.

It is quite visionary to suppose that a deficiency of foreign demand for the products of industry can ever be occasioned by an increase of productive power. Such want of demand, when it does occur, *must* proceed from one or other of the following causes:—It

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must either be a consequence of the comparatively *high price* of our commodities, or of the restrictions which have been imposed on the importation of British goods into foreign countries, and on the importation of foreign goods into Britain. Now, it is obvious that, if the falling off in the foreign demand proceeds from the *first* of these causes, it must have been infinitely increased had the cost of production continued undiminished. If, notwithstanding all the contrivances of our Arkwrights and Watts, to save labour and expence in the production of commodities, we are still in danger of being undersold by foreigners, it is certain that, without these contrivances, we should not have been able to withstand their competition for a single year. It would be not a little inconsequential, first to complain that our goods were too high priced for the foreign market, and then to declaim against the only means by which their prices can be reduced, and the demand increased!

It is not to increased facilities of production, but to the restraints imposed on the freedom of trade, that those commercial revulsions, we have so frequently experienced, are really to be ascribed. The inhabitants of Poland, Sweden, France, China, Brazil, &c. are most desirous to exchange their corn, timber, iron, wine, silks, tea, sugar, &c. &c. for our products. These commodities, too, are particularly well fitted for our markets, and form, indeed, the very articles our merchants are most anxious to import. It is plain, therefore, that the decline that has occasion-

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ally taken place in the foreign demand for our products, has not been owing to their excessive supply —for the foreigners are both *able* and *willing* to purchase them—but to those impolitic and injurious regulations which fetter and restrict the freedom of importation and exportation in all commercial countries. It is not in our power, nor in that of any one country, to give universal freedom to commerce. But if we repealed our own restrictive regulations—if, instead of forcing our people to build their houses of the inferior and expensive timber of Canada, we were to allow them to use the better and cheaper timber of Norway and Sweden ;—and if, instead of forcing the cultivation of poor soils, that yield only a scanty and inadequate return, we were to import the comparatively cheap corn of Poland and the United States, there can be no doubt that the foreign demand for our commodities would be astonishingly increased ; and, what is of perhaps still more importance, it would become comparatively steady.

But it has been said, that any relief which we could derive from the adoption of a more liberal commercial system, would only be temporary ; that the increased power of production we possess is so vast, that we should ere long glut the market of the world with our commodities ! This, it must be confessed, is rather an improbable supposition. But, assuming that we could, by means of our improved machinery, manufacture a sufficient supply of cottons to serve the market of the world, and even to sink their price below the cost of production, it could have no bad

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consequence, but the reverse. The self-interest of the manufacturers would immediately suggest to them the advantage of withdrawing a part of their capital, and employing it in some other species of industry. After we had reverted to the sound principle of free trade, the demand for our commodities would be comparatively *steady*. It would no longer be materially affected by the circumstance of our harvests being more or less productive than ordinary, or by any of those contingencies which now exert so great an influence on our trade. And if it was found that, on an average of two or three years, we had not been able to dispose of our cottons, woollens, &c. with a sufficient profit, it would be a proof that their production had been carried to too great an extent; and as there could be no rational prospect of the demand being speedily increased, manufacturers would not be tempted, as at present, to linger on in a disadvantageous employment, but would transfer a portion of their capitals to other businesses; and the supply of goods being thus diminished, their price would rise to its proper level.

Still, however, it may be urged, that, under a liberal commercial system, we might not only be able to manufacture too much of one, but of *every commodity* demanded by foreigners. But admitting that such were the case, still it would not afford any ground whatever for doubting, that an increase of the powers of production would even then be attended with great and unmixed advantage. If foreigners are unable to furnish us with the equivalents



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which we wish to obtain in exchange for the products we have sent abroad, we must relinquish the production of the exported commodities, and directly produce those we intended to import. Now, the real question comes to be—if a question can be raised on such a subject—Whether it is advantageous that we should be able to produce these commodities cheaply, or not? Foreign trade is beneficial, because a country, by exporting the produce of those branches of industry in which it has some peculiar advantage, is enabled to import the produce of those branches in which the advantage is on the side of the foreigner. But, to insure this benefit, it is not necessary that the *whole* capital of the country should be invested in those particular branches. England can furnish better and cheaper cottons than any other country; but it is not therefore contended, that she ought to produce nothing but cottons. If she were able to furnish the same supply of cottons as at present with a tenth part of the capital and labour, is it not plain that her *means* of producing all other commodities would be prodigiously augmented?

But it is contended, that these means would not be put in requisition; and that it is impossible so great a saving of labour could take place in a branch of industry employing a million and upwards of people, with any rational prospect of such an increase in the demand for labour in other employments, as would take up the hands that would be thrown idle. As this is an objection which has been reproduced in a thousand different shapes, and on which much stress

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has been laid, it will be proper to examine it somewhat in detail.

In the *first* place, then, it is necessary to observe, that an improvement which had the effect to sink the price of cottons nine-tenths,—that is, which enabled one-tenth of the capital and labour now engaged in that manufacture, to produce the same quantity of commodities, could not possibly throw the other nine-tenths out of employment. The demand for cottons, instead of remaining stationary, would, under such circumstances, be very greatly increased. Those who subsist by their labour, and whose command over the necessaries and luxuries of life is always comparatively limited, form an immense majority of the population of every country. And any considerable reduction in the price of a commodity in general use, has almost always been found to extend the demand for it in a much greater proportion. This has been eminently the case in the cotton manufacture itself. It is perhaps impossible to name another branch of industry in which the powers of production have been so much increased; and yet, it is certain that the extension of the market, consequent upon every new invention to save labour and expence, has always occasioned the employment of an additional number of hands. Nor, is there any reason to conclude that the effect of improvements in time to come, will be in any respect different from their effects hitherto. Such a reduction of price as has been supposed, would give our cottons a decided superiority in every market in

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the world. Foreign governments would in vain attempt to prohibit their introduction. Cheap goods are always sure to make their way through every barrier.—*Per medios ire satellites amant.*—In the words of Sir Josiah Child; "*They that can give the best price for a commodity, shall never fail to have it by one means or other, notwithstanding the opposition of any laws, or interposition of any power by sea or land; of such force, subtilty, and violence, is the general course of trade.*" *

But, in the *second* place, it is not difficult to show, that the advantages attending the introduction of machinery do not, as Mr Malthus supposes, at all depend on the market extending in proportion to the reduction in the price of commodities. They are equally great in cases where no such extension can take place.—Suppose the price of cottons were reduced in the proportion of ten to one; if the demand for them could not be extended, it is certainly true, that nine-tenths of the capital and labourers engaged in the cotton manufacture would be thrown out of *that* employment: But it is equally certain, that there would be a proportional extension of the demand for the produce of *other* branches of industry. It must be remembered, that the means by which the purchasers of cottons formerly paid for those that were high-priced, could not be diminished by the facility of their production being increased and their price reduced. They would still have the *same*

* *Discourse about Trade*, p. 129. Ed. 1690



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*capital* to employ, and the *same revenue* to expend. The only difference would be, that one pound would henceforth purchase as large a supply of cotton goods as ten pounds did before; and that the remaining nine pounds would be applied to the purchase of some other species of commodities.—That they *would be so applied* is certain; for although we may have enough of one particular commodity, it is absolutely impossible that we can ever have what we should reckon a sufficient supply of *all* sorts of commodities. There are no limits to the passion for accumulation.

> *Nec Cræsi fortuna unquam nec Persica Regna*
> *Sufficient animo*—

The portion of revenue that had been set free by the fall in the price of cottons, would not be permitted to lie idle in our pockets. It would unquestionably be applied to purchase an additional quantity of something else. The *total* effective demand of the society would not, therefore, be in the slightest degree impaired. Whatever capital and labour had been disengaged from the manufacture of cottons, would afterwards be as profitably employed in the production of those commodities, for which there would be an equivalent increase of demand: So that, after the lapse of such a period as would permit their transfer to those new employments, labourers would be in as great demand as before, while every individual would be able to obtain ten times the former quantity of cottons for

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the same quantity of labour, or of any other commodity whose real value had remained constant.

It has, however, been contended,* that when machinery is employed to perform work which has previously been performed by means of labourers, the price of the commodity is seldom or never diminished to such an extent as to render the reduction of price equivalent to the wages of the labourers thrown out of employment. The invention of machinery, says M. Sismondi, which would produce cottons 5 per cent. below the present prices, would occasion the dismissal of every cotton-spinner and weaver in England; while the increased demand for other commodities, occasioned by this trifling saving, would barely afford employment for 5 per cent. or *one twentieth* part of the disengaged hands; so that were an improvement of this kind to take place, the vast majority of these persons must either be starved outright, or provided for in the workhouse. But, in making this statement, M. Sismondi has neglected one most important element —he has not told us how his machines are to be produced. If, as M. Sismondi has tacitly assumed, the machines cost nothing—if, like atmospheric air, they are the free gift of Providence, and do not require any labour to produce them—then, instead of prices falling 5 per cent., they would fall to *nothing*; and every farthing that had formerly been applied to purchase cottons, would be set at liberty, and applied to the

* Sismondi *Noveaux Principes,* Tome 2de, p. 325.

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purchase of other commodities. But if, by stating that the introduction of new machinery has reduced the price of cottons 5 per cent., M. Sismondi means, as he must do, that L. 20,000 invested in one of his improved machines, will produce the same quantity of cottons as L. 21,000 employed as circulating capital, or in the machinery now in use; then it is plain, that $\frac{20}{21}$ parts of all the capital formerly employed in the cotton manufacture will henceforth be employed in the manufacture of machinery, and that the other $\frac{1}{21}$ part will form a fund to support the labourers engaged in producing the commodities for which, owing to the fall of 5 per cent. in the price of cottons, a proportionally greater demand must be experienced. In this case, therefore, it is plain that, instead of twenty out of every twenty-one labourers employed in the cotton manufacture being turned out of employment, there would not be a single individual in that situation. But as this reasoning proceeds on the supposition that the machines would last only *one* year, M. Sismondi might still contend, that, if they were fitted to last *ten* or *twenty* years, there would be a deficiency of employment. The truth is, however, that the reverse holds; and that, instead of being diminished, the demand for labour would be increased, according to the greater durability of the machines. Suppose profits are 10 per cent.; when a capital of L. 20,000 is invested in a machine calculated to last *one* year, the goods produced by it must sell for L. 22,000, viz. L. 2000 as profits, and L. 20,000 to replace the machine itself. But if the

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machine were fitted to last *ten* years, then the goods produced by it, instead of selling for L. 22,000, would only sell for L. 3254. viz. L. 2000 as profits, and L. 1254 to accumulate as an annuity for ten years, to replace the original capital of L. 20,000. Thus it appears, that, by introducing a machine constructed with an equal capital, which should last *ten* years instead of *one* year, the prices of the commodities produced by it would be sunk to about *one-seventh* of their former price. The consumers of cottons would, therefore, by means of their equally increased demand for other articles, henceforth afford employment for *six-sevenths* of the disengaged labourers. But this is not the only effect that would be produced. The proprietor of the machine would have, exclusive of the ordinary profit on his capital, at the end of the first year, an additional stock of L. 1254, or $\frac{1}{16}$th of the value of his machine, which he must necessarily expend in one way or other in the payment of wages; at the end of the second year, this additional revenue or stock would be increased to about $\frac{1}{8}$th of the value of the machine; and, in the latter years of its existence, it is plain that, instead of having declined, the demand for labour must have very nearly *doubled*.

It appears, therefore, that no introduction of machines having a tendency to lower the price and to increase the supply of commodities, can possibly diminish the demand for labour, or reduce the rate of wages. The introduction of such machines into one employment, *necessarily occasions an*

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*equal or greater demand for the disengaged labourers in some other employment.* The only hardship which they ever impose on the labourer, is, that in some cases they force him to change his business. This, however, is not a very material one. A person who has been trained to habits of industry and application, can be easily moved from one employment to another. The various subordinate branches of all the great departments of industry have so many things in common, that an individual who has attained to any considerable proficiency in one, has seldom much difficulty in attaining to a like proficiency in any other. It is easy for a weaver of cottons to become a weaver of woollen cloths, or of linen; and it would require a very limited degree of instruction, to teach the maker of a cart or plough to construct a thrashing-machine.

Mr Malthus, however, is not satisfied with this reasoning. "In withdrawing capital," he says, "from one employment, and placing it in another, there is almost always a considerable loss. Even if the whole of the remainder were directly employed, it would be less in amount. Though it might yield a greater produce, it would not command the same quantity of labour as before; and, unless more menial servants were used, many persons would be thrown out of employment; and thus the power of the whole capital to command the same quantity of labour, would evidently depend upon the contingency of the vacant capitals being withdrawn *undiminished from their old occupations*, and finding immediately

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equivalent employment in others."* Mr Malthus means by this to state, that, although the effective demand of the society would not be diminished by an increased facility of production—for he distinctly admits that no such diminution would take place—yet, unless the *whole fixed capital*, which had been rendered useless by the improvement, could be withdrawn, and invested in some other branch, there would be no means of supplying this demand, or of employing the same quantity of labour as before. But this objection is grounded on a mistake, into which it is not a little surprising Mr Malthus should have fallen. A manufacturer's power to employ labour does not depend on the entire amount of his capital, but on the amount of that portion only which is *circulating*. A capitalist who is possessed of a hundred steam-engines, and of L. 50,000 of circulating capital, has no greater demand for labour, and does not, in fact, employ a single workman more than the capitalist who has no machinery, and only L. 50,000 devoted exclusively to the payment of wages. All this portion could, however, be withdrawn; and, as it is by its extent that the extent of the power to employ labour is always regulated, it cannot be true, that, when capitals are transferred from one business to another, "many persons would be thrown out of employment."

It is certainly true, that the individual who is obliged to transfer his capital from one business to another, will lose all the profit he formerly derived

* *Principles of Political Economy*, p. 404.

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from that portion which cannot be transferred. But, is the introduction of improved machinery to be prevented, because the old clumsy machinery previously used may be superseded, and the capital invested in it lost? A few individuals may lose; but the whole society is always sure to derive a great accession of wealth from the adoption of every device by which labour can be saved. It has been already shown, that neither the power nor the will to *purchase* commodities, is, or can be diminished by the introduction of machines which facilitate production; and as the power to employ labour depends on the amount of circulating capital, which can be withdrawn without loss, it is plain it could not be diminished. The wages of labour would, therefore, continue as high as before, while the reduction in the price of commodities would enable these wages to exchange for a greater share of the necessaries and comforts of life. It appears, therefore, however much it may be at variance with the common opinions on the subject, that an improvement in machinery is always more advantageous to the labourer than the capitalist. In particular cases, it may reduce the profits of the latter, and destroy a portion of his capital; but it cannot, in any case, diminish the wages of the labourer, while it must lower the value of commodities, and improve his condition.

It may be conceded to Mr Malthus that, were the foreign demand for our cottons and hardware suddenly to cease, it might be difficult, perhaps impossible, to find equally advantageous employments for the capital



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and labour that would thus be thrown out of employment. * But although this is a good reason why we should be extremely cautious about adopting such measures as may have any tendency to place our foreign customers in a situation to manufacture for themselves, or to induce them forcibly to exclude us from their markets, it is not easy to see why it should have induced Mr Malthus to question the advantage of improvements in machinery. It still appears to me, that an increased facility of production would be as advantageous in a country surrounded by Bishop Berkeley's wall of brass, as in a country maintaining an extensive intercourse with all the other countries of the world. We can have no motive to induce us to export cottons or other products, except a desire to exchange them for such commodities as we wish to import from abroad. It is possible, however, that foreigners may refuse to give us these commodities in exchange for our cottons and hardware; and it is plain that, in such a case, we must either offer them some other commodity, which they may be disposed to accept as an equivalent, or, if that be impossible, we must ourselves set about producing the commodities we wish to obtain. Now, supposing that we are compelled to have recourse to this latter alternative, and that, instead of importing the wines of Portugal, the sugars of the West Indies, and the corn of Poland, we are obliged directly to produce these or equivalent articles at home, is it possi-

* *Principles of Political Economy*, p. 411.

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ble to doubt that it would be of the greatest advantage were we to discover processes whereby we might be able to obtain them, or their substitutes, as cheap or cheaper than before? Mr Malthus has indeed said, that there are no grounds for supposing that such an improvement could take place; and I am not disposed to dissent from this opinion. But the question is not, whether the improvement can be made, but whether, *if made*, it would not be greatly and signally beneficial?—and whether every approach to it be not advantageous?

It will be observed, that, in arguing this question, it has been supposed throughout, that the object which the person who constructs a machine has in view, is, to lower the cost of the commodities to be produced by its agency, and, consequently, to increase their quantity. But Mr Ricardo has supposed,* that a machine might be introduced, not in the view of reducing the cost of commodities, but because it would give its owner the same, or, at all events, but a very little more, net profit, than he derived from the employment of labour; and in such a case, there can be no doubt, that the immediate effect of the introduction of the machine, would be most injurious to the labourer. To render this more intelligible, let us suppose that profits are 10 per cent. and that a capitalist has a capital of L. 10,000 employed in paying the wages of workmen, who produce him as much cloth as sells

* *Principles of Political Economy and Taxation*, 3d edit. p. 466.

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at the end of the year for L. 11,000, that is L. 10,000 to replace his capital, and L. 1000 as profits. Mr Ricardo says, that it will be indifferent to this capitalist, whether he invests his capital of L.10,000 in a very durable machine, that will produce only the *one eleventh* of the cloth, or as much as will yield the L. 1000 of profits; though, if he does this, it is obvious, that all the workmen he employed will be turned adrift, and there will no longer be either a demand for their services, or a fund for their maintenance. But though such a case is possible, it may, nevertheless, be safely affirmed, that it has never hitherto actually occurred, and that it is extremely unlikely it ever will. Capitalists never resort to machines, unless when they expect to produce, by their means, the same supply of commodities as before, at a cheaper rate. If they were to act on the principles supposed by Mr Ricardo, those who had previously been bringing 110,000 yards of cloth to market, of which 10,000 were profits, would, in future, bring only these 10,000; and under such circumstances, every fresh introduction of machinery would inevitably be followed by *a diminished supply of commodities, and a rise of prices.* But the opposite effects, as every one knows, have hitherto always followed, and, we may confidently predict, will always continue to follow, every introduction of machinery. No man would choose to invest his capital in a machine from which it could not be withdrawn, were it only to yield the same, or but a little more profits, than it did when employed in supporting labourers; for this would be

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to expose his fortune to very considerable hazard from the caprices of fashion, at the same time that it would greatly lessen his influence and consideration in the country. The case supposed by Mr Ricardo is barely possible. In the actual business of the world, machines are never introduced to lessen, but always to augment *gross produce*; or, which is the same thing, they are introduced only when it is believed they can supply the existing demand at a cheaper rate than it could be supplied before; and it has been sufficiently proved, that while they do this, they can never occasion the least injury to the labourer, but must, on the contrary, be highly beneficial to him.

It appears, therefore, that the utmost facility of production can never be injurious, but must always be attended with the greatest advantage. "Augmenter la reproduction annuelle, la porter aussi loin qu'elle peut aller, en débarassant de toute entrave et en animant l'activité des hommes, voila le *grand but* que doit se proposer le gouvernement." * An excess of one particular commodity may be occasionally produced; but it is quite impossible that there can be too great a supply of every commodity. The fault is not in producing too much, but in producing commodities which either do not suit the tastes of those with whom we wish to exchange them, or which we cannot ourselves consume. If we attend to these two grand requisites,—if we produce such commodities only as can be taken off by those to

* Dignan *Essai sur l'Economie Politique*, p. 134.

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whom we offer them for sale, or such as are directly available to our own use, we may increase the power of production a thousand or a million of times, and we shall be just as free of all excess as if we diminished it in the same proportion. Every person in possession of commodities is qualified to become a demander. But if, instead of bringing them to market, he chooses to consume them himself, there is obviously an end of the matter; and it is plain, that the multiplication of such commodities to infinity, could never occasion a glut. Suppose, however, that he does not consume them himself—that he wishes to obtain other commodities, and that he offers them in exchange. In this case—and in this case only—there may be a glut; but how does it arise? Not certainly because there has been an excess of production, but because the producers have not properly adapted their means to their ends. They wanted, for example, to obtain silks, and they offered cottons in exchange for them: the proprietors of the silks were, however, already sufficiently supplied with cottons, and they wanted broad cloths. The cause of the glut is therefore obvious: It consists not in over production, but in the production of cottons which were not wanted, instead of broad cloths which were wanted. Let this error be rectified, and the glut will disappear. Even on the supposition that the proprietors of silks are not only supplied with cottons, but that they are also supplied with cloth, and every other commodity which it is in the power of the demanders to produce, the prin-

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ciple for which we are contending would not be invalidated. For, if those who want silks cannot obtain them in exchange for broad cloths, or such other commodities as they are either possessed of, or can produce, they have an obvious resource at hand—they can abandon the production of the commodities which they do not want, and apply themselves *directly to the production of those* which they do want, or of substitutes for them. In no case, therefore, whether a country has or has not an intercourse with its neighbours, or whether the market for its commodities can or cannot be extended, can an increased facility of production ever be attended with the slightest inconvenience. We might with equal truth pretend, that an increased fertility of soil and an increased salubrity of climate are injurious. Such commodities as are carried to market, are produced only in the view of obtaining others in exchange for them; and the fact of their being in excess, affords of itself a conclusive proof, that there is a corresponding deficiency in the supply of those they were intended to buy, or to be exchanged for. An universal glut of all sorts of commodities is, therefore, impossible: Every excess in one class *must* be balanced by an equal deficiency in some other. It is not the increase, but the *wrong application* of productive power, the *improper adaptation* of means to ends, that is in every case the specific cause of gluts. And it is plain that the real and only effectual remedy for this evil is be found in the perfect freedom of industry, and in the establish-

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ment of a liberal and enlarged system of commercial policy. Were we gradually to recur to the sound principle of free trade, and to renounce every attempt to foster and encourage one branch of industry more than another, the chances of injudicious production would be very greatly diminished, and, when it did occur, it would be much sooner rectified. Hitherto, when too much capital has been attracted to one branch of industry, instead of leaving it to find out other channels of investment for itself, Government has generally interfered to prevent the restoration of that natural equilibrium between the price and cost of production which the ardour of speculation may sometimes derange; but which the self-interest of those concerned will, when let alone, infallibly restore. It is to this interference on the part of Government, that nine-tenths of the gluts which now occur may be traced. The restrictive and prohibitive system has wrenched society out of its natural position. It has placed every thing on an insecure basis. Our corn laws, for example, by raising the average price of corn in Great Britain to nearly double its price in every other country, prevents all exportation in a year of unusual plenty until the price has sunk 40 or 50 per cent. below the cost of production, or until the agriculturists have been involved in the extreme of misery and ruin. Such is universally the case. Every artificial stimulus, whatever may be its momentary effect on the department of industry to which it is applied, is immediately disadvantageous to others, and ultimately ruinous to that

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which it was intended to promote. No arbitrary regulation, no act of the Legislature, can add any thing to the capital of the country; it can only force it into artificial channels. Besides, after a sufficiency of capital has flowed into these channels, a reaction *must* commence. There can be no foreign vent for their surplus produce; and whenever any change of fashion, or fluctuation in the taste of the consumers occasions a falling off in the demand, the warehouses are sure to be filled with commodities which, in a state of freedom, would not have been produced. The ignorant and the interested always ascribe such gluts to an excess of productive power. The truth is, however, that they conclusively indicate its diminution; and that they are the necessary and inevitable result of the application of those poisonous nostrums by which the natural and healthy state of the public economy is vitiated and deranged. *

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* M. Say was the first who showed, in a satisfactory manner, that effective demand depends upon production (see his chapter *de Debouchès;*) and that gluts are the result of the misapplication, and not of the increase, of productive power. The same important principle was soon after developed by Mr Mill; who has illustrated it with his accustomed talent, both in his admirable tract entitled, *Commerce Defended,* (p. 80.) and in his *Elements,* (p. 222.)

But, although the establishment of this principle is wholly due to the distinguished authors just mentioned, it had been noticed by Dean Tucker, in a pamphlet published in 1752, (*Queries on the Naturalization Bill,* p. 13;) and is very clear-

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## SECTION V.

*Population always proportioned to the means of Subsistence—Capacity of the principle of Population to repair the ravages of Plagues and Famines—Comparative increase of Capital and Population.*

THE circumstances most favourable for the production of wealth being thus traced and exhibited, we shall now shortly investigate those that determine the increase and diminution of man himself.

From the remotest antiquity down to our own times, it had been the uniform policy of legislators to give an artificial stimulus to population, by encouraging early marriages, and bestowing rewards on those who had reared the greatest number of children. But the researches of Mr Malthus, who, though not the original discoverer of the principle of population, was certainly the first to establish it on a secure foundation, have shown the mischievous nature

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ly stated in a Tract published in 1795—" Demand," says the writer, " is at all times regulated by production, which it never can exceed, and which it must always accompany.—While there is production there must be demand, nor is it possible to conceive the one without the other. To suppose that there may be a production of commodities without a demand —provided these commodities be of the right species, and no individual can have any interest in producing any other—is as absurd as to suppose, that the revenues of the several individuals composing the society may be too great for their consumption.—*Sketch of the Advance and Decline of Nations*, p. 82.



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of all such interference. They have shown, that every increase in the numbers of the people, occasioned by artificial expedients, and which is not either preceded or accompanied by a corresponding increase in the means of subsistence, can be productive only of misery, or of increased mortality;—that the difficulty never is to bring human beings into the world, but to feed, clothe, and educate them when there;—that mankind *do* every where increase their numbers, till their multiplication is restrained by the difficulty of providing subsistence, and the consequent poverty of some part of the society;—and that, consequently, instead of attempting to strenghen the principle of increase, we should invariably endeavour to control and regulate it.

If the extraordinary pains most governments have taken to encourage the increase of population had not been positively pernicious, it is pretty evident they were at any rate quite uncalled for and unnecessary. Man does not require any adventitious inducement to stimulate him to enter into the matrimonial state. Wherever two persons have the means of subsisting, a marriage invariably takes place. "The demand for *men*," says Dr Smith, "like that for any other commodity, necessarily regulates the production of men; quickens it when it goes on too slowly; and stops it when it advances too fast. It is this demand which regulates and determines the state of population in all the different countries of the world—in North America, in Europe, and in China; which renders it rapidly pro-

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gressive in the first, slow and gradual in the second, and altogether stationary in the last."* The widest and most comprehensive experience confirms the truth of this remark. Those who inquire into the past and present state of the world, will find, that the population of all countries has been invariably proportioned to their means of subsistence. Whenever these means have been increased, population has also been increased, or been better provided for; and when they have been diminished, the population has been worse provided for, or has sustained an actual diminution of numbers, or both effects have followed.

But the principle of increase in the human race is so powerful as not only to keep the population of the most favoured countries, and where industry is most productive, up to the means of subsistence, but to give it a strong tendency to exceed them. Not a few of the inhabitants of those countries that are making the most rapid advances in the accumulation of wealth, have to maintain a constant struggle with poverty, and are but insufficiently supplied with the articles necessary to provide for the wants of a numerous family. Subsistence is the grand desideratum. If it be supplied in sufficient abundance, population may safely be left to take care of itself. So far from there being the least risk of its falling below the means of subsistence, the danger is all on the other side. There are no limits to the prolific power of

* I. p. 22.

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plants and animals. They are all endued with a principle which impels them to increase their numbers beyond the nourishment prepared for them. The whole surface of the earth might be gradually covered with shoots derived from a single plant; and though it were destitute of all other inhabitants, it might, in a few ages, be replenished from a single nation, or even from a single pair.

"Throughout the animal and vegetable kingdoms," says Mr Malthus, "nature has scattered the seeds of life with a most profuse and liberal hand; but has been comparatively sparing in the room and nourishment necessary to rear them. The germs of existence contained in this earth, if they could freely develope themselves, would fill millions of worlds in the course of a few thousand years. Necessity, that imperious, all pervading law of nature, restrains them within the prescribed bounds. The race of plants, and the race of animals, shrink under this great restrictive law; and man cannot by any efforts of reason escape from it." *

The effect of plagues and epidemic disorders illustrates the powerful operation of the principle of population in a very striking manner. However afflicting these scourges may be to humanity, there is no reason to suppose that the world would have been more populous than it really is, had they been entirely unknown. So long as the means of subsistence are not impaired, the principle of increase speedily

* *Essay on Population*, I. p. 3. 5th Ed.

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fills up the vacuum caused by any unusual mortality. The diminution of the population improves the circumstances of those who survive. By lessening the number of people without lessening the capital that is to feed and maintain them, it gives them an increased power over subsistence. The period of marriage is, in consequence, accelerated, and the number of births proportionally increased. It appears from the tables given by M. Messance, in his valuable work on the Population of France, that the ravages occasioned by the plague of Marseilles, in 1720, were very soon repaired; and that, notwithstanding the diminution of the population, the marriages became more numerous, and were also more fruitful, immediately after the mortality had subsided. But the effects which followed the pestilence that desolated the Prussian dominions, and the middle parts of Europe, in 1710 and 1711, are still more remarkable. Sussmilch, whose accuracy is well known, mentions that, previously to this pestilence, the average annual number of marriages, in a district of Prussia which had been carefully surveyed, amounted to about 6000; and, though the pestilence is supposed to have swept off a full *third* of the inhabitants, yet, in the year immediately following this excessive mortality, the marriages amounted to double their former number, or to about 12,000! * It would be easy to produce a thousand similar instances of the prodigious activity of the principle of

* Malthus *on Population,* Vol. II. p. 170, 5th ed.

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population, and of its capacity to repair the most dreadful ravages. It might, for example, have been supposed, that the massacres of the revolution, and the bloody wars in which France was constantly engaged for more than twenty years, would have made a serious inroad on her population. But, instead of being diminished, the population of France was considerably increased in the interval between the expulsion and restoration of the Bourbons. The abolition of the feudal privileges of the nobility, and of the tithes, *gabelle*, *corvées*, and other odious and oppressive burdens, improved the condition, and stimulated the industry of the people. The means of subsistence were greatly increased; and the new impulse that was thus given to the principle of population, was sufficient, not only to repair the waste occasioned by the ravages of the guillotine and the sword, but to make a further addition, in the course of twenty-five years, of about three millions to the numbers existing in 1790. The effects of the dreadful plague that raged in London, in 1666, were not perceptible fifteen or twenty years afterwards. It may even be doubted, whether Turkey and Egypt are upon an average much less populous for the plagues which periodically lay them waste. If the number of people which they contain be considerably less now than formerly, it is rather to be attributed to the tyranny and brutal oppression of the Turkish government, which destroys their industry, than to the losses they sustain by the plague. The traces of the most destructive famines in China, Hindostan,

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Egypt, and other countries, are very soon obliterated; and the most tremendous convulsions of nature, such as volcanic eruptions and earthquakes, if they do not happen so frequently as to frighten away the inhabitants, or to destroy their industry, have been found to produce almost no effect on the average population. *

The extreme importance of controlling the principle of population, may be shown by comparing the natural ratio of its increase, with the natural ratio of the increase of capital. We have already seen, that that portion of the accumulated produce or capital of a country which consists of food and clothes, or of the various materials that can be made available to the support of man, forms the only fund from which the inhabitants of a civilized country can derive any portion of their subsistence. And hence it is plain, that if capital has a natural tendency to increase faster than population, the condition of society must, generally speaking, become more and more prosperous: While, on the other hand, if population has a tendency to increase faster than capital, and if this tendency be not checked by the prevalence of moral restraint, or by the prudence and forethought of the people, it is equally plain, that the condition of the people must become gradually more and more wretched, until the portion of subsistence, falling to the share of the majority, be re-

* Malthus, II. p. 198,

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duced to the lowest pittance that can possibly support mere animal existence.

It is not possible to obtain any very accurate estimate of the absolute quantity of capital in a country at different periods; but the capacity of that capital to feed and support human beings, and the rate of its increase, may, notwithstanding, be learned with sufficient accuracy, for our purpose, by referring to the progress of population. It is clear from the previous statements, that the inhabitants of a country, supposing them to have the same, or about the same, command of the necessaries and conveniences of life, cannot increase without a corresponding increase of capital. Whenever, therefore, we find the people of a country increasing without any, or with but very little, variation taking place in their condition, we may conclude, that the capital of that country is increasing in the same, or very nearly the same proportion. Now, it has been established beyond all question, that the population of several of the States of North America has, after making due allowance for immigrants, continued to double for a century past in so short a period as twenty, or at most twenty-five years; and as the quantity of necessaries and conveniences, falling to the share of an inhabitant of the United States, has not been materially increased or diminished during the last century, this increase of population is a proof, that the capital of the country has advanced in a corresponding ratio. But in all old settled countries, the increase of capital, and, consequently, of population, is much slower. The popu-

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lation of Scotland, for example, is supposed to have amounted to 1,050,000 in 1700; and as it amounted to 2,135,000 in 1820, it would follow, on the principle already stated, that the capital of the country had required about 120 years to double. * In like manner, the population of England and Wales amounted to 6,064,000 in 1740, and to 12,256,000 in 1821, showing that the population, and, therefore, the capital of that country, applicable to the support of man, or the supply of food, clothes, and other articles required for the support of human life, had doubled in about *eighty* years.

The cause of this discrepancy in the rates at which capital and population advance in different countries, is to be found in the circumstance of industry being more productive in some than in others. It is obvious, that the increase of that portion of the capital of a country which consists of the food and other raw products required for the subsistence and accommodation of man, must be very materially influenced by the fertility of the soils that are under tillage. Suppose the science of agriculture to be equally advanced in two different countries: If the fertility of the soils under cultivation was twice as great in the one as in the other, it is evident, that the power of adding to that portion of capital which consists of food and other raw materials, and which is always the most important, would be twice as

* It has more than doubled in this period; for the condition of all classes of people has been exceedingly improved.

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great in the country where the soil was of the highest, as in that where it was of the lowest fertility. It is on this principle, that we are enabled to account for the extraordinarily rapid increase of capital, and, consequently, of population, in the United States, and generally in all colonies planted in fertile and thinly-peopled countries. America possesses a boundless extent of fertile, and hitherto unoccupied land; and her agriculturists, who are acquainted with all the arts and sciences of Europe, apply themselves only to the cultivation of the finest soils. Their industry is, in consequence, extremely well rewarded. Each farmer has a great deal more produce than is required for his own consumption, or that of his family; and as he accumulates the surplus as capital, there is a proportionally rapid increase of capital, and, consequently, also of population.

But the situation of Great Britain, and of all old settled and comparatively populous countries, is entirely different. Our most fertile lands have long since been brought under tillage; and we are now obliged to raise whatever additional supplies of food we require, either by forcing the more fertile lands, or by resorting to such as are of very inferior productive power. The consequence is, that agricultural industry is here comparatively ill rewarded. A given quantity of labour applied to the worst lands under tillage in England, does not certainly yield above half the quantity of food, and other raw produce, that it would yield were it applied to the cultivation of lands of the same degree of fertility

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as the worst that are under tillage in the western States of America; and, hence, it follows, that the undertaker of any work in England, who should give the same amount of produce to his men, as wages, that is given to labourers in these States, would have a far less quantity remaining to himself, and would have a proportionally small power of accumulating capital. It is true, that, in the event of wages being reduced when tillage is extended over inferior soils, the share of the produce falling to the employers of workmen, is not diminished to the same extent that production is diminished. But as the labourers must always obtain such a supply of necessaries and conveniences as is sufficient to enable them to exist, and continue their race, no very considerable reduction can, in most cases, be made from wages: And, in point of fact, it is invariably found, that wherever tillage is widely extended over inferior soils, both the amount of produce, and the share falling to the capitalists are very much diminished; and there is, in consequence, a comparatively slow increase of capital and population.

The powerful influence exercised by the quality of the soils under cultivation on the productiveness of industry, and, consequently, on the accumulation of capital, may be learned as well by tracing the progress of cultivation in the same country, as by comparing its state in different countries. It is stated, for example, by Messrs Iveson, Harvey, Wakefield, and other intelligent witnesses examined by the Committee of the House of Commons, appointed, in 1822,

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to inquire into the state of agriculture, that the best lands under tillage in England yield from thirty-six to forty bushels of wheat per acre, while the worst lands under tillage only yield from eight to ten bushels. Now, it is apparent that, with an equal degree of agricultural skill, there would have been four times the quantity of produce obtained by the agency of a given quantity of labour, when the best lands in England only were cultivated, that will now be obtained by applying the same quantity of labour to the culture of the worst lands under tillage; and supposing other things to have been about equal at the two periods, there would have been in the first *four times the power to accumulate capital*, and, consequently, to provide for the wants of a population increasing four times as fast as in the latter period.

It is true, that the difference that has actually obtained in the progress of society in England, between the rates at which capital and population have increased at different periods, has not been proportioned to this difference in the quality of the soils successively brought under cultivation; and this because the science of agriculture has not been stationary, but has been, all the while, making constant advances. It is obvious, however, that if agricultural science had remained in the same state, the power of the country to increase its supplies of food, and, consequently, to provide for the principal wants of an increasing population, would have varied precisely according to the variations in the qualities of the soils successively brought under cultivation.



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But in countries in the situation of England and the United States, whose inhabitants speak the same language, and have a very extensive intercourse with each other, all those arts and sciences that are generally cultivated in them both, must approach very near to an equality. No considerable discovery could be made in agricultural science in England without its being immediately communicated to America, nor in America without its communication to England; and, therefore, if the lands last taken into cultivation in America be possessed of twice or thrice the productive power of those last taken into cultivation in England, there can be no doubt that agricultural industry in the former will be about twice or three times as productive as in the latter: and the power which each country will possess of increasing that portion of its capital which consists of food and other farm produce will be in the same proportion.

It appears, therefore, that the power or capacity which countries possess of producing sufficient supplies of food to feed their inhabitants, is very different at different stages of their progress. In the earlier periods, when population is comparatively limited, it being only necessary to cultivate the best lands, industry is comparatively productive, and there is a rapid increase both of capital and population: But the best lands in every advancing country of moderate extent are speedily exhausted; and, whenever this is the case, recourse must unavoidably be had to

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those of inferior fertility, to obtain the means of providing for an increasing population: And with every inferior quality of land brought under cultivation, a proportional diminution will be made in the productiveness of industry, and in the rate at which capital and population are advancing. Were cultivation so far extended in Kentucky and Louisiana, as to render the lands last subjected to tillage in them of no greater fertility than those last cultivated in Great Britain, the progress of capital and population would be reduced to precisely the same level there and here.

But while the power of all countries to feed additional inhabitants is thus progressively diminished, according to the diminished fertility of the soils which they must successively bring under cultivation, the power possessed by their inhabitants of adding to their numbers, undergoes no sensible change. That principle, or instinct, which impels man to propagate his species, has appeared in all ages and countries so nearly the same, that it may, in the language of mathematicians, be considered as a *constant quantity*. The same power that has doubled the population of America in twenty or twenty-five years, is always in operation; and if the supplies of food and other articles necessary for the support of the people continue to increase as fast as they have done, population will most certainly continue to advance in the same proportion in all time to come; or, at all events, until the space required to carry on the operations of industry has become deficient. But the

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principle of increase is quite as strong in Yorkshire or Normandy as it is in Kentucky or Illinois, and yet it is plainly impossible that the population of England or France can be doubled in so short a period. Owing to the greater sterility of the soils we are now cultivating, the quantity of produce to be divided between the undertakers of work in Great Britain and their labourers is much less than in America, and both parties have in consequence a less power of providing for the wants of a family. These circumstances have had a corresponding influence on the habits of our people. They have felt that it would be equally ruinous to themselves and their offspring to enter into matrimonial connections until they had some reasonable prospect of being able to provide for the children that might be expected to spring from them. In consequence, marriages are very generally deferred to a later period than in America, and a much larger proportion of the population find it expedient to pass their lives in a state of celibacy. And it is fortunate that this is the case; it is fortunate, that the good sense of the people, and their laudable desire to preserve their place in society, has made them control the violence of their passions, and disregard the *dicta* of so many spurious advisers. Man cannot possibly increase beyond the means of subsistence provided for his support: And, therefore, it is quite obvious and certain, that if the natural tendency of population to increase, in countries advanced in the career of civilization, and

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where there is, in consequence, a considerably increased difficulty of providing supplies of food, be not checked by the prevalence of moral restraint, or by the prudence and forethought of the people, it *must* be checked by the prevalence of vice, misery and famine. There is no alternative. The population of every country has a power, supposing food to be adequately supplied, to go on doubling every five-and-twenty years: But as the limited extent and limited fertility of the soil render it impossible to go on producing food in this ratio, it necessarily follows, that unless the passions are moderated, and a proportional check given to the increase of population, the standard of human subsistence will not only be reduced to the lowest assignable limit, but famine and pestilence will be perpetually at work to relieve the population of wretches born only to be starved.

The only criterion, then, of a real, and beneficial increase in the population of a country, is the increase in the means of its subsistence. If these means are not increased, an increase in the number of births can be productive only of increased misery and mortality, "Other circumstances being the same," says Mr Malthus, "it may be affirmed that countries are *populous* according to the quantity of food they can produce or acquire; and *happy*, according to the liberality with which this food is divided, or the quantity which a day's labour will purchase. Corn countries are more populous than pas-

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ture countries, and rice countries more populous than corn countries. But, their happiness does not depend either upon their being more or less densely peopled, upon their poverty or their riches, their youth or their age, *but on the proportion which the population and the food bear to each other.*"*

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* *Essay on Population*, II. p. 214.

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# PRINCIPLES

OF

# POLITICAL ECONOMY

## PART III.

### DISTRIBUTION OF WEALTH.

THE various methods by which that labour which is the only source of wealth may be rendered most productive, and the mutual relation and dependence of the different kinds of industry being previously traced and exhibited, we now proceed to the *third division* of our subject, or to an investigation of the laws regulating the proportions in which the different products of art and industry are distributed among the various classes of the people.

In treating of the production of wealth it was not necessary to inquire, whether the labour required to appropriate aud produce commodities, and without the expenditure of which they would be wholly destitute of exchangeable value, was the sole limiting principle and measure of that value,—or whether it was not partly derived from other causes, and partly only from labour. But an acquaintance with the circumstances which determine the value of commodi-

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ties, in all the different stages of society, is absolutely necessary to enable us to ascertain the principles which regulate their distribution.

## SECTION I.

*Value of two sorts—(1.) Exchangeable Value—How it is determined—Conditions required to render a Commodity invariable in its Exchangeable Value—(2.) Real Value—How it is determined—Conditions required to render a Commodity invariable in its Real Value—Quantity of Labour required to produce a Commodity different from the quantity of Labour for which it will exchange.*

THE value of a commodity may be considered in a double point of view; either, 1*st*, in relation to the power or capacity which it possesses of exchanging for, or purchasing, certain quantities of labour, or of other commodities obtainable only by means of labour; or, 2*d*, in relation to the quantity of labour that has been expended in its appropriation or production, or that would be required for that purpose at the period when the investigation is made.

Value, considered in the *first* point of view, is usually denominated *exchangeable* or *relative* value.

Value, considered in the *second* point of view, may be denominated *real* value.

It is abundantly obvious, that all commodities, possessed of exchangeable, must also be possessed of real value, and *vice versa*.

I. EXCHANGEABLE VALUE.—All commodities

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which are in demand, and which require any portion of voluntary labour to obtain them, are possessed of value,—that is, of the power or capacity of exchanging for labour or for other commodities: For, to employ labour in the production or appropriation of a commodity, is really to exchange labour for it; and any one commodity which it has required labour to obtain, will naturally be of the same value as, or will have the power or capacity of exchanging for, any other commodity obtainable only by the same quantity of labour.

But though exchangeable value, or the capacity of exchanging for other things, is a quality inherent in all commodities which are not the spontaneous productions of nature, it is one that can neither be manifested nor appreciated, except when they are compared with each other, or with labour. It is indeed quite impossible to speak of the value of a commodity without either referring to some other commodity or to labour as a standard. No one article, or product, can have any exchangeable value except in relation to some other article or product that either is or may be exchanged for it. It would be just as correct to talk about absolute height or absolute depth, as about absolute value in exchange. A is said to be valuable, or possessed of value, *because* it has the power of exchanging for a given quantity of B or C; and it is evident, that the quantity of B or C, for which A exchanges, forms the only attainable measure of, or expression for, the value of A; just as the quantity of

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A forms the only attainable measure of or expression for the value of B or C.

It follows, from the circumstance of exchangeable value being the power which a commodity has of exchanging for other commodities or for labour, that the exchangeable value of no one commodity can vary without occasioning a simultaneous variation in the exchangeable value of all those with which it is compared. Suppose that a bushel of corn exchanged, in 1820, for five shillings, and that it now exchanges for ten shillings: In this case, it is evident that corn has doubled in value as compared with silver; or, which is the same thing, that silver has lost a half of its value as compared with corn. This case is, *mutatis mutandis*, the identical case of all commodities or products exchanged against one another. If A rises, it must be in relation to something else, as B; and if B falls, it must be in relation to something else, as A; so that it is obviously impossible to change the relation of A to B, without at the same time changing that of B to A.

It appears, therefore, *that no commodity can be constant or invariable in its exchangeable value, unless it will at all times exchange for, or purchase, the same quantity of all other commodities and of labour.* Suppose A exchanges for one B, two C, three D, &c. its exchangeable value will be constant, provided it always preserves its present relation to them, but not otherwise. And it is obvious, that to communicate this constancy of value to A, it would be indispensable that those circumstances, whatever

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they may be, that now determine its relation to, or its power to exchange for or purchase the commodities, B, C, D, &c. should, in all time to come, continue to exert precisely the same relative influence on it and them.* Experience, by exhibiting the exchangeable value of commodities in a state of constant fluctuation, sufficiently proves that the circumstances under which they are actually produced are widely different in their operation from those now supposed. Perhaps, however, it may be worth while to observe, that, if commodities had been really produced under these circumstances, not A only, but every other commodity would have been an invariable standard; just as any given commodity in a market may be used as a standard to which to refer the value of all the rest. It is evident, too, that the possession of such an invariable standard would be of no use whatever: All that it would teach us would be, that the causes which first made A exchange for B, continued to affect them both to the same proportional extent; but of the nature of those causes, and the intensity of their operation, we should be left wholly in the dark.

II. Real Value.—Having thus ascertained that the exchangeable value of any one commodity must always be expressed by the relation it bears to some

* The conditions essential to the production of an invariable measure of exchangeable value were first clearly pointed out in the *Dissertation on the Nature, Measures, and Causes of Value*, p. 17.

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other commodity or to labour, the next object that claims our attention is the investigation of the circumstances which determine this relation, or of the regulating principle of value. Suppose A is now equal to B; if, a month hence, A should become equal to two B, the fact of this variation having taken place, would communicate nothing that could inform us how it had been occasioned. But, if we ascertain the *cause* why A once exchanged for, or was equal in value to B, we shall, by tracing the operation of this cause, be able to arrive at some more definite conclusions.

It has been already seen that no commodity either is or can be possessed of value, or of the power of exchanging for any thing else, unless it is in *demand*, and unless some portion of voluntary labour, or, as Dr Smith has termed it, of *toil and trouble*, has been required for its production or appropriation. Demand, therefore, may be considered as the ultimate source or cause of both exchangeable and real value; and it is the *quantity of labour* required to render a demand effectual, or the quantity required to produce, or appropriate the commodities wanted, that forms the single principle by which their *real* value is exclusively regulated and determined. And it will be afterwards shown, that when there are no monopolies, and when the supply of commodities in the market is exactly proportioned to the effectual demand, their exchangeable value is identical with their real value. If, then, it should, under such circumstances, be found that the power of a commo-

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dity, A, to purchase, or exchange for another commodity, B, was increased, and if it should also be found that an equal increase had taken place in the quantity of labour required to produce A, while the quantity required to produce B continued the same, we should be entitled to say, that A had increased in exchangeable value because it had increased in *real* value—assuming the *toil and trouble of acquiring any thing* to be the measure of its real value, or of the esteem in which it is held by its possessor, and, consequently, of the proportion in which he will exchange it for other things.

The quantity of commodities produced by equal quantities of toil and trouble is not always equal: But *real* value depends on the *quantity of labour expended*, and not on the mode in which it is expended, or on the degree of its productiveness. The various inventions and discoveries by which the productive powers of labour are augmented, add nothing either to its real value, or to that of the commodities produced by its means. A day's labour in a rude state of society, when the arts are in their infancy, and the machines used by the labourer comparatively inefficient, will undoutedly yield a very different quantity of produce from a day's labour in an advanced and civilized period, when the arts are highly improved, and the most powerful machinery universally introduced. Nothing, however, can be more obvious than that the sacrifice made by the labourer is just as great in the one case as in the other. The variation is not in the amount of physical force, or of labour, exerted

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by the agent that produces, but merely in the mode in which that force is applied. But however the same quantity of labour may be laid out, and whatever may be the amount of its produce, its performance must unavoidably occasion the *same sacrifice* to those by whom it is performed; and hence it is plain, that the products of equal quantities of labour, or of toil and trouble, must, however much they may differ in magnitude, always be of precisely the same real value. Nothing that is valuable can be obtained except by the exertion of a certain amount of labour, or of physical force. This is the price that man must pay for all things not spontaneously furnished by nature; and it is plainly by the magnitude of the price so paid, and not by the magnitude of the things themselves, that their real value is to be estimated.

So long, therefore, as we consider quantities of labour and commodities in reference only to one another, without considering them in reference to the sacrifice their production or performance imposes on man, we have no means by which to ascertain the causes of variation in the exchangeable value of commodities. And if it were impossible to discover these causes, the science of Political Economy, as now understood, could not exist. It would be worse than idle to set about inquiring into the causes which determine the value of commodities, if that value were altogether capricious and dependent on no fixed principle. If a commodity, A, for example, exchanges at one time for a quantity of labour, B, and at another time for twice that quantity, the vari-

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ation may have arisen either from causes exclusively affecting A, or exclusively affecting B, or which may have partly affected the one and partly the other; but so long as we compare only the commodity and the quantity of labour together, we shall never be able to discover the cause of the variation; and, as the one must be a standard to the other, we might with equal propriety say, either that the commodity A had risen, and the labour B fallen in value; or, if it be admitted that *real* value may exist, we might say that the real value of A had remained constant, while that of B had fallen; or that the real value of B had remained constant, while that of A had risen.

But as soon as we carry our investigations a little farther back,—as soon as we institute an investigation into the circumstances that limit or determine value,—we immediately perceive that given quantities of labour are not to be considered in the same light as given quantities of its produce, or of commodities: For, whether the quantity of commodities produced by a given amount of labour varies or remains constant, the value of that quantity, in the estimation of the producer, necessarily remains the same; and he will always be disposed to exchange it for an equal quantity, or the produce of an equal quantity of other men's labour. Suppose an individual could produce *two* pecks of wheat by a day's labour in 1820, and that he can now produce only *one* peck by the same quantity of labour;



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this one peck will be deemed by him, and every one else, to be of exactly the same real value that the two pecks were before; for it has cost the same amount of sweat and toil to raise it; and it will, consequently, exchange for, or buy the same quantity of those commodities that continue to be produced by the same amount of labour as in 1820, that the two pecks did then.

It appears, therefore, that the *exchangeable* value of, or the power of purchasing belonging to any given commodity, must be measured or determined by the quantity of some other commodity, or of labour, for which it will exchange; whereas the *real* value of a commodity, or the estimation in which it is held by its possessor, is measured or determined by the quantity of labour required to produce or obtain it.

Suppose a bushel of corn exchanges for, or is worth a yard of cloth: If the quantity of labour required to produce corn should be doubled, while that required to produce cloth continued the same, both the real and exchangeable value of corn, as compared with cloth, would be doubled. But suppose that, instead of double the former quantity of labour being required to produce corn, it continues to be as easily produced as before, while the quantity of labour required to produce cloth is reduced a half; in this case, the real value of cloth, and its exchangeable value, as compared with corn, would be reduced a half; so that, while no variation took place in the real value of corn, both its real and exchangeable value

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would, as in the former case, be doubled, as compared with cloth.*

Assuming, then, that the magnitude of the quantities of labour expended in the production of commodities is the sole determining principle of their *real* value, it follows, that, if any commodity required at all times the same quantity of labour, or of toil and trouble, for its production, it would be *invariable* in its real value. It is obvious, however, that no such commodity can possibly exist. The varying fertility of the soils to which recourse must successively be had, and the various improvements that are

* The acute and ingenious author of the *Templars' Dialogues*, (*London Magazine*, May 1824, p. 551,) has stated, that "It is possible for A continually to increase in value—in *real* value observe—and yet command a continually decreasing quantity of B." This passage has been animadverted upon by the author of the *Critical Dissertation on the Nature, Measures, and Causes of Value*. Nothing, however, can be more perfectly correct than the statement in the *Dialogues*.—A and B have been produced by certain quantities of labour; but more labour is now required to produce A, and a still greater proportional quantity to produce B; under these circumstances, A must obviously have increased in *real* value, or in the estimation of its producers, for it has cost them a greater sacrifice of toil and trouble; but as A has not increased so fast in real value as B, it is plain it will now exchange for, or purchase a less quantity of B. It is difficult to conceive how the author of the Dissertation should not have perceived this distinction; but if he had perceived it, he would certainly have spared not a few of the remarks he has made on the statements advanced by Mr Ricardo, as well as by the author of the *Dialogues*. *Dissertation on the Nature*, &c. p. 41.



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always being made in the application of labour, occasion perpetual variations in the quantities of labour required to produce all sorts of commodities. And, therefore, it is not to any one commodity, or set of commodities, but to some given quantity of labour, that we must refer for an unvarying standard of *real* value.

When it is said, that a given quantity, or the produce of a given quantity of labour, is always of equal *real* value, it is not meant to affirm, that those who buy labour always give the same proportion of the produce of an unvarying quantity of labour for the same quantity of labour. What is really meant is, that when the market is not affected by either real or artificial monopolies, and when the supply of commodities is equal to the effectual demand, the comparative quantities of labour required for their production will determine the *proportions* in which their possessors will exexchange them for each other, and for labour. A commodity produced by a certain quantity of labour will, in the state of the market now supposed, uniformly exchange for, or buy any other commodity produced by the same quantity of labour. It will never, however, exchange for, or buy exactly the same quantity of labour that produced it;* but though it will

* In point of fact, it will always exchange for more; and it *is this excess that constitutes profits.* No capitalist could have any motive to exchange the produce of a given quantity of labour already performed for the produce of the same quantity

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not do this, it will always exchange for, or buy *the same quantity of labour as any other commodity produced under the same circumstances, or by means of the same quantity of labour, as itself.* When a capitalist exchanges capital or commodities for labour, he really exchanges the produce of labour already performed, for labour *to be* performed. It is obvious, too, inasmuch as there is no fund except capital, or the commodities already produced and actually existing in a country, to feed and support the labourers engaged in the production of new commodities, that the quantity of produce they receive in exchange for their labour, or their wages, must vary according to the variations in the amount of that capital, and in their number. At one period, the labourers may be so numerous, compared with the capital that is to maintain them, that a labourer may be willing to offer a future day's labour for the existing produce of an hour's labour already performed; while, at another period, the number of labourers, compared with capital, may be so much reduced, that a labourer may be able to obtain the produce of *ten* hours performed labour for *twelve* hours future labour. But the real, and, in all ordinary states of the market, the exchangeable value of those commodities, on which *equal quantities* of labour have been laid out, is not

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of labour to be performed. This would be to lend without receiving any interest on the loan.

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in any degree affected by these variations. The change is not in the principle that regulates and determines value—the physical exertion, or the sweat and toil of the labourer—but in what he obtains for it. What he produces, or acquires by equal quantities of labour always costs him the same sacrifice, and has, therefore, the same real value, whether it be large or small. He gives a constant, but receives a variable quantity in its stead.

This distinction must be kept constantly in view. Dr Smith seems to have considered the quantity of labour required to produce a commodity as an equivalent expression for the quantity of labour for which that commodity would exchange; and that, consequently, it might either be said that the real value of A is to the real value of B as the quantity of labour required to produce A is to the quantity required to produce B, or that the real value of A is to the real value of B as the quantity of labour for which A will exchange, is to the quantity of labour for which B will exchange. But the difference between these two propositions is, in most cases, nothing less, than the difference between what is true, and what is false. And it is to Mr Ricardo's sagacity, in distinguishing between them, and in showing that while the first is undeniably correct, the second, instead of being an equivalent proposition, is frequently opposed to the first, and, consequently, quite inaccurate, that the science is indebted for one of its greatest improvements.

In stating that the quantity of labour required to

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produce commodities is at once the only determining principle and measure of their real, and, generally speaking, also of their exchangeable value, it is taken for granted, of course, that all sorts of labour are reduced to the same common standard of intensity. The inequalities in the physical force of those individuals who have attained to their full growth, and who are perfectly formed, are in themselves immaterial, and entirely disappear when considered in a general point of view. Suppose the work performed by the generality of full grown men in a given time to amount to any certain quantity ($x$): If, on the one hand, the labour of a few individuals should amount to a little more than this common quantity (to $x+\frac{x}{10}$, or $x+\frac{x}{15}$, &c.,) it is abundantly certain, that the labour of as many will, on the other hand, fall as much short of it, (to $x-\frac{x}{10}$, or $x-\frac{x}{15}$, &c.) And, therefore, whatever excess may obtain among one set of labourers being fully balanced by a corresponding deficiency among another set, it is plain that the common and average real value of all sorts of commodities will be precisely proportioned to, or coincident with, the common and average quantities of labour required for their production.

It will be shown, in the next section, that the circumstance of certain sorts of labour being of the description which is called skilled, and of their being paid at a higher rate than those common sorts that all may perform, depends on principles which do not in any degree affect the correctness of the principle we

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have been endeavouring to establish with respect to the real value of commodities.

The result of these investigations may be thus briefly recapitulated:—

1*st*, That no commodity is possessed of either real or exchangeable value, unless it is in demand, and unless some portion of voluntary human labour has been required for its production or appropriation.

2*d*, That a commodity which is possessed of *real* must also be possessed of *exchangeable* value, and conversely.

3*d*, That the real value of a commodity is always dependent on, and exactly proportioned to, the quantity of labour required for its production or appropriation.

4*th*, That the exchangeable value of a commodity is dependent on, and exactly proportioned to, the quantity of any other commodity, or of labour, for which it will exchange.

But though all commodities possessed of real must also be possessed of exchangeable value, the proportion which the one bears to the other is, owing to the operation of monopolies, and of changes in the relation of the demand for commodities to the supply, susceptible of very great variation. If a bushel of wheat and a yard of cloth are each produced by equal quantities of labour, they will be of the same real value; but either an actual or an apprehended scarcity would have the effect to make the exchangeable value of corn, or its power of exchanging for, or buying



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other things, greatly exceed that of cloth; while, on the other hand, an unusually abundant harvest, or an unusual demand for cloth, would have the effect to raise its exchangeable value in relation to corn. And hence it is obvious, that though a commodity did exist, requiring at all times the same quantity of labour for its production, it would not, as has been sometimes supposed, form a standard by which to measure variations in the exchangeable value of other commodities, or of labour. For, its value in exchange might vary from the influence of causes affecting itself, though extrinsic to, and independent on the quantity of labour required for its production; or it might vary from similar causes, operating on the commodity with which it was to be compared. If A was always produced by the same quantity of labour, and if B and C were produced by varying quantities of labour, then, if value in exchange depended on nothing else but quantities of labour, or if it always bear the same proportion to these quantities, we should be able, by comparing B and C with A, to say at once, whether their value had remained constant, or to point out the precise extent to which it had varied. But, when there are other causes which may affect the value of A itself, as well as the values of B and C, it is obvious we should not be able, by merely comparing A with the others, to say if a variation took place in the relation that had formerly obtained amongst them, whether it had been occasioned by causes exclusively affecting A, or exclusive-

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ly affecting B and C, or whether they had all been affected, though in different degrees.

But, though it is quite visionary to expect to find what cannot possibly exist—an invariable standard of exchangeable value, it is not so difficult as might, at first, be supposed, to trace all variations in the exchangeable value of commodities to their proper source. The discrepancies that obtain between the real and exchangeable value of commodities, are not arbitrary and capricious. They all depend on a very few principles whose operation and effect admit of being clearly exhibited and defined. And when this is done, the proportion which the exchangeable value of a commodity bears to its real value, at any given period, may be easily determined.

Having premised these observations on value, I shall now proceed to investigate the laws which govern the distribution of the productions of art and industry among the different classes of the society, and the circumstances which determine their exchangeable value in the different stages of its progress.

## Section II.

*Classes among which the Produce of Industry is divided—Equality of Wages in all the Different Departments of Industry—Equality of Profits—Capitals of every degree of Durability.*

The inhabitants of such countries as have made any considerable progress in civilization and the arts, are generally divided into the *three* classes of la-

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bourers, capitalists, and landlords; and whatever may be the condition of any society—whether it is rude or refined, rich or poor—every person belonging to it, who is not a pauper, or who does not subsist on the bounty of others, must be reckoned in one or other of these classes. Public functionaries of all sorts, and the various individuals engaged in what are called liberal or learned professions, exchange their services for valuable considerations. The whole subsistence of such persons is derived from wages; and they are as evidently labourers as if they handled a spade or a plough. It is to these three classes, therefore, that all the wealth of the world must primarily belong. And hence it is, that the inquiry, with respect to its distribution, really resolves itself into an investigation of the laws which regulate rent, wages, and profits.

The differences in the wages paid to the labourers engaged in different employments, and the different rates of profit which the capitals invested in them yield to those who carry them on, appear, at first sight, to oppose an insuperable obstacle to the establishment of any principles that should be generally applicable to them all. Such, however, is not the case. The differences in question are apparent only. They consist wholly of variations in the amount of money, or commodities paid to the labourer, or in the rate of *gross* profit accruing to the capitalist. But, when the other considerations affecting wages are taken into account, it will be found that they are really the same, or very nearly the same, at any given period,

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in every employment; and it will also be found, notwithstanding the differences in the rate of gross profit, that the rate of *net* profit is the same at any given period in all employments; or that the variations are very trifling.

I. EQUALITY OF THE WAGES OF LABOUR IN DIFFERENT EMPLOYMENTS.—If all employments were equally agreeable and healthy, if the labour to be performed in each of them was of the same intensity, and if they all required the same degree of dexterity and skill on the part of the labourer, it is evident, supposing industry to be quite free, there could be no permanent or considerable difference in the rate of wages paid to the labourers engaged in different businesses: For if, on the one hand, those employed in a particular business were to earn *more* than their neighbours, there would be an influx of labourers into that particular business, until the increased number of hands had reduced wages to their common level; and if, on the other hand, those employed in a particular business were to earn *less* than their neighbours, there would be an efflux of labourers from it, until, in consequence of the diminished number of hands, wages had been raised to the same level. In point of fact, however, the intensity of the labour to be performed in different employments, the degree of skill required to carry them on, their healthiness, and the estimation in which they are held, differ exceedingly; and these varying circumstances necessarily occasion proportional differences in the rate of

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wages paid to different classes of workmen. Wages are a compensation given to the labourer for the exertion of his physical powers, or of his skill, or ingenuity. They must, therefore, vary according to the greater severity of the labour to be performed, and to the degree of skill and ingenuity required. A jeweller or engraver, for example, must be paid a higher rate of wages than a common servant or a scavenger. A long course of training is necessary to instruct a man in the business of jewelling and engraving; and if the cost of this training were not made up to him in a higher rate of wages, he would, instead of learning so difficult an art, addict himself, in preference, to such employments as hardly require any instruction. Hence it is that the discrepancies that actually obtain in the rate of wages are all confined within certain limits—increasing or diminishing it only so far as may be necessary fully to equalize the unfavourable or favourable circumstances attending any employment.

The following have been stated by Dr Smith, as the principal circumstances which occasion the rate of wages in some employments either to fall below, or rise above the *general average* rate of wages—

1st, The agreeableness and disagreeableness of the employments:

2d, The easiness or cheapness, or the difficulty and expence, of learning them:

3d, The constancy or inconstancy of the employments:

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4th, The small or great trust that must be reposed in those who carry them on:

5th, The probability or improbability of succeeding in them.

*First.* The *agreeableness* of an employment may arise either from physical or moral causes—from the lightness of the labour to be performed, its healthiness or cleanliness, the degree of estimation in which it is held, &c.; and its disagreeableness will arise from the opposite circumstances—from the severity of the labour to be performed, its unhealthiness or dirtiness, the degree of odium attached to it, &c. The rate of wages must obviously vary proportionally to the variations in circumstances exerting so powerful an influence over the labourer. It is indeed quite out of the question to suppose, that any individual should ever be so blind to his own interest, as to engage in an occupation considered as mean and disreputable, or where the labour is severe, if he obtain only the same rate of wages that is obtained by those engaged in employments in higher estimation, and where the labour to be performed is comparatively light. The labour of the ploughman is not unhealthy, nor is it either irksome or disagreeable; but being more severe than that of the shepherd, it is uniformly better rewarded. The same principle holds universally. Miners, gilders, type-founders, smiths, distillers, and all who carry on unhealthy, disagreeable, and dangerous businesses, invariably obtain higher wages than those artificers who have equal skill, but who are engaged in more desir-

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able employments. The unfavourable opinion entertained respecting some businesses, has a similar effect on wages, as if the labour to be performed in them were unusually unhealthy or severe. The trade of a butcher, for example, is generally looked upon as rather low and discreditable; and this feeling occasions such a disinclination on the part of young men to enter it, as can only be overcome by the high wages that butchers are said to earn, notwithstanding the lightness of their labour: This also is the reason that the keeper of a small inn or tavern, who is never master of his own house, and who is exposed to the brutality of every drunkard, exercises one of the most profitable of the common trades. The contrary circumstances have contrary effects. Hunting and fishing form, in an advanced state of society, among the most agreeable amusements of the rich; but from their being held in this degree of estimation, and from the lightness of their labour, those who practise them as a trade generally receive very small wages, and are proverbially poor: And the agreeableness and healthiness of the employments, rather than the lightness of their labour, or the little skill which they require, seem to be the principal cause of the redundant numbers and consequent low wages of common farm-servants, and generally of all workmen employed in ordinary field labour.

The severe discipline and various hardships to which common soldiers are exposed, and the little chance they have of arriving at a higher station, are unfavourable circumstances, which, it might have

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been supposed, would have required a very high rate of wages to counterbalance. It is found, however, that there are really very few common trades in which labourers can be procured for so small a rate of wages as that for which recruits are willing to enlist in the army. Nor is it difficult to discover the causes of this apparent anomaly. Except when actually engaged in warlike operations, a soldier is comparatively idle; while his free, dissipated, and generally adventurous life, the splendour of his uniform, the imposing spectacle of military parades and evolutions, and the martial music by which they are accompanied, exert a most seductive influence over the young and inconsiderate. The dangers and privations of campaigns are undervalued, while the chances of advancement are proportionally exaggerated in their sanguine and heated imaginations. "Without regarding the danger," says Dr Smith, "soldiers are never obtained so easily as at the beginning of a new war; and though they have scarce any chance of preferment, they figure to themselves, in their youthful fancies, a thousand occasions of acquiring honour and distinction which never occur. These romantic hopes make the whole price of their blood. Their pay is less than that of common labourers, and in actual service their fatigues are much greater." *

It is observed by Dr Smith, that the chances of succeeding in the sea service are greater than in the army. "The son of a creditable labourer or arti-

* I. p. 167.

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ficer may frequently go to sea with his father's consent; but if he enlists as a soldier, it is always without it. Other people see some chance of his making something by the one trade: nobody but himself sees any of his making any thing by the other." But, the allurements to enlist in the army are, notwithstanding, found to be much greater than those which prompt young men to enter the navy. The life of a sailor is perhaps more adventurous than that of a soldier; but he has no regular uniform; his employment is comparatively dirty and disagreeable; his labour more severe; and while at sea, he suffers a species of imprisonment, and cannot, like the soldier, excite either the envy or admiration of his countrymen. In consequence, the wages of seamen almost invariably exceed those of soldiers; and there is a greater difficulty of obtaining recruits at the breaking out a war.

In England, the disadvantages and drawbacks naturally incident to a seafaring life, have been considerably increased by the practice of impressment. The violence and injustice to which sailors are exposed, operate most powerfully to prevent young men from entering on board ship, and have thus, by artificially lessening the supply of sailors, the effect to raise their wages above their natural level, to the extreme injury both of the king's and the merchant service. "The custom of impressment puts a freeborn British sailor on the same footing as a Turkish slave. The Grand Seignior cannot do a more absolute act than to order a man to be dragged away

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from his family, and against his will run his head against the mouth of a cannon; and if such acts should be frequent in Turkey, upon any one set of useful men, *would it not drive them away to other countries, and thin their numbers yearly? and would not the remaining few double or triple their wages? which is the case with our sailors, in time of war, to the great detriment of our commerce.*" *

In proof of the accuracy of this statement, it is sufficient to mention, that while the wages of all other sorts of labourers and artisans are uniformly higher in the United States than in England, those of sailors are generally *lower*. The reason is, that the navy of the United States is manned by means of voluntary enlistment only. The Americans are desirous of becoming a great naval power, and they have wisely relinquished a practice which would have driven all their best sailors from their service, and have forced them to man their fleet with the sweepings of their jails.

It has been estimated, that there were above 16,000 British sailors on board American ships at the close of last war; and the wages of our seamen, which in time of peace rarely exceed 40s. or 50s. a month, had then risen to 100s. and 120s.! This extraordinary influx of British seamen into the American service, and no less extraordinary rise in their wages, can be accounted for only by our continuing to resort to im-

* Sir Matthew Decker's *Essay on the Causes of the Decline of Foreign Trade.* Ed. 1756. p. 24.

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pressment after it has been abandoned by the United States. Formerly our seamen were in the habit, on the breaking out of a war, of deserting in considerable numbers to Holland; but the difference of language was an insuperable obstacle to their carrying this practice to any very injurious extent. With the United States, however, the case is altogether different. There our sailors are assured of a safe asylum among their kindred and friends—among those whose language, religion, customs, and habits are all identical with their own—and who will naturally be disposed to hold out every temptation to draw them to their service. Nothing but the abolition of impressment can possibly counteract such overpowering inducements to desertion, and effectually reduce the wages of our seamen. And as it has been repeatedly shown, that impressment is in no respect, nor under any circumstances, necessary to the manning of the fleet,* we trust that it will speedily be abolished; and that the efforts of the Americans to increase their naval power will not be assisted by our obstinately clinging to a system fraught with injustice, cruelty, and oppression.

The officers of the army and navy, and many of those functionaries who fill situations of great trust and responsibility, receive only a comparatively small pecuniary remuneration. The consideration attached to such offices, and the influence they confer on their possessors, form a principal part of their salary.

*Secondly*, The wages of labour, in particular busi-

* *Edinburgh Review*, No. 81, p. 154. and No. 84, p. 297.

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nesses, vary according to the comparative facility with which they may be learned.

There are several sorts of labour which a man may perform without any, or with but very little previous instruction; and in which he will, consequently, gain a certain rate of wages from the moment he is employed. But, in all civilized societies, there is a great variety of employments which can be carried on by those only who have been regularly instructed in them. And it is evident, that the wages of such skilled labour must exceed the wages of that which is comparatively rude, so as to afford the workmen a sufficient compensation for the time they have lost, and the expence they have incurred in their education. Suppose, to illustrate this principle, that the average and ordinary rate of wages paid to unskilled labourers is L. 25 a year: If the education of a skilled labourer—a jeweller or engraver, for example—and his maintenance up to the period when he begins to support himself, cost L.200 more than is required for the maintenance of an unskilled labourer up to the same period, it is quite obvious he will not be in so good a situation as his unskilled neighbours, unless his wages are so much higher than those earned by them, as will, besides yielding him the customary rate of profit on the extra capital of L.200 expended on his education and maintenance, suffice to replace the capital itself previously to what may be supposed to be the probable termination of his life. If he obtains less than this, he will be underpaid; and if he obtains more, there will be an influx of new

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entrants, until their competition has reduced wages to their proper level.

The policy of most European nations has added to the natural and necessary cost of breeding up skilled labourers, by forcing them to serve as apprentices for a much longer period than is in most cases necessary to obtain a knowledge of the trades they mean to exercise. But, as the wages of labour must always be proportioned, not only to the skill and dexterity of the labourer, but also to the time he has spent, and the difficulties and expence to which he has been put in learning his business, it is plain, that if an individual is compelled to serve an apprenticeship of *seven* years to a business which he might have learned in two or three years, he must obtain a proportionally higher rate of wages after the expiration of his apprenticeship, than would otherwise have sufficed to remunerate him. The institution of unnecessarily long apprenticeships is, therefore, productive of a double injury: In the *first* place, it is injurious to the employers of workmen, by artificially raising the wages of their journeymen; and in the *second* place, it is injurious to the workmen, from its tendency to generate idle and dissipated habits, by making them pass so large a portion of their youth without any sufficient motive to be industrious.

By the common law of England, every man has a right to employ himself at pleasure in every lawful trade. But this sound principle was almost entirely subverted by a statute passed, in compliance with



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the solicitations of the corporate bodies, in the 5th year of the reign of Queen Elizabeth, commonly called the statute of apprenticeship. It enacted that no person should, for the future, exercise any trade, craft, or mystery, at that time exercised in England or Wales, unless he had previously served to it an apprenticeship of *seven* years at least; and what had before been a by-law of a few corporations, thus became the general and statute law of the kingdom. Fortunately, however, the courts were always singularly disinclined to enforce the provisions of this statute. Though the words of the act plainly included the whole kingdom of England and Wales, it was interpreted to refer only to *market towns;* and it was also interpreted to refer only to those trades which had been practised in England when the statute was passed, and to have no reference to such as had been subsequently introduced. This interpretation gave occasion to several very absurd and even ludicrous distinctions. It was adjudged, for example, that a coachmaker could neither himself make nor employ a journeyman to make his coach wheels, but must buy them of a master wheelwright, this latter trade having been exercised in England before the 5th of Elizabeth. But a wheelwright, though he had never served an apprenticeship to a coachmaker, might either make himself, or employ journeymen to make coaches, the trade of a coachmaker not being within the statute, because not exercised in England at the time when it was passed. The contradiction and absurdity of these regulations,

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and the impolicy and injurious operation of the statute had long been obvious; but so slow is the progress of sound legislation, and so powerful the opposition to every change affecting private interests, that its repeal did not take place until 1814. The act for this purpose did not, however, interfere with any of the existing rights, privileges, or by-laws of the different legally constituted corporations; but wherever these do not interpose, the formation of apprenticeships and their duration is now left to be wholly adjusted by the parties themselves.

*Thirdly*, The wages of labour, in different employments, vary with the constancy and inconstancy of employment.

Employment is much more constant in some trades than in others. Many trades can only be carried on in particular states of the weather, and seasons of the year; and if the workmen, who are engaged in such trades, cannot easily find employment in others during the time they are thrown out of them, their wages must be proportionally augmented. A journeyman jeweller, weaver, shoemaker, or tailor, for example, may, under ordinary circumstances, reckon upon obtaining constant employment; but masons, bricklayers, paviors, and, in general, all those workmen who carry on their business in the open air, are liable to perpetual interruptions. Their wages must, however, not only suffice to maintain them while they are employed, but also during the time they are necessarily idle; and they ought also to afford them, as Dr Smith has remarked, some compensation for



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those anxious and desponding moments which the thought of so precarious a situation must sometimes occasion.

This principle shows the fallacy of the opinion so generally entertained respecting the great earnings of porters, hackney coachmen, watermen, and generally of all workmen employed only for short periods, and on particular occasions. Such persons frequently make as much in an hour or two as a regularly employed workman makes in a day; but this greater hire, during the time they are employed, is found to be only a bare compensation for the labour they perform, and for the time they are necessarily idle; instead of making money, such persons are almost invariably poorer than those who are engaged in more constant occupations.

The interruption to employments occasioned by the celebration of holidays, has a similar effect on wages. There are countries in which the holidays, including Sundays, make a full half of the year; and the *necessary* wages of labour must there be about double of what they would be were these holidays abolished.

*Fourthly*, The wages of labour vary according to the small or great trust which must be reposed in the workmen.

"The wages of goldsmiths and jewellers are everywhere superior to those of many other workmen, not only of equal, but of much superior ingenuity; on account of the precious materials with which they are entrusted.



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"We trust our health to the physician; our fortune, and sometimes our life and reputation, to the lawyer and attorney. Such confidence could not safely be reposed in people of a very mean or low condition. Their reward must be such, therefore, as may give them that rank in the society which so important a trust requires. The long time and the great expence which must be laid out in their education, when combined with this circumstance, necessarily enhances still further the price of their labour." *

*Fifthly*, The wages of labour in different employments vary according to the probability or improbability of success in them.

This cause of variation chiefly affects the wages of the higher class of labourers, or of those who practise what are usually denominated liberal professions.

If a young man is bound apprentice to a shoemaker, or a tailor, there is hardly any doubt but he will attain to an ordinary degree of proficiency and expertness in his business, and that he will be able to live by it. But, if he is bound apprentice to a lawyer, a painter, a sculptor, or a player, there are ten chances to one if he ever attains to such a degree of proficiency in either of these callings as will enable him to subsist on his earnings. But, in professions where many fail for one who succeeds, the fortunate one ought not only to gain such a rate of wages as will indemnify him for all the expences incurred in his

* *Wealth of Nations*, I. p. 160.

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education, but also for all that has been expended in the education of his unsuccessful competitors. It is abundantly certain, however, that the wages of lawyers, players, sculptors, &c. taken in the aggregate, never amount to so large a sum. The lottery of the law, and the other liberal professions, has many great prizes, but there is, notwithstanding, a large excess of blanks. "Compute," says Dr Smith, "in any particular place, what is likely to be annually gained, and what is likely to be annually spent, by all the different workmen in any common trade, such as that of shoemakers or weavers, and you will find that the former sum will generally exceed the latter. But, make the same computation with regard to all the counsellors and students of law, in all the different Inns of court, and you will find that their annual gains bear but a very small proportion to their annual expence, even though you rate the former as high, and the latter as low as can well be done.—The lottery of the law, therefore, is very far from being a perfectly fair lottery; and that, as well as many other liberal and honourable professions, is, in point of pecuniary gains, evidently under recompensed."

But the love of that wealth, power, and consideration, that most commonly attend superior excellence in any of the liberal professions, and the overweening confidence placed by each individual in his own good fortune, are sufficient to overbalance all the disadvantages and drawbacks that attend them; and never fail to crowd their ranks with all the most generous and liberal spirits.

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It is unnecessary to enter upon any farther details with respect to this part of our subject. It has been sufficiently proved, that the permanent differences that actually obtain in the rate of wages paid to those who are engaged in different employments in countries where industry is free and unfettered, are never more than sufficient to balance the favourable or unfavourable circumstances attending them. Those who receive the highest wages, are not, when the cost of their education, the chances of their success, and the various disadvantages incident to their professions, are taken into account, really better paid than those who receive the lowest. The wages earned by the different classes of workmen are *equal*, not when each individual earns the *same* number of shillings, or of pence, in a given space of time, but when each is paid in proportion to the severity of the labour he has to perform, to the degree of previous education and skill that it requires, and to the other causes of variation already specified. So long, indeed, as the principle of competition is allowed to operate without restraint, or so long as each individual is allowed to employ himself as he pleases, we may be assured, that the higgling of the market will always adjust the rate of wages in different employments on the principle now stated, and that they will be, all things considered, very nearly equal. If you depress the rate of wages in one employment below the common level, labourers will leave it to go to others; and if you raise it above the same common level, labourers will be attracted to it from those departments where wa-

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ges are lower, until their increased competition has sunk them to their average standard. A period of greater or less duration, according to the peculiar circumstances affecting each particular employment, is always required to bring about this equalization. But all inquiries, that have the establishment of general principles for their object, either are, or ought to be, founded on periods of *average* duration; and whenever such is the case, we may always, without occasioning the slightest error, assume that the wages earned in different employments are, all things taken into account, precisely equal.

For similar reasons to those which have now been stated, it is easy to see that the profits accruing to the capitalists engaged in different businesses, though varying proportionally to the greater or less risk, and other circumstances affecting the capitals they employ, must really, when all things are taken into account, be about the same in them all. It is obvious, indeed, that profits have not attained their level until they have been adjusted so as to balance these different advantages and disadvantages. None would engage in unusually hazardous undertakings, if the capital employed in them was only to yield the same profit that may be obtained by employing it in more secure businesses. Wherever there is extraordinary risk, that risk must be compensated. And hence, the well known distinction between *gross* and *net* profit. Gross profit always varies according to the risk, the respectability, and the agreeableness of different employments,

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while net profit is the same, or very nearly the same, at any particular period, in them all. A gunpowder manufacturer, for example, must obtain as much profit, over and above the profit obtained from the capital engaged in the securest businesses, as will suffice to guarantee or *insure* his capital, from the extraordinary risk to which it is exposed, in a business of such extreme hazard. If the gunpowder manufacturer were to obtain *more* than this rate, additional capital would be attracted to his business, and if he were to obtain *less*, he would withdraw capital from it. The constantly acting principle of competition, or, which is just the same thing, the *self-interest* of every individual, will never permit the wages or the profits obtained by any particular set of workmen or capitalists, taking all things into account, to continue either long below or long above the *common and average* rate of wages and profits obtained by those who are employed, or who have capital invested in other businesses. It is by this common standard that the wages and profits of particular businesses are always regulated; they can never diverge considerably from it; they have a constant tendency to equalization; and may, in all theoretical inquiries be supposed, without occasioning any error of consequence, exactly to coincide.

The principle of the equality, or rather of the constant tendency to equality, of the wages earned by the labourers, and of the profits derived from the capitals, employed, at the same time, in all the various



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branches of industry, was pointed out by Mr Harris, * and also by Mr Cantillon; † but it was first fully demonstrated in the eighth, ninth, and tenth chapters of the first book of the *Wealth of Nations*. The establishment of this principle was one of the greatest services rendered by Dr Smith to the science of Political Economy. Nothing can be clearer, more convincing and satisfactory, than his reasoning on this subject. The equality of wages and of profits has, ever since the publication of his work, been always assumed as admitted and incontestible.

It ought also to be kept in view, throughout all the investigations of this science, that the capitals employed in the production of commodities may be of almost every conceivable degree of durability, or, in other words, that periods of almost every conceivable degree of duration may be required for their consumption. The bread, beer, and other articles provided for the subsistence of the labourer, form a part, and an important one too, of the capital of the country; but how limited is the durability of such articles, compared with the durability of a bridge, or a granite dock! The former may be consumed in the space of an hour, while the latter will probably last for five hundred or a thousand years. These two species of capital may be taken as representing the extremes of duration, and the space between them may

* *Essay on Money and Coins*, p. 13.

† *Analysis of Trade, &c.* p. 15.

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be supposed to be filled up, and I believe is really so, by capitals of every intermediate degree of durability. One machine may be capable of lasting fifty years, another forty, a third ten, and so on. Nor in all the long interval between the duration of the least and that of the most rapidly perishable capital, is it possible to fix on any term which does not, or may not, represent the durability of a capital.

## Section III.

*Cost of Production the regulating principle of Price—Influence of Variations in the Demand for and Supply of Commodities on their Price—Influence of Monopolies—Average Price always coincident with Cost of Production.*

Having thus seen that the wages earned by the labourers engaged in different employments, are, all things considered, precisely equal; and that the same principle holds with respect to the profit derived from the capitals invested in the different departments of industry, we might proceed to inquire into the effects supposed to be exercised by variations in the rate of wages, and in the rate of profits on the value of commodities. But, before entering on this inquiry, it will be expedient to investigate the influence which the relation between the *supply* of commodities and the *demand* for them has in determining their exchangeable value, as compared with each other, and their price or value as compared with money. It was long the universal opinion, and it is still the opinion of the great majority of practical



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men, and even of some Political Economists of considerable eminence, that the exchangeable value of commodities depends exclusively on their relative abundance or scarcity in the market compared with the demand. There can be no doubt, however, that this opinion is essentially erroneous; and I shall now very briefly recapitulate some of the statements by which its fallacy has been demonstrated.

It has been already seen, that the capitals invested in different businesses yield, at any given period, the same common and average rate of net profit. But it is quite obvious, that if any commodity were brought to market and exchanged for a greater amount either of other commodities, or of money, than was required to defray the cost of its production, including, in that cost, the common and average rate of net profit at the time, its producers would be placed in a relatively advantageous situation compared with others; and there would, in consequence, be an influx of capital into that particular department, until competition had sunk the value, or price of the article, to the level that would just yield the customary rate of profit on the capital employed in its production. And, on the other hand, if a commodity were brought to market which did not exchange for so great an amount of other commodities, or of money, as was required to cover the cost of its production, its producers would be placed in a relatively disadvantageous situation; and would, in consequence, withdraw their capital from the production of the commodity, until its value or price had

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risen to such a level as was sufficient to place them in the same situation as their neighbours, or to yield them the same rate of profit.

The cost of producing commodities,—denominated by Dr Smith and the Marquis Garnier *natural* or *necessary* price,—is, as will be afterwards shown, identical with the quantity of labour required to produce them and bring them to market. But, without inquiring at present into the elements which form the cost of production, it is quite obvious that it is the permanent and ultimate regulator of the exchangeable value or price of every commodity that is not subjected to a monopoly, and that *may be indefinitely increased in quantity by the application of fresh capital and labour to its production.* That the market price of such commodities and their cost of production do not always coincide is certain; but they cannot, for any considerable period, be far separated, and have a constant tendency to equality. It is plain, that no man will continue to produce commodities if they sell for *less* than the cost of their production—that is, for less than will indemnify him for his expences, and yield him the common and average rate of profit on his capital. This is a limit below which it is obviously impossible prices can be permanently reduced; and it is equally obvious, that if they were, for any considerable period, to rise above it, additional capital would be attracted to the advantageous business; and the competition of the producers would lower prices.

A demand, to be effectual, must be such as will

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cover the expence of production. If it is not sufficient to do this, it can never be a means of causing commodities to be produced and brought to market. The demand of those who have both the *power* and the *will* to purchase, for any particular commodity may become ten or ten thousand times more extensive, or it may decline in the same proportion, but, if the cost of its production continues the same, no permanent variation will be occasioned in its price. Suppose, for example, that the effectual demand for hats is suddenly doubled; that circumstance would undoubtedly occasion a rise of price, and the hatters would, in consequence, make large profits; but this rise could only be of very limited duration; for these large profits would immediately attract additional capital to the hat manufacture; an increased supply of hats would be brought to market, and if no variation took place in the cost of their production, their price would infallibly sink to its former level. Suppose, on the other hand, that the demand for hats is increased tenfold, and the cost of their production diminished in the same proportion, we should, notwithstanding the increased demand, be able, in a very short time, to buy a hat for the tenth part of what it now costs. Again, suppose the demand for hats to decline, and the cost of producing them to increase; the price would, notwithstanding the diminished demand, gradually rise, till it had reached the point at which it would yield the hatters the common and average rate of profit on the capital employed in their business. It is admitted that va-

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riations in the demand and supply occasion temporary variations of price. But it is essential to remark, that these variations are only *temporary*. The *cost of production* is the grand regulator of price—the centre of all those transitory and evanescent oscillations on the one side and the other; wherever industry is free, the *competition of the producers* will always elevate or sink prices to its level.

In certain branches of industry, such, for example, as agriculture, which are liable to be seriously affected by variations in the seasons, and from which capital cannot be easily withdrawn, there is a somewhat longer interval than in others, before the market price of produce and the cost of producing it can be equalized. But that such an equalization must take place in the end is absolutely certain. Neither farmers, nor any other class of producers, will continue to bring products to market, unless they sell for such a price as is sufficient to pay the expence of their production, including the common and average rate of profit on the capital employed by them. * When an excess of supply depresses the price of corn below this level, the occupiers of poor land are involved in the greatest difficulties: A number of them are in consequence driven from their employments; and a smaller supply of corn being brought to market, prices are elevated so as to yield the customary rate of profit, and no more, to the

* *Nemo enim sanus debet velle impensam ac sumptum facere in culturam, si videt non posse refici.* Varro, *De Re Rustica*, Lib. I. § 2.

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cultivators of the poorest soils that are still continued under tillage.—The self-interest of the cultivators will not permit prices to be permanently depressed below this level; and the self-interest of the public will not permit them to be permanently raised above it; for, if they were raised above it, then the cultivators would gain more than the common and average rate of profit, and capital would, of course, be immediately attracted to agriculture, and would continue flowing in that direction, until the natural and indestructible equilibrium of profit had been restored —that is, until the price of agricultural produce had fallen to such a sum as would just yield the average rate of profit to the cultivators of the worst soils, or to the improvers of the best. This is the point at which *average* prices must continue stationary, or about which market prices must oscillate, until the cost of production be increased or diminished. If any great discovery were made in agriculture—such a discovery, for instance, as would reduce the cost of cultivation a half, the price of agricultural produce would fall in the same proportion, and would continue to sell at that reduced rate until the increase of population had forced recourse to soils of a *decreasing degree of fertility*. Whenever this took place, prices would again rise. Why is the price of corn almost invariably higher in this country than in France? Is it because we have a greater demand for it, or because of the greater cost of production in this country?

A pound weight of gold is at present worth about

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*fifteen* pounds of silver. It cannot, however, be said that this is a consequence of the demand for gold being greater than the demand for silver, for the reverse is the fact. Neither can it be said to be a consequence of an absolute scarcity of gold; for those who choose to pay a sufficient price for it may obtain it in any quantity they please. The cause of this difference in the price of the two metals consists entirely in the circumstance of its costing about *fifteen* times as much to produce a pound of gold as to produce a pound of silver. That this is really the case, is plain from the admitted fact, that the producers of gold do not gain any greater profit than the producers of silver, iron, lead, or any other metal. They have no monopoly of its production. Every individual who chooses may send capital to Brazil, and become a producer of gold; and wherever this is the case, the principle of competition will always force the product to be sold at such a price as will just pay the expences of its production and no more. Were a gold mine discovered of equal productiveness with the silver mines, the production of gold would immediately become the most advantageous of all businesses; an immense supply of that metal would, in consequence, be thrown upon the market, and its price would, in a very short period, be reduced to the same level as silver.

If a set of men were brought together from various countries, ignorant of each other's wants, and of the labour and expence required to produce the commodities which we may suppose each of them

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to possess, these commodities would be bought and sold according to the relative wants and fancies of the parties. Under such circumstances, a pound of gold might be given for a pound of iron, and a gallon of wine for a gallon of small beer. As soon, however, as a system of commercial intercourse has been established, and as the wants of society and the powers of production come to be well and generally known, an end is put to this arbitrary method of bartering. Thousands of sellers then enter the market. But when such is the case, it is no longer possible to sell a pound of iron for a pound of gold; and why?—because the producers of iron will undersell each other until they have, by their competition, reduced its exchangeable value, or price, to the level of the cost of its production. This is, in every civilized society, the pivot on which exchangeable value always turns. It is usual for voyagers, who touch at countries occupied by savages, to obtain commodities from them in exchange for toys or trinkets, which it cost infinitely less to produce; but in all civilized and commercial countries, the proportion in which, generally speaking, one commodity exchanges for another, depends exclusively on the comparative cost of their production.

Thus, then, it appears, that *no variation of demand, if it be unaccompanied by a variation in the cost of production, can have any lasting influence on price.* If the cost of production be diminished, price will be equally diminished, though the demand should be increased to any conceivable extent. If

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the cost of production be increased, price will be equally increased, though the demand should sink to the lowest possible limit.

It must always be remembered, that this reasoning applies to the case of those commodities only on which competition is allowed to operate without restraint, and whose quantity can be indefinitely increased by the application of fresh capital and industry to their production. But there are circumstances under which the supply of commodities is strictly limited; and when such is the case, their price is no longer determined by the cost of their production, but by the degree of their real or supposed *utility*, compared with the means and necessities of the buyers. In a desert or a besieged city, a pound of bread might be worth more than a pound of gold.* And though artificial monopolies are rarely carried to so very oppressive a height, the same principle holds with respect to the value of all commodities produced under them. When a particular individual, or class of individuals, obtains the exclusive privilege of manufacturing certain species of goods, the operation of the principle of competition is suspended with respect to

* Pliny, (*Hist. Nat.* lib. 8. cap. 57.), and Valerius Maximus, (lib. 7. cap. 6.), relate that, during the siege of Casilinum by Hannibal, the scarcity of provisions became so extreme, that a rat was sold for 200 denarii! They add, that the seller had the worst of the bargain, having died of hunger, while the rat was the means of preserving the life of the buyer. *Avaro enim,* says Valerius, *fame consumpto, manubiis sordium suarum frui non licuit; æqui animi vir, ad salutarem impensam faciendam; care quidem, verum necessarie, comparato cibo vixit.*

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them, and their price must, therefore, entirely depend on the proportion in which they are brought to market compared with the demand. If monopolists supplied the market liberally, or kept it always as fully stocked with commodities as it would have been had there been no monopoly, the commodities produced by them would sell at their natural price, and the monopoly would have no farther disadvantage than the exclusion of the public from an employment which every one ought to have the power to carry on. In point of fact, however, the market is seldom or never fully supplied with commodities produced under a monopoly. All classes of producers endeavour to procure the highest possible price for their commodities; and those who are protected, by means of a monopoly, against the risk of being undersold by others, either keep the market understocked, or supply it with inferior articles, or both. Under such circumstances, the price of commodities, if they cannot be easily smuggled from abroad, or clandestinely produced at home, is elevated to the highest point to which the competition of the *buyers* can raise it; and may, in consequence, amount to five, ten, or twenty times the sum it would amount to were competition permitted to operate in their production and sale. The *will* and *power* of the purchasers to offer a high price forms the only limit to the rapacity of monopolists.

Besides the commodities produced under artificial monopolies, there is another class whose quantity cannot be increased by the operation of human in-



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dustry, and whose price is not, therefore, dependent on the cost of their production. Ancient statues, vases, and gems, the pictures of the great masters, some species of wines which can be produced in limited quantities only from soils of a particular quality and exposure, and a few other commodities, belong to this class. As their supply cannot be increased, their price must vary inversely as the demand, and is totally unaffected by any other circumstance.

But with these exceptions, which, when compared to the mass of commodities, are but few and unimportant, wherever industry is unrestricted and competition allowed to operate, the *average* price of the various products of art and industry, always coincides with the cost of their production. When a fall takes place in the market price of any commodity, we cannot say whether that fall is really advantageous, or whether a part of the wealth of the producers be not gratuitously transferred to the consumers, until we learn whether the cost of production has been equally diminished. If this is the case, the fall of price will not have been disadvantageous to the producers, and will be permanent; but if this has not been the case—if the cost of production continues the same, the fall must have been injurious to the producers, and prices will, in consequence, speedily attain their former level. In like manner, no rise of prices can be permanent, except when the cost of production has been proportionally increased. If that cost has remained station-

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ary, or has not increased in a corresponding ratio, prices will decline as soon as the ephemeral causes of enhancement have disappeared.

The extreme importance of having correct opinions respecting the regulating principle of price, and the discordant and erroneous opinions that are still so exceedingly prevalent with regard to it, will, I hope, be deemed a sufficient apology for the length of the previous remarks, and for the insertion of the following paragraph from the *Histoire de la Monnoie* of the Marquis Garnier, in which the doctrine now laid down is enforced with equal ability and eloquence:

"Mais les producteurs tendent continuellement à régler la quantité des productions sur la somme des demandes; ils ne resteront pas au-dessous de ce point, sans être tentés d'accroître la masse de leurs produits; et ils ne peuvent le dépasser sans s'exposer à perdre. Ces deux quantités, celle des produits et celle des demandes, s'efforcent donc à se mettre en équilibre l'une avec l'autre. Il existe donc un point de repos vers lequel elles gravitent chacune de son côté; un point qui est leur niveau, et c'est ce point qui constitue le *prix naturel* de la chose vénale. Quelle est la limite au-delà de laquelle le producteur ne peut porter la quantité de ses produits? C'est le prix naturel; car, s'il ne peut obtenir ce prix pour tout son produit, il sera en perte. Quelle est la borne des demandes du consommateur? C'est le prix naturel; car il ne veut pas donner plus que l'équivalent de ce qu'il reçoit. Si, par une découverte, ou

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par un perfectionnement de l'industrie, le producteur est mis à même d'établir l'article sur lequel il s'exerce à moins de temps et de dépense, alors le prix naturel baissera, mais aussi la somme des demandes accroîtra dans une proportion pareille, parce que plus de consommateurs seront en état de payer ce prix naturel, moins élevé que l'ancien. *Le prix naturel sera toujours, pour chaque chose vénale, la limite commune au-delà de laquelle la somme des demandes de cette chose et la quantité de sa production ne devront plus faire de progrès.* Quand le prix courant est le prix naturel, le producteur et le consommateur se donnent réciproquement l'équivalent de ce qu'ils reçoivent. Quand le prix courant s'écarte du prix naturel, ou c'est la consommation qui souffre au profit de la production, ou c'est la production qui souffre au profit de la consommation. Cet état de souffrance ne peut durer, et de-là procèdent les variations du prix courant. Ces variations, que Smith a expliquées et analysées avec une si parafaite lucidité, ne sont autre chose que les efforts pour revenir au prix naturel. Tenter d'expliquer ces variations, sans reconnaître l'existence d'un prix naturel, ce serait vouloir expliquer les oscillations du pendule sans convenir de sa tendance vers un centre de gravitation ; ce serait supposer un effort sans but et sans mobile ; ce serait admettre le mouvement et nier le repos ; enfin, en voyant les phénomènes du cours des fluides et de l'équilibre des solides, ce serait contester les lois du niveau et de la pesanteur. Si les choses vénales n'ont point de prix

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naturel, alors les mouvemens de la circulation seront dirigés par une force aveugle et inconnue; les prix moyens ne seront plus que le résultat de chances purement fortuites; il n'y aura plus d'équivalent réel; les valeurs n'auront plus de mesure naturelle; l'économie politique ne pourra plus aspirer à être au rang des sciences, puisqu'elle manquera du caractère essentiel qui les constitue telles, et que les faits dont elle traite ne seront plus fondés sur les lois immuables de la nature." *

Having thus shown that the *cost of production* is the sole regulating principle of exchangeable value and price, I shall now proceed to investigate the elements which enter into and constitute this cost. †

## Section IV.

*Commodities belong, in the earliest stage of society, exclusively to the Labourers—Quantity of Labour required for their Production, the only principle which then determines their Exchangeable Value.*

We have previously seen, that there is no period in the progress of society, from its earliest infancy to its

* Tome I. *Introduction*, p. 62.

† Mr Tooke has, in his excellent work *On High and Low Prices*,—a work replete with curious and important information,—given a very complete analysis and exposition of the influence of variations in the demand for and supply of commodities on their price—whether these variations arise from changes in the seasons or in the value of money, from a spirit of speculation, from the caprices of fashion, the influence of war, &c.

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highest pitch of civilization and refinement, in which any individual, who does not belong to some one or other of the classes of labourers, landlords, or capitalists, ever participates directly in the produce of industry. But there are states of society in which that produce belongs exclusively to *one* only of these classes; and others in which it belongs to *two* of them, to the exclusion of the third. The reason is, that in the earliest stages of society, there is little or no capital accumulated, and the distinction between labourers and capitalists is, in consequence, unknown; and that, in all newly settled and unappropriated countries, abundance of fertile land may be obtained without paying any rent to a landlord.

In that remote period preceding the establishment of a right of property in land, and the accumulation of capital or stock—when men roamed, without any settled habitations, over the surface of the earth, and existed by means of that labour only that was required to appropriate the spontaneous productions of the soil, the whole produce of labour belonged to the labourer, and the *quantity of labour* expended in procuring different articles, must plainly have formed the only standard by which their relative worth, or exchangeable value, could be estimated. "If among a nation of hunters," says Dr Smith, "it usually costs twice the labour to kill a beaver that it does to kill a deer, one beaver would naturally exchange for or be worth two deer. It is natural, that what is usually the produce of two days' or two hours' labour,

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should be worth double of what is usually the produce of one day's or one hour's labour.

"If the one species of labour should be more severe than the other, some allowance will naturally be made for this superior hardship; and the produce of one hour's labour in the one way, frequently exchanges for that of two hours' labour in the other.

"Or if the one species of labour requires an uncommon degree of dexterity and ingenuity, the esteem which men have for such talents will naturally give a value to their produce, superior to what would be due to the time employed about it. Such talents can seldom be acquired but in consequence of long application, and the superior value of their produce may frequently be no more than a reasonable compensation for the time and labour which must be spent in acquiring them. In the advanced state of society, allowances of this kind, for superior hardship and superior skill, are commonly made in the wages of labour; and something of the same kind must probably have taken place in the earliest and rudest period.

"In this state of things, the whole produce of labour belongs to the labourer; and the quantity of labour commonly employed in acquiring or producing any commodity, is the only circumstance which can regulate the quantity of labour (*of other commodities*) which it commonly ought to purchase, command, or exchange for." *

* *Wealth of Nations*, I. p. 70.

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Thus far there is no room for doubt or difference of opinion. When there is no class but labourers, *all* the produce of labour must obviously belong to them; and the sacrifice each individual makes in producing commodities, or the quantity of labour that he expends upon them, is universally admitted to be the only principle by which their exchangeable values can then be determined.

It is at this point, therefore, that we properly commence the investigation of the circumstances which determine the exchangeable value of commodities when a rent is paid for land, and circulating and fixed capital employed to facilitate the labour of the workmen. I shall begin by endeavouring to ascertain whether rent enters into the cost of production.

## Section V.

(I.) *Nature, Origin, and Progress of Corn or Produce Rents—Rent not a Cause but a Consequence of the High Value of Raw Produce—Does not enter into Price—Distinction between Agriculture and Manufactures.* (II.) *Money Rents depend partly on the Extent to which Tillage has been Carried, and partly on Situation—The Principle that the Real Value of Commodities is Regulated or Determined by the Quantities of Labour required for their Production, not Affected by the Payment of Rent.*

Dr Smith was of opinion, that, after land had become property, and rent began to be paid, such rent made an equivalent addition to the exchange-

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able value of the produce of the soil.* This opinion was first called in question in two pamphlets of extraordinary merit, published nearly at the same time, by a Fellow of University College, Oxford, † and Mr Malthus. ‡ These writers endeavoured to show that rent did not enter into price; that it was not, as had been commonly supposed, a consequence of land having been divided and become property; but that it was owing to its being of limited extent, and of various degrees of fertility, and to the circumstance of its being impossible to apply capital indefinitely to any quality of land without obtaining from it a constantly diminishing return. Mr Ricardo subsequently illustrated and enforced this doctrine with his usual ability—stripped it of the errors by which it had been originally encumbered, and showed its vast importance to a right understanding of the laws which regulate the rise and fall of profits. In the following observations, I shall endeavour to trace the rise and progress of rent; and to obviate some rather specious objections that have been made to the doctrine of its not entering into price.

I. Corn or Produce Rents.—Rent is properly "that portion of the produce of the earth which is

* *Wealth of Nations,* I. p. 75.

† *An Essay on the Application of Capital to Land,* by a Fellow (Mr West a Barrister) of University College, Oxford, 1815.

‡ *An Inquiry into the Nature and Progress of Rent,* by the Rev. T. R. Malthus, 1815.

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paid by the farmer to the landlord for the use of the *natural and inherent* powers of the soil." If buildings have been erected on a farm, or if it has been inclosed, drained, or in any way improved, by an expenditure of capital and labour, the sum which a farmer will pay to the landlord for its use will be composed, not only of what is properly rent, but also of a remuneration for the use of the capital which has been laid out in its improvement. In common language, these two sums are always confounded together, under the name of rent; but in an inquiry of this nature, it is necessary to consider them as perfectly distinct. The laws by which rent and profits are regulated being totally different, those which govern the one cannot be ascertained if it be not considered separately from the other.

On the first settling of any country abounding in large tracts of unappropriated land, no rent is ever paid; and for this plain and obvious reason, that no person will pay a rent for what may be procured in unlimited quantities for nothing. Thus in New Holland, where there is an ample supply of fertile and *unappropriated* land, it is certain, that, until the best lands are all cultivated, rent will never be heard of. Suppose, however, that tillage has been carried to this point, and that the increasing demand for raw produce can, in the actual state of the science of agriculture, be no longer supplied by the culture of the best lands; under these circumstances it is plain that either the increase of population must cease, or the inhabitants must consent to pay

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such an additional price for raw produce as will enable the *second* quality of land to be cultivated. No advance *short of this* will procure them another bushel of corn; and competition will not, as will be immediately shown, allow them to pay more for it. They have, therefore, but one alternative. If they choose to pay a price sufficient to cover the expence of cultivating land of the second quality, they will obtain additional supplies; if they do not, they must want them. Suppose now, that the consumers offer such a price as will pay the expence of producing corn on soils which, in return for the same expenditure as would have produced 100 quarters on lands of the *first quality*, will only yield 90 quarters; it is plain it will then be indifferent to a farmer whether he pays a rent of ten quarters for the first quality of land or farms the second quality, which is unappropriated and open to him, without paying any rent. If the population went on increasing, lands which would yield only 80, 70, 60, 50, &c. quarters in return for *the same expenditure that had obtained* 100 *quarters from the best lands*, might be successively brought under cultivation. And when recourse had been had to these inferior lands, the corn rent of those that are superior would plainly be *equal to the difference, between the amount of the produce obtained from them and the amount of the produce obtained from the worst quality under cultivation.* Suppose, for example, that the worst quality under cultivation yields 60 quarters, then the rent of the *first* quality will be 40 quarters, or 100—60;

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the rent of the *second* quality will, in like manner, be equal to the difference between 90 and 60, or 30 quarters; the rent of the third quality will be equal to 80—60, or 20 quarters, and so on: The produce raised on the land last cultivated, or with the capital last applied to the soil, being all the while sold at its *necessary price*, or at that price which is just sufficient to yield the cultivators the common and average rate of profit, or, which is the same thing, to cover the cost of its production. If the price were above this level, then agriculture would be the best of all businesses, and tillage would be immediately extended; if, on the other hand, the price fell below this level, capital would be withdrawn from the soil, and the poorer lands thrown out of cultivation. Under such circumstances, it is undeniably certain, that rent could not enter into the price of that portion of produce raised by means of the capital last applied to the soil. Its price is exclusively made up of wages and profits. The proprietors of the superior lands obtain rent; but this is the necessary result of their *greater fertility*. The demand cannot be supplied without cultivating inferior soils; and to enable them to be cultivated, their produce must sell for such a price as will afford the ordinary rate of profit to *their* cultivators. This price will, however, yield a surplus over and above the ordinary rate of profit to the cultivators of the more fertile lands, and it is *this surplus that forms rent.*

An increase of rent is not, therefore, as is very

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generally supposed, occasioned by improvements in agriculture, or by an increase in the fertility of the soil. It results entirely from the necessity of resorting, as population increases, to soils of a *decreasing* degree of fertility. Rent varies in an inverse proportion to the amount of produce obtained by means of the capital and labour employed in cultivation;—that is, *it increases when the profits of agricultural labour diminish, and diminishes when they increase.* Profits are at their maximum in countries like New Holland, Indiana, and Illinois, and generally in all situations in which no rent is paid, and the best lands only cultivated; but it cannot be said that rents have attained their maximum so long as capital yields any surplus in the shape of profit.

A quarter of wheat may be raised in Essex, or in the Carse of Gowrie, at perhaps a *fourth* or a *fifth* part of the expence necessary to raise it on the worst soils in cultivation in other parts of the country. There cannot, however, be *two or more prices* for the same article at the same time and in the same market. And it is plain, that if the average market price of wheat be not such as will indemnify the producers of that which is raised on the *worst soils*, they will cease bringing it to market, and the required supplies will no longer be obtained; and it is equally plain, that if the market price of wheat exceeds this sum, fresh capital will be applied to its production, and competition will soon sink prices to their natural level—that is, to such a sum as will just afford *the common and ordinary rate of profit to the raisers*

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*of that portion of the required supply of corn which is produced under the most unfavourable circumstances, and at the greatest expence.* It is by the cost of producing this portion that the average price of all the rest must always be regulated. And, therefore, it is plainly the same thing to the consumers whether, in an advanced stage of society, the excess of return over the cost of production on lands of the first quality belongs to a non-resident landlord, or an occupier. It *must* belong to the one or the other. Corn is not high, because a rent is paid, but a rent is paid because corn is high—*because the demand is such, that it cannot be supplied without cultivating soils of a diminished degree of fertility, as compared with the best.* Suppose there is an effectual demand for 10 millions of quarters, and that it is necessary to raise *one* million of these quarters on lands which yield nothing but the common and average rate of profit to their cultivators; it is clear that the relinquishing of the rents payable on the superior lands, would be no boon whatever to the cultivators of the inferior lands. It would not lessen their expences; that is, it would not lessen the quantum of capital and labour necessary to produce that portion of the *required supply* which is raised under the most unfavourable circumstances; and, if it did not reduce this expence, it is obviously impossible, supposing the demand not to decline, that it could lower prices. But the case is entirely different when the cost of production varies. If it is diminished, the competition of the producers will infallibly sink



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prices in an equal proportion: If it is increased, no supplies will be brought to market, unless the price be raised to a corresponding level. In no case, therefore, whether the demand be great or small—whether for one or one million of quarters, can the price of raw produce ever permanently exceed or fall below the sum necessary to pay the cost of producing that portion of the supply that is raised on the worst land, or by means of the last capital laid out on the soil.

Two objections have been made to this theory. In the *first* place, it has been said that, though it might apply in a country like New Holland, where land is not appropriated, still it is true that all the lands in every civilized and appropriated country like England, always yield some small rent to the proprietor; and that, therefore, it cannot be said that the price of raw produce is, in such countries, determined by the cost of raising it on that quality of land which pays no rent.

Mr Mill has justly observed of this objection, that even if it were well-founded, it could not practically affect any of the conclusions previously established. There are in England and Scotland, thousands of acres of land which do not let for L. 20; but to cultivate them would require an outlay of many thousands; and the rent would consequently bear so small a proportion to the expences of production, as to become altogether evanescent and inappreciable.*

* *Elements of Political Economy*, p. 19, 1st edit.

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There can be no doubt, however, that there is in this, and most other extensive countries, a great deal of land which yields no rent whatever. In the United States and Russia, such is unquestionably the case; and yet no one presumes to say, that the laws which regulate rent in the United States and Russia, are different from those which regulate it in England and France. The poorest lands are always let in immense tracts. If it were attempted to let particular portions of these tracts separately, they would bring no rent whatever; but they appear to yield rent, because rent is paid not for them, but for the more fertile spots intermixed with them. But although it were really true, that every rood of land in Britain paid a high rent, it would still be true, that such rent did not, and could not, enter into the price of raw produce. The *rent* of a country *consists of the difference, or the value of the difference, between the produce obtained from the capital first applied to the land, and that which is last applied to it.* It would, as has been already shown, be exactly the same thing to the cultivator, whether he paid a rent of ten quarters to a landlord for land yielding, with a certain outlay, 100 quarters of corn, or employed the same capital in cultivating inferior land yielding only 90 quarters, for which he paid no rent. If it were possible always to obtain 100 quarters for every equal additional capital applied to the superior soils, no person, it is obvious, would ever resort to those of inferior fertility. But the fact, that, in the progress of society, new and less fertile land is al-



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ways brought under cultivation, demonstrates that additional capital and labour cannot be indefinitely applied with the same advantage to the old land. The state of society in any particular country may be such—the demand for agricultural produce may be so great, that every quality of land actually yields rent; but it is the same thing if there be any capital employed on land which yields only the return of stock with its ordinary profits, whether that capital be employed on old or new land. Now, that there is a very large amount of capital employed in such a manner in this and every other country, is a fact of which there neither is, nor can be any doubt. A farmer who rents a farm, besides employing upon it such a capital as will, at the existing prices of raw produce, enable him to pay his rent, to obtain the average rate of profit, and to replace his stock previously to the expiration of his lease, will also employ an additional capital, if it will only replace itself, and afford the ordinary rate of profit. Whether he shall employ this additional capital or not, depends entirely on the circumstance of the price of raw produce being such as will repay his expences and profits; for he knows he will have no additional rent to pay. Even at the expiration of his lease, his rent will not be raised; for, if his landlord should require rent, because an additional capital had been employed, he would withdraw it; since, by employing it in agriculture, he gets only the same profits he might have got by employing it in any other department of industry. If the capital last applied to the



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soil yields *more* than the common and average rate of profit, fresh capital will be invested in agriculture, and competition will sink prices to such a level as will just enable them to yield this rate, and no more; if the capital last applied to the soil yields *less* than this common and average rate of profit, it will be withdrawn, until, by the rise of price, the last remaining capital yields this common rate. In every case, therefore, whether the last quality of land taken into cultivation yields rent or not, *the last capital applied to the soil yields only the common and average rate of profit;* and, consequently, the price of the produce which it yields, and which regulates the price of all the rest, is totally unaffected by rent.

It has, in the *second* place, been objected to this account of the nature and causes of rent, that it takes for granted, that, in all extensive countries, landlords permit the farmers of the worst lands to occupy them without paying any rent. But, it is easy to show, that this is a mistake. The price of raw produce is not kept down to its necessary price by the competition of farmers, but by that of landlords. Though there must necessarily be a very wide difference, in any country of considerable extent, between the best and worst soils, still the gradation from the one extreme to the other is gradual, and almost imperceptible. The best differ but little from those which are immediately inferior to them, aud the worst from those immediately above them. And hence it is just as impossible to point out the precise point where the first quality ends and

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the second begins, or where the second ends and the third begins, as it is to point out the precise point where the contiguous colours of the rainbow differ. Now, suppose that the numbers 1, 2, 3, 4, 5, 6, 7, &c. designate the different qualities of soil in an extensive country, and suppose that the effectual demand for raw produce is such as will just afford the common and average rate of profit to those who cultivate land of the *fifth* degree of fertility, or that represented by No. 5; when such is the case, there can be no doubt that No. 5 will be cultivated; for, besides the peculiar attractions which agriculture possesses, it would be quite as advantageous to cultivate it as to engage in any other business. It would not, however, be more advantageous; for its produce would yield no surplus in the shape of rent. But suppose that a combination took place among the proprietors of Nos. 1, 2, 3, 4, and 5, to withhold a portion of their produce from market; and that, in consequence of this, or any other cause, the price of corn is raised ever so little above the expence of its production on No. 5; in that case, it is obvious that soils of the *very next* degree of fertility, or that that portion of No. 6, which, in point of productive power, differs extremely little from No. 5, would be instantly brought under cultivation; and the increased supply would infallibly sink prices to the level that would just afford the average rate of profit, and no more, to the cultivators of No. 5, or of the poorest soils which the supply of the effectual demand renders it necessary to cultivate. It is quite the same thing, there-

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fore, in so far as price is concerned, whether a country is appropriated or not. When it is appropriated, prices are kept down to their lowest limit by the competition of the landlords. And it is by the self same principle,—*the cost of producing that portion of the necessary supply raised under the most unfavourable circumstances*,—that the price of raw produce is determined in England and France, as it is determined in New Holland and Illinois.

But then it is said, that this reasoning involves a contradiction,—that it accounts both for a rise and a fall of price in the same way, or by an extension of cultivation! In point of fact, however, it does no such thing. The market price of corn will always be low where it is cheaply produced, as in Poland; and it will *occasionally* be low where it costs a great deal to produce it, as in England, when a redundant supply is brought to market. Suppose, as before, that the effectual demand for corn in Great Britain is at present such as will just enable lands of the *fifth* degree of fertility to be cultivated; but that, owing to variable harvests, to injudicious encouragement held out by the Legislature, to the ardour of speculation, to the miscalculation of farmers, or to any other cause, lands of the *sixth* degree of fertility have been cultivated; the increased quantity of produce that must thus be thrown upon the market will plainly depress prices to such an extent, that, instead of yielding average profits to the cultivators of No. 6, they will not yield them to the cultivators of No. 5. But they will yield *more* to the cultiva-

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tors of No. 5 than to those of No. 6; the latter, therefore, will be first driven from their business; and when they have retired, prices will rise, *not* indeed to such a height as to enable No. 6 to be cultivated, but so high as to enable the cultivators of No. 5 to continue their business; that is, as has been already shown, to the precise sum that will enable the raisers of the last portion of the produce required to supply the effectual demand to obtain the common and average rate of profit. Should the demand, instead of continuing stationary, increase so that it could not be supplied without cultivating Nos. 6 and 7, the price of corn would rise in proportion to the increased expence of their cultivation. But to whatever extent the demand might increase, still, if such an improvement were made in agriculture, or in the art of raising corn, as would enable the supply to be obtained from No. 1 only, the price would necessarily fall to the precise sum that paid the expences of its cultivators, and rent would entirely disappear.

This analysis of the nature and causes of rent discovers an important and fundamental distinction between agricultural and commercial and manufacturing industry. In manufactures, the worst machinery is first set in motion, and every day its powers are improved by new inventions; and it is rendered capable of yielding a greater amount of produce with the same expence. And as no limits can be assigned to the quantity of improved machinery that may be introduced—as a million of steam-engines may be

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constructed for the same, or rather for a less, proportional expence than would be required for the construction of one—the competition of capitalists never fails to reduce the price of manufactured commodities to the sum which the least expensive method of production necessarily requires for their production.

In agriculture, on the contrary, the best machines, that is, the *best soils*, are first brought under cultivation, and recourse is afterwards had to inferior soils, requiring a greater expenditure of capital and labour to produce the same supplies. The improvements in the construction of farming implements, and meliorations in agricultural management, which occasionally occur in the progress of society, really reduce the price of raw produce, and, by making less capital yield the same supplies, have a tendency to reduce rent. But the fall of price, which is permanent in manufactures, is only *temporary in agriculture*. A fall in the price of raw produce, by enabling all classes to obtain greater quantities than before, in exchange for their products or their labour, raises the rate of profit, and leads, of course, to an increased accumulation of capital; and this increased accumulation leads again to a greater demand for labour, to higher wages, to an increased population, and, consequently, to a further demand for raw produce and an extended cultivation. Agricultural improvements check for a while the necessity of having recourse to inferior soils and the rise of rents; but the check

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can only be temporary. The stimulus which they, at the same time, give to population, and the natural tendency of mankind to increase beyond the means of subsistence, is sure, in the end, to raise prices, and, by forcing recourse to poor lands, to raise rents.

Mr Malthus has, in illustrating this important distinction between agricultural and manufacturing industry, set the doctrine of rent in a clear and striking point of view. "The earth," he observes, "has been sometimes compared to a vast machine, presented by nature to man for the production of food and raw materials; but to make the resemblance more just, as far as they admit of comparison, we should consider the soil as a present to man of a great number of machines, all susceptible of continued improvement by the application of capital to them, but yet of very different original qualities and powers.

"This great inequality in the powers of the machinery employed in procuring raw produce, forms one of the most remarkable features which distinguishes the machinery of the land from the machinery employed in manufactures.

"When a machine in manufactures is invented, which will produce more finished work with less labour and capital than before, if there be no patent, or as soon as the patent is over, a sufficient number of such machines may be made to supply the whole demand, and to supersede entirely the use of all the old machinery. The natural consequence is, that

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the price is reduced to the price of production from the best machinery, and if the price were to be depressed lower, the whole of the commodity would be withdrawn from the market.

"The machines which produce corn and raw materials, on the contrary, are the gifts of nature, not the works of man; and we find by experience that these gifts have very different qualities and powers. The most fertile lands of a country, those which, like the best machinery in manufactures, yield the greatest products with the least labour and capital, are never found sufficient to supply the effective demand of an increasing population. The price of raw produce, therefore, naturally rises till it becomes sufficiently high to pay the cost of raising it with inferior machines, and by a more expensive process; and, as there cannot be two prices for corn of the same quality, all the other machines, the working of which requires less capital compared with the produce, must *yield rents in proportion to their goodness.*

"Every extensive country may thus be considered as possessing a gradation of machines for the production of corn and raw materials, including in this gradation not only all the various qualities of poor land, of which every large territory has generally an abundance, but the inferior machinery which may be said to be employed when good land is further and further forced for additional produce. As the price of raw produce continues to rise, these inferior machines are successively called into action; and, as the price of raw produce continues to fall, they are successive-

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ly thrown out of action. The illustration here used serves to show at once the necessity of the actual price of corn to the actual produce, and the different effect which would attend a great reduction in the price of any particular manufacture, and a great reduction in the price of raw produce.

"I have no hesitation, then, in affirming, that the reason why the real price of corn is higher and continually rising in countries which are already rich, and still advancing in prosperity and population, is to be found in the necessity of resorting constantly to poorer land—to machines which require a greater expenditure to work them—and which consequently occasion each fresh addition to the raw produce of the country to be purchased at a greater cost;—in short, it is to be found in the important truth that corn *is sold at the price necessary to yield the actual supply; and that, as the production of this supply becomes more and more difficult, the price rises in proportion.*

"I hope to be excused for having dwelt so long and presented to the reader in various forms the doctrine that corn, in reference to the *quantity actually produced*, is sold at its necessary price like manufactures, because I consider it as a truth of the highest importance, which has been entirely overlooked by the economists, by Dr Smith, and all those writers who have represented raw produce as selling always at a monopoly price."*

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* *Inquiry into the Nature and Progress of Rent*, p. 37.

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It appears, therefore, that, in the earliest stages of society, and when only the best lands are cultivated, no rent is ever paid. The landlords, as such, do not begin to share in the produce of the soil until it becomes necessary to cultivate lands of an inferior degree of fertility, or to apply capital to the superior lands with a diminishing return. Whenever this is the case, rent begins to be paid; and it continues to increase according as cultivation is extended over poorer soils; and diminishes according as these poorer soils are thrown out of cultivation. Rent, therefore, depends exclusively on the extension of tillage. It is high where tillage is widely extended over inferior lands; and low where it is confined to the superior descriptions only. But in no case does rent ever enter into price. For, the produce raised on the poorest lands, or by means of the capital last applied to the cultivation of the soil, regulates the price of all the rest; and this produce never yields any surplus above the common and average rate of profit.*

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* The rise in the price of raw produce, occasioned by the decreasing fertility of the soils to which every advancing society must resort, was, I believe, first distinctly shown in a work, in which there are many just and ingenious, intermixed with many fanciful and erroneous views, entitled, *Principes de tout Gouvernement*, in two vols. 12mo, published in 1766. The author has, on one occasion, hit upon the real origin of rent—"*Quand les cultivateurs, devenus nombreux,*" says he, "*auront défriché toutes les bonnes terres; par leur augmentation successive, et par la continuité du défrichement, il se trouvera un*

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II. Money Rents.—We have now seen that the corn or produce rent of a farm depends wholly on the extent to which bad lands are under tillage, or to which good lands are forced; but the money rent of a farm depends partly on situation, and partly only on the extent to which tillage has been carried. If all the lands in the empire were equally well situated, or were equally contiguous to markets, the corn rents, and the money rents, of those of equal fertility, would be everywhere equal. But the difference of situation occasions very great differences in the money rents paid for lands of equal fertility. Thus, suppose two farmers employ *equal quantities* of capital, as 5000 quarters each, in the cultivation of farms of equal goodness, the one situated in the immediate vicinity of London, and the other in Yorkshire; and, suppose farther, that London is the market to which the produce of both farms must be sent, and that the cost of conveying corn from Yorkshire to London is five shillings a quarter: under these circumstances, if the gross produce of each farm was 1000 quarters, of which the landlord received *one-fifth* part, or 200 quarters, as rent, the money rent of the farm near London would be L.50

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*point ou il sera plus avantageux à un nouveau colon de prendre à ferme des terres fecondes, que d'en défricher de nouvelles beaucoup moins bonnes.*"—(Tome I. p. 126.) It is plain, however, from his not reverting to the subject, that he was not at all aware of the importance of the principle he had stated; and it is apparent, indeed, from other passages of the work, that he supposed rent entered into price.

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a-year more than the money rent of the farm in Yorkshire. For, as the quantity of corn raised near London is not adequate to supply the effectual demand, its price in the city must suffice to pay those who bring any portion of the necessary supplies from the greatest distance, as well for the expences of carriage as for those of production: And the farmer in the immediate vicinity, who gets this increased price for his produce, will have to pay a proportional increase of money rent; just as the occupier of good land has to pay an increase of corn or produce rent, as soon as inferior lands are taken into cultivation.

It has been said, however, that the Middlesex farmer must not only pay a higher money rent, but that he must also pay a higher corn rent: for, if he does not, it is contended that a quantity of corn will remain to him as profits equal to that which remains to the Yorkshire farmer; and as the value of corn in Middlesex is greater than in Yorkshire, his profits will also be proportionally greater, which cannot be the case. But the circumstance of their paying equal corn rents would not really cause any discrepancy in their profits. I have supposed that both farmers employ *equal quantities* of capital; but it must be kept in view, that, to whatever extent the value of raw produce in Middlesex may exceed its value in Yorkshire, the *value* of the capital belonging to the Middlesex farmer must be increased to the same extent: and hence it follows, that the increased value

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or price of the produce belonging to the last as profits, is no more than equal to the additional value of the capital he has employed, and that he is not, consequently, in any respect in a better situation than the other.

I may here observe, that the author of the *Critical Dissertation on Value*,* contends, that because the value of that corn which is raised on lands paying rent, is not, after inferior lands are taken into cultivation, proportioned to the cost of its production, it is incorrect to represent the value of the aggregate quantity of produce raised in a country where cultivation has been extended over inferior lands, as depending on that principle. But those who maintain, that the value of raw products, and of all those commodities whose quantity can be indefinitely increased, by the application of fresh capital and labour to their production, is regulated and determined by the cost of their production, invariably refer to the quantity of labour required to produce that portion of raw produce, or of any required commodity which is raised under the most unfavourable circumstances. "The exchangeable value of all commodities," says Mr Ricardo, "whether they be manufactured, or the produce of the mines, or the produce of land, is always regulated, not by the less quantity of labour that will suffice for their production under circumstances highly favourable, and exclusively enjoyed by those who have peculiar facilities of production; but by the greater quantity of

* p. 194.

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labour necessarily bestowed on their production by those who have no such facilities; by those who continue to produce them under the most unfavourable circumstances; meaning—by the most unfavourable circumstances, the most unfavourable under which the quantity of produce required, renders it necessary to carry on the production."*

This is the sense in which we are always to understand the proposition that the value of commodities depends on the cost of their production, or on the quantity of labour required to produce them, and bring them to market. It is not meant to affirm, that the value of every particular hat or bushel of corn offered for sale is determined by the quantity of labour actually expended on *its* production: What is really meant is, that the value of all the hats, as of all the corn brought to market, is determined by a certain standard; and that this standard is the quantity of labour required to produce that hat, or that bushel of corn, that has been produced with the greatest difficulty.

It is obvious, that no error can arise in estimating the value of raw produce from supposing it to have been wholly raised under the same circumstances as that portion which is raised by means of the capital last applied to the soil: For though portions of it may have been raised under very different circumstances, it is certain, that their value must, notwithstanding, be exclusively determined by, and

* *Principles of Political Economy*, 3d Edit. p. 60.

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identical with the value of that which is raised by this last applied capital. And hence, when a quantity of corn is employed as capital in any industrious undertaking, we are to consider it as being, in fact, either the actual product, or the *full equivalent* of the product, of a given quantity of the labour of those who raise corn on the worst lands cultivated; and the quantity of labour so wrought up in this capital, or represented by it, must plainly determine the *real* value of the commodities produced by its agency. This principle holds in the case of all commodities whose quantity admits of being indefinitely extended. On tracing the exchangeable value of any article of this description, we shall find that it is determined, in all ordinary states of the market, by the quantity of labour actually expended on its production, if it is produced under the most unfavourable circumstances, or that is actually expended on similar articles produced under these circumstances.

It being thus established that the circumstance of land being appropriated, and rent paid to the landlords, cannot affect the price of commodities, or make any difference whatever on the principle which regulates their exchangeable value in the earliest stages of society, I proceed, in the next place, to inquire into the effects of the accumulation and employment of capital, and of variations in the rate of wages on the value of commodities.

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## Section VI.

*Effect of the employment of Capital in Production, on the Exchangeable Value of Commodities—Effect of Variations in the Rate of Wages on Exchangeable Value—*(1.) *When the Capitals employed in Production are of the same degree of Durability; and* (2.) *When they are of different degrees of Durability—Time not to be taken into account in estimating Value—A High Rate of Wages does not lay the Commerce of a Country under any disadvantage.*

It has been previously shown, that the quantity of labour required to produce a commodity, and to bring it to market, formed, in the early stages of society, and before capital was accumulated, the sole principle by which its exchangeable value was regulated. But capital is only another name for all those commodities or articles produced by human industry, that can be made directly available, either to the support of man, or to the facilitating of production. It is, in fact, nothing more than the accumulated produce of *anterior labour;* and when it is employed in the production of commodities, their value must plainly be regulated, not by the quantity of immediate labour only, but by the total quantity, as well of immediate as of accumulated labour, or capital, which has been necessarily laid out in their production. Suppose that an individual can, by a day's labour, without the assistance of any capital whatever, kill a deer; but that it requires a day's labour to construct weapons necessary to enable him to kill a bea-



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ver, and another day's labour to kill it. It is evident, supposing the weapons to have been rendered useless in killing the beaver, that one beaver really took as much labour to kill it as was required to kill two deer, and must, therefore, be worth twice as much. The durability of the weapons, or of the capital employed by the beaver hunter, is obviously an element of the greatest importance in estimating the value of the animals killed by him. Had the weapons been more durable than has been supposed,—had they served, for example, to kill twenty beavers instead of one, then the quantity of labour required to kill a beaver would only have been one-twentieth more than the labour required to kill a deer, and the animals would, of course, have exchanged in that proportion for each other; and it is plain that, with every extension of the durability of the weapons, the value of the deer and the beaver would be brought still nearer to equality.

It appears, therefore, inasmuch as capital is nothing but the accumulated produce of anterior labour, that its employment cannot affect the principle which makes the exchangeable value of commodities dependent on the quantities of labour required for their production. A commodity may be altogether produced by capital, without the co-operation of any immediate labour whatever; and, inasmuch as the value of this capital is regulated and determined by the quantity of labour required for its production, it is obvious, that the value of the commodities produced by its means must at bottom be determined



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by the same quantity of labour: Or a commodity may be partly produced by capital, and partly by immediate labour, and then its exchangeable value will be proportioned to the *sum of the two*, or, which is still the same thing, to the total quantity of labour bestowed upon it. These principles are almost self-evident, and it is not easy to see how they can be made the subject of dispute or controversy; but a considerable difference of opinion is entertained respecting the effects occasioned by the employment of workmen by capitalists, and by fluctuations in the rate of wages, on value.

It does not, however, seem that there is really much room for these differences. Suppose that a certain quantity of goods, a pair of stockings for example, manufactured by independent workmen, freely exchanges for a pair of gloves also manufactured by independent workmen, they will continue to exchange in this proportion, provided the quantities of labour required for their production continue invariable, after the workmen have been employed by some master manufacturer. In the first case it is true, as Dr Smith has observed, that the whole goods produced by the workmen belong to themselves, and that, in the second case, they have to share them with their employers. But it must be recollected, that in the first case the capital, or accumulated labour, made use of in the production of the commodities, *belonged to the workmen*, and that, in the latter case, it has been *furnished them by others*. The question then comes to be, Can the circumstance

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of labourers voluntarily agreeing to give a portion of the commodities produced by them, as an *equivalent*, or compensation for the advantage and assistance derived from the use of the capital, or accumulated labour of others, afford any ground for raising the value of the commodities produced by them? It is evident it cannot. The profits of capital are only another name for the *wages of accumulated labour*. They make a part of the price of every commodity in whose production any portion of capital has been wasted. But whether this capital belongs to the labourer himself, or is furnished him by another, is obviously of no consequence. When the capital does not belong to the labourer, the commodities produced by him are divided into *two* specific portions, whereof one is the produce of the immediate labour, and the other of the capital, or accumulated labour, laid out upon them. But the value of the commodities will continue constant so long as the same quantity of labour is required for their production, whether that labour be supplied by one or more individuals. A shoemaker who manufactures shoes on his own account, must obtain the same rate of profit on their sale, that would accrue to a master shoemaker were he employed by him as a workman. He must not only possess a capital adequate to maintain himself and his family until his shoes can be disposed of, but he must also be able to furnish himself with a workshop and tools, to advance money to the tanner to pay his leather, and to provide for various other outgoings. If he did not, exclusive of the or-

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dinary wages of labour, realize a profit, or compensation for the employment of his capital, equal to the profit obtained by the master shoemaker, it would obviously be for his advantage to lend it to him, and to work on his account; and it is plain, inasmuch as his shoes could not be sold for a *higher price* than those of the capitalist, that he could not realize a greater profit.

It appears, therefore, that the circumstance of the accumulated labour or capital, and the immediate labour required to produce commodities being furnished by different classes of people, does not affect the principle that their exchangeable value depends on the total quantity of labour required for their production. It now only remains to trace the effects of fluctuations in the rate of wages on price. When this is done, the subject will be exhausted.

To simplify this inquiry, I shall divide it into two branches: I shall inquire, *first*, whether fluctuations in the rate of wages have any, and, if any, what effects on the relative value of commodities produced by the aid of capitals of *equal* degrees of durability; and, *second*, whether these fluctuations have any, and, if any, what effects when the capitals employed are of *unequal* degrees of durability.

I. The first branch of this inquiry involves no real difficulty. If all classes of capitalists employed either fixed or circulating capitals, returnable in precisely the same periods, or of precisely the same degree of durability, they would all be in the very

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same situation, and would be equally affected by a rise or fall of wages. This proposition is self-evident, and must be assented to by every one. But, under these circumstances, it is plainly impossible that a rise or fall of wages could occasion any variation in the relative value, or price of commodities. Suppose, for example, that a hat produced, when wages are 2s. a-day, freely exchanges for a pair of boots; and let us suppose that, from some cause or other, wages rise to 3s., the question is, will this rise of wages affect the relative value of hats and boots? It is obvious that it could not. The relation of hats to boots could not possibly be affected, either by this or by any conceivable rise or fall of wages. Fluctuations in the rate of wages cannot, it must be remembered, be confined to one department. Competition will always elevate or depress their rate in any one trade to the common level of others. If wages really rise 1s. a day in the hat trade, they must, and they certainly *will*, unless restrictive and injurious regulations interpose, rise 1s. in every other business. It is plain, then, that the hatter could not urge the circumstance of his being obliged to pay a greater amount of wages to his workmen, as a reason why the bootmakers should give him a greater number of boots in exchange for the same number of his hats; for the bootmaker would have it in his power to reply, and would most certainly avail himself of that power, that the same rise of wages affected him to precisely the same extent. If, therefore, a hat was previously worth or exchanged for a pair of boots, they

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will continue to preserve this relation to each other, until some variation takes place in the quantities of labour required to produce them, and bring them to market. So long as these quantities continue the same, wages may rise to a guinea, or they may fall to a penny a day, without its being possible for either the rise or the fall to have the slightest effect on their value.

But it may perhaps be said, that, though the relation which commodities produced by the aid of capitals of equal degrees of durability bear to each other cannot be affected by fluctuations in the rate of wages, these fluctuations may notwithstanding affect their *price*, or their value estimated in money. But if the variation in the rate of wages be *real* and not *nominal*, that is, if the labourer be getting either a greater or less *proportion of the produce of his industry*, or a greater or less quantity of money of invariable value, this will not happen. Money is itself a commodity, whose value depends on the same circumstances that determine the value of all other commodities. If the mine which supplies the gold and silver, of which money is made, be situated in the country, then it is clear, that the rise of wages that affects other producers, will equally affect those who are engaged in the production of gold and silver: and, if gold and silver be imported from abroad, it is equally clear, that no more of them will be obtained in exchange for commodities produced by the dearer labour, than was previously obtained for the commodities produced by the cheaper labour; for, if

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those who export commodities to foreign countries, and exchange them for the precious metals, were to obtain more of such metals after wages rose than previously, they would be gaining just so much more than the common and average rate of profit gained by their neighbours at home, whose competition would speedily and infallibly compel them to give the same quantity of goods produced by the dear labour, for the same quantity of the precious metals that they had obtained previous to the rise in the rate of wages.

In this statement, it is taken for granted, that the value of money has been all the while invariable; that is, that the same quantity of labour continues necessary to produce the same quantity of it. If the value of money fluctuates, if it becomes either more or less difficult of production, then, undoubtedly, both the rate of wages, and the price of commodities will vary. But they will do so, not because the labourer gets a greater or less amount of wages, but because *the value of the commodity, or standard in which wages and prices are estimated, has varied.* Wages, though most commonly paid in money, really consist of a part of the produce of the industry of the labourer; consequently, they bear a high *real* value, when the labourer gets a comparatively *large share* of the produce of his industry; and a low *real* value when he gets a comparatively small share of that produce. Instead of being identical with wages estimated in money or commodities, real or proportional, wages are often lowest when money wages are

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highest, and they are often rising at the moment that money wages are falling, and *vice versa*. And hence, in order to avoid falling into endless mistakes, it is expedient, in all investigations into the distribution of commodities, to consider wages in the light, of a certain proportion of the produce of industry—as being really invariable, so long as this proportion continues unchanged—as having really risen when it is increased, and really fallen when it is diminished.

The mistaking of fluctuations in the rate of money wages, for fluctuations in the real rate of wages, has been the source of much error and misapprehension. A man whose wages are 1s. a day, must get 2s. to keep them at the same level, should the value of money decline a half; and the hat which now sells for 10s. must then, for the same reason, sell for 20s. It is obviously false, to call this a real rise, either of wages or prices: This, however, is what is generally done. The manufacturer who gives sixpence a day more to his men, and who sells his goods at a proportionally higher price, because of a fall in the relative value of money, rarely suspects that there has been any such fall, and almost invariably concludes, that the rise of wages has been the cause of the rise of prices, overlooking entirely the real cause of the rise of both—the decline in the value of the money or commodity in which wages and prices are estimated.

Even if it were true, which most certainly it is not, that, when money is invariable in value, a rise of

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wages occasioned an equal rise in the money price of all commodities, it would be of no advantage to the producers. Commodities are always bought, either by other commodities, or by labour, and it is almost superfluous to add, that it is quite impossible they can ever be bought by any thing else. Of what benefit, then, would it be to a capitalist, a cotton-manufacturer for example, to sell his cottons for 10 per cent. advance, when wages rose 10 per cent., when he would be obliged to give just so much more for every commodity for which he had a demand? When wages really rise, the producers are in precisely the same situation, whether they sell the commodities they have to spare, and purchase those they have occasion for at their former price, or whether they are all raised proportionally to the rise of wages.

This principle may be still farther illustrated by supposing that the quantities of labour required for the production of every species of commodities are increased in exactly the same proportion: Under such circumstances, it is quite certain, that their exchangeable values, as compared with each other, would remain unaltered. A bushel of corn would not then exchange for a greater quantity of muslin or of broad cloth, than it did before the increased expence of its production; but each would have a greater *real* value, because each would be the produce of a greater quantity of labour. Under these circumstances, the prices of commodities would remain stationary, while the wealth and comforts of the society would

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be materially diminished. Every person would have to make greater exertions to obtain a given quantity of any one commodity; but as the expence of producing *all* commodities is, by the supposition, equally increased, it would not be necessary to make any greater exertions to obtain one than another, and their relative values would be totally unaffected.

But, if a general and equal increase of the quantities of labour required for the production of commodities cannot alter their relation to one another, it is quite obvious that this relation cannot be affected by a general and equal increase of the wages paid for that labour. Fluctuations in the rate of real wages affect the *proportion* in which the produce of industry, under deduction of rent, is divided between capitalists and labourers—diminishing the proportion belonging to the capitalists, when they rise, and increasing it when they fall. But as these changes in the distribution of commodities neither add to, nor take from the quantity of labour required to produce them and bring them to market, they cannot affect either their real or exchangeable value.

II. The arguments now brought forward, to show the impossibility of fluctuations in the rate of wages, affecting the exchangeable value of commodities produced by capitals of the same durability, were first advanced by Mr Ricardo. He, too, was the first who endeavoured to analyze and discover the effects of fluctuations in the rate of wages on the value of commodities, when the capitals employed in their produc-



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tion were *not* of the same degree of durability. The results of his researches in this most difficult branch of the science were still more important, and more completely at variance with the universally received opinions of political economists: For, Mr Ricardo has not only shown that it is impossible for any rise of wages to raise the price of *all* commodities; but he has also shown, that in many cases a rise of wages necessarily leads to a *fall* of prices, and a fall of wages to a *rise* of prices!

It must be admitted, that this proposition certainly appears, when first stated, not a little paradoxical. The paradox, however, is altogether in appearance. On adverting to the means by which certain classes of commodities are produced, it will immediately be seen, that no proposition can, apparently, be more reasonable, or consistent with probability; and it may be very easily shown that there is none more certain.

Some commodities are almost exclusively the product of accumulated labour, or capital, and others of the immediate labour of man. Nearly the whole of the first class will, consequently, belong to the capitalist, and the latter to the labourer. Suppose a manufacturer has a machine worth L. 20,000, endued with a high degree of durability, and which can manufacture commodities without the assistance of any, or with but very little manual labour. In this case, it is quite clear that the goods produced by the machine really form the profits of the capital invested in it; and their value in exchange, or their price rated in money, must, therefore, vary with every variation

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in the rate of profit. If profits are at 10 per cent., then the goods annually produced by the machine must, supposing money to be produced under the same circumstances, sell for L. 2000, with a small additional sum to cover the wear and tear of the engine: Should profits rise to 15 per cent., the price of the goods produced by the machine must rise to L. 3000, for otherwise the manufacturer would not obtain the common and average rate of profit: And if, on the other hand, profits should fall to 5 per cent., the price of the goods must, for the same reason, fall to L. 1000. If, therefore, it can be shown, that a rise of wages reduces the rate of profits, it necessarily follows that it must also reduce the exchangeable value and price of all such commodities as are chiefly produced by machinery, or fixed capital of a considerable degree of durability, or by circulating capitals returnable at distant periods, and *vice versa*.

Now, it is easy to show that, so long as no variation takes place in the quantity of labour required for the production of commodities,* every rise of wages must reduce profits, and must, therefore, reduce the exchangeable value of those commodities which have been chiefly produced by the aid of fixed capital or machinery. It is plain, from what has been previously stated, that to whatever extent wages rise, it must be impossible for any set of producers, whether the capitals employed by them are returnable in

* The reason for this limitation will be subsequently explained.

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a day, a week, a year, or a hundred years, to obtain a larger share of the commodities produced by others of the *same class*—that is, whose capitals are returnable in equal periods with their own. This is just as absolutely impossible as it is to change the relation of proportional numbers by multiplying or dividing them all by the *same* number; and, therefore, it is perfectly certain that a rise of wages cannot raise the value of any one commodity as compared with all other commodities. But, if it cannot do this, it must universally lower profits. Suppose wages rise 10 per cent.: Assuredly that rise will not enable those manufacturers, who employ the fewest labourers in proportion to their capital, to obtain any larger share of the products belonging to those capitalists who are placed under similar circumstances—that is, who employ equal quantities of machinery and labour, and still less of those who lay out a larger portion of their capital in the payment of wages. It is clear, therefore, that the profits of the manufacturers in question, and, consequently, the profits of all other producers whatever must be reduced by this rise of wages; and whenever this reduction takes place, the exchangeable value of the commodities, produced chiefly by the aid of fixed capital or machinery, will be diminished, as compared with those produced chiefly by the hand.

Suppose that the numbers 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, &c. represent the various capitals, classed according to the respective degrees of their average durability, employed in this or any other

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country; that No. 1 represents that class of capitals which are wholly employed in the payment of wages, and which are most speedily consumed and reproduced, No. 2, that class which is next in durability, and so on until we come to No. 11, which represents that class of capitals which chiefly consist of highly durable machinery, and which are longest in being consumed and reproduced. Let us farther suppose, that the commodities produced by the agency of these capitals are all yielding the same common and average rate of profit to their proprietors, and let us endeavour to discover what would, under these circumstances, be the effect of fluctuations in the rate of wages on the value of commodities. If wages rise, it is plain that the holders of the least durable capitals (No. 1,) who may be supposed to use no machinery, will be more affected by the rise than the holders of the second class (No. 2,) who may be supposed to employ some little machinery, and these again more than the holders of the third class (No. 3,) and so on till we come to the holders of the capital of the highest degree of durability (No. 11,) which may be supposed to consist almost wholly of very durable machinery, and who will, on that account, be comparatively but little affected by the rise. Suppose, now, to illustrate the principle, that wages have so risen that the increased rate paid by the proprietors of the most durable capitals to the few labourers they employ—for they cannot possibly avoid employing a few to superintend their machinery—has had the effect to reduce their profits *one* per cent.: There is obviously no

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mode in which these capitalists can indemnify themselves for this fall of profits; for, as they employ the fewest labourers, they are least of all affected by the rise of wages; the profits of all other capitalists being more reduced than theirs in proportion to the greater number of labourers they employ. Thus, supposing the proprietors of the most durable capitals, or of No. 11, to employ a certain number of labourers in proportion to their capital, the proprietors of the next class, or of No. 10, to employ twice that number, and those of No. 9, three times that number, and so on; then, on the hypothesis that the rise of wages has reduced the profits of the most durable capitals, or No. 11, *one* per cent, it will have reduced those of No. 10, *two* per cent., those of No. 9, *three* per cent. and so on till we come to the least durable class, No. 1, whose profits will be reduced *eleven* per cent. It is plain, however, that this discrepancy in the rate of profit must be of very temporary duration. For the undertakers of those businesses, in which either the whole or the greater portion of the capital is laid out in paying the wages of labour, observing that their neighbours, who have laid out the greater portion of their capital on machinery, are less affected by the rise of wages, will immediately begin to withdraw from their own businesses, and to engage in those that are more lucrative. The class of commodities produced by the most durable capitals, Nos. 7, 8, 9, 10, &c. will, therefore, become redundant, as compared with those produced by the least durable capitals, Nos. 1, 2, 3, 4, &c.; and this

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increase on the one hand, and diminution on the other, will have the effect to sink the value of the commodities produced by the *most durable* capitals as compared with those produced by the *least durable* capitals; or, which is the same thing, to raise the value of the latter compared with the former, till they all yield the same rate of profit.

The class of commodities produced by capital of the *medium* degree of durability, or by No. 6, would not be affected by the rise; for, whatever they lost in exchangeable value, as compared with the commodities produced by the less durable capitals, they would gain as compared with those produced by the more durable capitals.

It has, however, been contended, that though the equalization in the rate of profit now alluded to might be effected by the destruction of a portion of the less durable capital, or by the comparatively great accumulations that would henceforth be made by the holders of the more durable capitals, who were but little affected by the rise of wages, it could not be effected by such a transference of capital from the one class of businesses to the other as has been supposed: For it is said, that the fixed stock, or machinery, belonging to the holders of the capitals of the greatest degree of durability, being itself the produce of labour, it would not be possible to obtain this machinery at its former price after wages rose, so that the profits of the existing holders of Nos. 7, 8, 9, &c. could not be beat down to a common level with those of the holders of the less durable ca-



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pitals by an influx of new competitors. But it is easy to see that this objection is not tenable. Suppose, which is the strongest case for the argument I am combating, that the machines, belonging to the capitalists of the class No. 11, are the produce of the labourers employed by the capitalists of the class No. 1. When wages rise, it is evident the machines, and other commodities produced by No. 1, cannot rise in value, as compared with money, or any other commodity produced under different circumstances, until they are diminished, or the others increased in quantity. And hence, there are two very sufficient reasons why the producers of the machines should not be disposed to sell them after wages rise; for, in the *first* place, if they sell them, they will obtain no higher price for them than they obtained before the rise; and, in the *second* place, as the more lucrative businesses, or those that are least affected by the rise of wages, can only be carried on by means of machinery, they could not, if they sold the machines, transfer circulating capital to them, but would be compelled to continue in those businesses that had become relatively disadvantageous. Instead, therefore, of selling the machines, a large proportion of their producers would be induced to employ them in the businesses for which they were intended; and would thus come into competition with the existing holders of the capitals Nos. 7, 8, 9, 10, &c. exactly on the same footing that they stand, or with machines that have cost exactly the same price as theirs;



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nor would this transference of capital cease until the quantity of the commodities produced on the least durable side of the scale, had been so much diminished, and their value so much increased, as compared with those produced on the more durable side, that they were all brought to yield the same common and average rate of profit.

If wages, instead of rising, had fallen, the opposite effects would have been produced. The holders of the capitals Nos. 1, 2, 3, &c. who employ a comparatively large proportion of labourers, deriving a greater advantage from the fall of wages than the holders of the capitals Nos. 7, 8, 9, &c. their profits would be raised above the level of the latter. In consequence, capital would begin to move from those businesses that employed the fewest to those that employed the greatest number of labourers; and the indestructible equilibrium of profit would be restored by an increase of the exchangeable value of the commodities produced by the most durable, as compared with those produced by the least durable capitals.

It is abundantly certain, therefore, that no rise of wages can ever occasion a general rise of prices, and no fall of wages a general fall of prices; but, supposing the productiveness of industry, or the quantity of labour required to produce commodities to remain the same, a rise of wages, instead of occasioning a general rise of prices, will have the effect to occasion a general fall of profits; and a fall of wages, instead of reducing prices, will occasion a general rise of profits. Owing, however, to the different

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and ever varying degrees of the durability of the machinery, or fixed capital, employed in the production of commodities, and the varying relation which the portion of capital laid out in wages, or in the pay of immediate labour, bears to the whole capital employed, it is rather difficult to determine, *à priori*, the precise extent to which any given fluctuation in the rate of wages will affect the rate of profit, and the exchangeable value of commodities. But, when due pains are taken, this may be always done: and the following three cases will briefly, and, I hope, satisfactorily elucidate the manner in which fluctuations in the rate of wages always operate, and the method to be followed in estimating their influence on profits and prices:

1. If all commodities were produced by immediate labour, or by capital employed in the payment of wages, it is obvious that every rise of wages would cause an equal fall of profits. A capitalist who employed L. 1000 in the payment of wages, must, if profits were at 10 per cent., sell the commodities for L. 1100. But when wages rise 5 per cent., or to L. 1050, he would not be able to sell his commodities for more than L.1100; *for money is itself a commodity, and as, by the supposition, all commodities are produced by immediate labour, the rise of wages would affect the producers of money to the very same degree that it affected all other producers.* In this case, therefore, it is plain every rise of wages will equally sink profits, and every fall of wages will equally raise them.

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2. If all commodities were produced, *one-half* by immediate labour, and the *other half* by capital, profits would only fall to half the extent that wages rose. Suppose a capitalist employs L. 500 in the payment of wages, and L. 500 as a fixed capital, when profits are at 10 per cent., the commodities produced must, as before, sell for L.1100. If wages rose 5 per cent., the capitalist would have to pay L. 525 as wages, and would, consequently, only retain L.75 as profits. In this case, therefore, a rise of wages to the extent of 5 per cent. would, because of the employment of equal quantities of capital and immediate labour in the production of commodities, only sink profits 2½ per cent.

3. If *all* commodities were produced by capital of a high degree of durability, the capitalists, it is obvious, would not be at all affected by a rise of wages, and profits would, of course, continue as before.

Now, suppose that commodities, instead of being wholly produced either by immediate labour, as in the first case, or wholly by equal quantities of immediate labour and of capital, as in the second, or wholly by fixed capital as in the third, are partly produced in the one mode, and partly in the other, and let us see what effect this increase of 5 per cent. in the rate of wages would have on their relative values. To facilitate this inquiry, let us distinguish these three descriptions of commodities by the Nos. 1, 2, and 3. Now, it is quite evident that the rise of wages has affected No. 1 2½ per cent. more than it has affected No. 2, and 5 per cent. more



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than it has affected No. 3. No. 1 must, therefore, as compared with No. 2, have risen 2½ per cent. in exchangeable value, and as compared with No. 3, it must have risen 5 per cent.; No. 2 must have fallen 2½ per cent as compared with No, 1, and risen 2½ per cent. as compared with No. 3; and No 3 must have fallen 5 per cent. as compared with No. 1, and 2½ per cent. as compared with No. 2. If wages, instead of rising, had fallen, the same effects would obviously have been produced, but in a reversed order. The proprietors of the commodities of the class No. 1 would gain 5 per cent. by the fall; those of No. 2 would gain 2½ per cent., and those of No 3 nothing; and the relative values of these commodities would be adjusted accordingly. *

Thus, then, it appears, inasmuch as any commodity taken for a standard by which to estimate the relative values of other commodities, must itself be produced by capital returnable in a certain period, that *when wages rise, all commodities produced by* LESS *durable capitals than those which produce the commodity taken for a standard, will rise in exchangeable value, and all those produced by* MORE *durable capitals will fall; and conversely when wages are reduced.* Suppose, as before, that the Nos. 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, and 11, represent capitals of corresponding degrees of durability. If a

* The examples here given are substantially the same with those given by Mr Mill. *Elements of Political Economy*, 2d Edit. p. 103.

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commodity produced by the least durable capital, No. 1, and which may be supposed to be wholly employed in the payment of wages, be taken for a standard, all commodities whatever, produced by the other and more durable capitals would *fall* in value when wages rose; and if we suppose those produced by No. 2 to decline 1 per cent., those produced by No. 3 would decline 2 per cent., those produced by No. 4, 3 per cent., and so on until we arrive at No. 11, which will have fallen 10 per cent. If, on the other hand, a commodity, produced by the most durable capital, No. 11, and which may be supposed to consist wholly of highly durable machinery, be made the standard, when wages rise, all the commodities produced by the other less durable capitals would also rise; and if those produced by No. 10 rose 1 per cent., those produced by No. 9 would rise 2 per cent., and those produced by No. 1, 10 per cent. If a commodity, produced by a capital of the *medium* degree of durability, as No. 6, and which may be supposed to consist half of circulating capital employed in the payment of wages, and half of fixed capital or machinery, be taken as a standard, the commodities produced by the less durable capitals, Nos. 5, 4, 3, 2, and 1, will *rise* with a rise of wages, on the former hypothesis, the first, or No. 5, 1 per cent, the second, or No. 4, 2 per cent, &c.; while those produced by the more durable capitals, Nos. 7, 8, 9, 10, and 11, will *fall*, the first, or No. 7, 1 per cent., the second, or No. 8, 2 per cent., &c. exactly the reverse of the other.

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Hence it is obvious that the effect which variations in the rate of wages have on *price* will principally depend on the nature of the capital employed in the production of gold or silver. Whatever may be the proportions of circulating capital appropriated to the payment of wages, and of fixed capital employed in the production of the material of which money is made, all those commodities which are produced by the agency of a greater quantity of circulating capital, and with less fixed capital or machinery, will rise when wages rise, and fall when wages fall; but those that are produced by the agency of a less quantity of circulating capital, and with more fixed capital or machinery, will fall when wages rise, and rise when wages fall; while those that are produced in nearly the same circumstances, or by the agency of the same quantities of circulating and fixed capital as money, will not be affected by these fluctuations.

It should be observed, however, that the variations in the exchangeable value of most commodities, caused by variations in the rate of wages, are confined within comparatively narrow limits. We have already seen that, if all commodities were either produced wholly by immediate labour, or wholly by capital, or wholly by equal quantities of both, no variation in the rate of wages could have any effect on the value of commodities. But, in point of fact, a very large class of commodities are produced by means of nearly equal portions of fixed and circulating capital; and as every rise of proportional wages that may take place must, under such circumstances, be balanced

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either by a fall in the rate of profit or by a proportional increase in the productiveness of industry, it is evident that the value of the commodities in question, as compared with each other, would remain nearly stationary. Although, therefore, a rise of wages has a necessary tendency to raise the exchangeable value of one class of commodities, and, consequently, to lower that of another class, the fall of profits, which must inevitably follow every rise of wages that is not accompanied by an increased productiveness of industry, has a contrary effect, and tends to sink the value of the commodities which the increased rate of wages would raise, and to elevate the value of those which the same increased rate would sink. And it is only in the extreme cases, or in the case of the commodities produced almost wholly by direct manual labour, on the one hand, or in that of those produced almost wholly by the aid of fixed capital or machinery, on the other, that a variation in the rate of wages occasions a considerable variation in their relative values.

It must also be observed, that though fluctuations in the rate of wages occasion some variation in the exchangeable value of particular commodities, they neither add to nor take from the *total value* of the entire mass of commodities. If they increase the value of those produced by the least durable capitals, they equally diminish the value of those produced by the more durable capitals. Their aggregate value continues, therefore, always the same. And though it may not be strictly true, of a particular commodity, that its exchangeable value is directly as its *real* va-

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lue, or as the quantity of labour required to produce it and bring it to market, it is most true to affirm this of the mass of commodities taken together.

The principles I have now endeavoured to unfold and elucidate are substantially the same with those advanced by Mr Ricardo: But Mr Ricardo was inclined to modify his grand principle, that the exchangeable value of commodities depended on the quantity of labour required for their production, so far as to allow that the additional exchangeable value that is sometimes given to commodities by keeping them after they have been purchased or produced, until they become fit to be used, was not to be considered as the effect of labour, but as an equivalent for the profits the capital laid out on the commodities would have yielded had it been actually employed. I confess, however, notwithstanding the hesitation I cannot but feel in differing from so great an authority, that I see no good reason for making this exception. Suppose, to illustrate the principle, that a cask of new wine, which cost L. 50, is put into a cellar, and that, at the end of twelve months, it is worth L. 55, the question is—Whether ought the L. 5 of additional value, given to the wine, be considered as a compensation for the *time* the L. 50 worth of capital has been locked up, or ought it to be considered as the value of additional labour actually laid out on the wine? I think, that it ought to be considered in the latter point of view, and for this, as it appears to me, most satisfactory and conclusive reason, that if we keep a commodity, as a cask

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of wine, which has not arrived at maturity, and on which, therefore, *a change or effect is to be produced*, it will be possessed of additional value at a year's end; whereas, had we kept a cask of wine, or any other commodity, which had *already arrived at maturity*, and on which no beneficial or desirable change could be produced, for a hundred or a thousand years, it would not have been worth a single additional farthing. This seems to prove incontrovertibly, that the additional value, acquired by the wine during the period it has been kept in the cellar, is not a compensation or return for time, but for the effect or change that has been produced on it. Time cannot of itself produce any effect; it merely affords space for really efficient causes to operate, and it is therefore clear it can have nothing to do with value.

Still better to illustrate this proposition, let us suppose that an individual has two capitals, one consisting of a thousand pounds worth of new wine, and the other consisting of nine hundred pounds worth of leather, and one hundred pounds worth of money: Suppose now, that the wine is put into a cellar, and that the L. 100 is paid to a shoemaker, who is employed to convert the leather into shoes. At the end of a year, this capitalist will have two equivalent values, perhaps L. 1,100 worth of wine, and L. 1,100 worth of shoes. Now, if the increased value given to these capitals be a consequence of the *change or effect* that has been operated on them, and that it is so, is evident from the fact, that if either the leather or the wine had been found at the end of the

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year in the same state it was in at its commencement, it would have had no additional value, are we not entitled to affirm that this additional value has been given to these capitals by the operation of agents, which it required equal capitals to set in motion, and furnish with materials whereon to operate, and that, consequently, both shoes and wine are the result of equal quantities of labour?

If it should be objected that the cases in question are not parallel—that there is L. 100 worth of labour laid out on the shoes, and that there is no labour laid out on the wine, I answer, that the difference is not real but apparent, and that, in truth and reality, there is exactly the same amount of labour expended on both. In point of fact, all that is done in either case is to change the form of equal capitals—to transmute, if I may so speak, a certain amount of capital through the medium of human hands into shoes, and to transmute an equal amount of capital, through the medium of natural powers, into wine fit for drinking. The employer of the shoemaker paid him his L. 100 of wages, not in the expectation that he was to lay out these wages, in addition to the labour of his hands, on his shoes; but that he might lay out the wages on himself, and give him his labour as an equivalent for them. On the one hand, therefore, the shoes were produced by *nine-tenths* of accumulated labour or capital, and *one-tenth* of immediate labour, while, on the other, the wine was wholly produced by means of capital. The object which the owner of the leather had in view

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was, to convert a certain amount of capital into shoes, and, to accomplish it, it was necessary that he should exchange *one-tenth* of it for an equivalent amount of the immediate labour of shoemakers. In the production of the wine, this exchange of capital for labour was not necessary; the effect which had, in the first case, been produced by the agency of man, being, in the second case, produced by the agency of the processes which nature herself carried on in the casks. It is clear, therefore, that no greater quantity of labour was required to produce the shoes than to produce the wine. Different *agents* were employed to convert the capital into the finished produce, but that was all. The quantity of capital which set these agents in motion, and on which they operated effects, was, in both cases, exactly the same, and, consequently, both products were brought into existence by the same quantity of labour.

When a commodity is either wholly or partly produced by means of a machine, every one allows that the value communicated to it by its operations is derived entirely from labour; and yet, there is not at bottom a shadow of difference in the nature of the operations effected by the aid of machinery, from those of fermentation, and the other processes carried on inside a cask, except that they are visible to the eye, and that the others are not.

The case of timber affords a still better example of the universal applicability of this doctrine. When a tree grows naturally upon land which is not occupied, its value obviously depends on the labour

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required to cut it down. But, excluding the consideration of rent, the payment of which would only cause a different division of the tree without affecting its value, let us suppose that a tree which is now worth L.25, or L.30, was planted a hundred years ago at an expence of one shilling, it may be easily shown, that the present value of the tree is owing entirely to the quantity of labour laid out upon it. A tree is at once a piece of timber, and a machine for manufacturing timber; and though the original cost of this machine be but small, yet, as it is not liable to waste or decay, the capital vested in it will, at the end of a distant period, have operated a considerable effect, or, in other words, have produced a considerable value. If we suppose that a machine, which cost only one shilling, had been invented a hundred years since; that this machine was indestructible, and, consequently, required no repairs; and that it had, all the while, been employed in the weaving of a quantity of yarn, gratuitously produced by nature, which was only now finished, this cloth might now be worth L.25 or L.30; but, whatever value it may be possessed of, it is evident it must have derived it entirely from the continued agency of the machine, or, in other words, from the quantity of labour expended on its production. This, however, is just the same case, in point of principle, as that of the tree. The capital employed in the timber-making machine was small; but the great length of time during which it was employed, enabled it to produce a powerful effect, and has, therefore, given a high value to its produce.

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Time is not, therefore, to be taken into account in estimating the value of commodities, except only when it may be necessary to refer to it, in order to ascertain the quantities of labour required for their production. If the capitals be equal, and the times in which the effects, or changes, operated by their means are different, it is at once a proof that a greater quantity of labour has been required to produce the one effect than the other, and an exponent of that greater quantity—in the same way as we justly say, that twice the quantity of labour is expended on a commodity which can only be produced by a workman in a month, that is expended on one which he can produce in a fortnight. If it requires L.1000 worth of capital, or accumulated labour, to collect the materials, and to set and keep the muscles of the masons in motion who are to build a house, and if it also requires L.1000 worth of capital to collect the fluid, and to set and keep fermentation and the other processes in motion that are required to produce a given quantity of wine, then it is plain, in the event of the house and the wine being produced in the *same time*, that they are the produce of equal quantities of labour; and it is also plain, in the event of their requiring *different times* for their production, that it can only be because different quantities of labour are required for that purpose.

Besides the objection now stated, it has been contended by Colonel Torrens, in his valuable work *On the Production of Wealth*, in opposition to the theory I have been endeavouring to establish, that, after ca-



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pital has been accumulated, the relative or exchangeable value of commodities is no longer, as in the early stages of society, determined by the total quantities of labour required to bring them to market, but by the *quantities of capital* required for that purpose. At bottom, however, this theory is precisely the same as that just explained. Capital is nothing but the accumulated produce of anterior labour; and its value, like the value of everything else, is to be estimated by the quantity of that labour required to procure it. In this respect, too, there is no difference, as has been already shown, between labourers and any other species of machines. A labourer is himself a portion of the national capital; and is to be considered, in all investigations of this sort, merely as a machine which it has required a certain quantity of labour to construct: The wages earned by the labourer are no more than a fair remuneration for the labour performed by him, or, if I may so speak, they yield only the common and ordinary rate of profit to the proprietors of the machine called man, exclusive of a sum to replace the wear and tear of the machines, or, which is the same thing, to supply the place of the old and decayed labourers with new ones. Whether, therefore, a commodity has been produced by the expenditure of a capital which it cost a certain quantity of the labour of man to provide, or whether it has been immediately produced by the expenditure of that quantity of labour directly upon it, is of no moment. In either case, it is produced by exactly the same amount of labour, or, if it should

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be deemed a better phrase, of capital. There is, in truth, no substantial difference between the labour of man and of machinery. Men are themselves capital;—they are the product of anterior labour, just as much as the tools or engines with which they perform their tasks: And to say that the exchangeable value of commodities depends on the quantities of capital expended on their production, is not to contradict, but is, in fact, only another way of expressing the identical proposition I have been endeavouring to illustrate.

Many practical conclusions of great interest and importance may be deduced from the principles developed in this section. It had, for example, been long and universally supposed, that a country where wages are comparatively low would be able, provided it possessed the same facilities for the production of commodities, to undersell all other countries in markets equally accessible to all parties. But, the principles now laid down show the fallacy of this opinion. Suppose, to exemplify the mode in which variations in the rate of wages really affect foreign commerce, that England and France have *equal* facilities for producing all sorts of commodities, and that the rate of wages is equal in both countries; and let the following numbers represent the different classes of capital, ranged according to the different degrees of their durability, employed in production in England and France, viz.

Nos. 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, &c. England.

Nos. 1′, 2′, 3′, 4′, 5′, 6′, 7′, 8′, 9′, 10′, 11′, &c. France.

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Now, as the two countries are supposed to have equal facilities of production, and as the rate of wages in them both is also supposed to be the same, the commodities produced by each will sell equally well in any third market, as in that of the United States, equally open to both: But, suppose that, while wages continue stationary in France they rise in England, and mark the result. All that class of commodities produced in England by the capitals Nos. 7, 8, 9, 10, &c. which are above the *medium* degree of durability, and may be supposed to consist chiefly of machinery, will fall, while those produced by the less durable capitals Nos. 1, 2, 3, 4, &c. will rise. The former will not, however, fall only in relation to other commodities produced in England by less durable capitals, but they will *also fall in relation to the commodities produced in France by the corresponding and equally durable capitals* Nos. 7′, 8′, 9′, 10′, &c.; while the latter, or the commodities produced in England by the capitals Nos. 1, 2, 3, 4, &c. will rise in value as compared with the commodities produced in France by the corresponding capitals, Nos. 1′, 2′, 3′, 4′, &c. The merchants of England and France will, therefore, no longer come into the American market on the same terms as formerly; for England will now have a decided advantage over France in the production and sale of those commodities that are produced chiefly by machinery, while France will, on her part, have an equally decided advantage over England in the production and sale of those commodities that are chiefly the



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direct produce of the hand. And such, in point of fact, is actually the case. The bulk of our exports consists of cotton goods and other products of machinery; whereas the bulk of the exports of France consists of the productions of her soil, and of jewellery and fancy articles, principally the product of manual labour. It is, therefore, quite idle to suppose that a rise of wages can ever be fatal to the foreign commerce of a country. It may, indeed, turn it into new channels, but that is all it can do. If, on the one hand, it raises the value of certain descriptions of commodities, and checks their exportation, on the other hand, it proportionally lowers the value of other descriptions, and fits them the better for the foreign market.

It appears, therefore, that instead of our high wages laying our cotton manufacturers under any disadvantage in the sale of their goods as compared with their continental competitors, their effect is distinctly the reverse. The high wages we pay to our workmen cause *low profits*; and as the principal part of the value of cottons and other commodities chiefly produced by the agency of machinery, consists of profits, it must be comparatively low where wages are high. Suppose, for example, that two highly durable machines, of equal power and goodness, and which can manufacture commodities with but little manual labour, are erected, the one in France and the other in England: If the machines cost L. 20,000 each, and if the rate of profit in France is seven and in England five per

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cent. the goods produced by the French machine would have to sell for L. 1,400, whereas those produced by the English machine would only sell for L. 1,000. It should also be observed, inasmuch as one description of machinery is for the most part largely employed in the production of another, that it is most probable, in the event of one of the machines being made in England and the other in France, that the English one would not cost so much as L. 20,000, and that its produce might on that account be sold under L. 1000. Independently, however, of this circumstance, the advantage that our manufacturers who employ a great proportion of machinery must have over those of France, in consequence of our higher wages and lower profits, is obvious and decided. This principle sets the impolicy of the restrictions on the exportation of the machinery used in cotton-mills in a very striking point of view. It is quite evident that although France were possessed of all those facilities for manufacturing cottons we now enjoy, though Normandy were a second Lancashire, and Rouen a fac simile of Manchester, her manufacturers would not be able to enter into a successful competition with those of England. The possession of better machinery would have no tendency to raise wages and lower profits in France; and, till this is done, we must, supposing we continue to possess *equal facilities* of production, always have a decided ascendancy over the French in the sale of such articles as are mainly produced by means of machinery.

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The statement now made, is not meant to convey the insinuation that our high wages and low profits are really advantageous. On the contrary, the tendency of a low rate of profit is not only to occasion all countries in which it obtains to advance slowly as compared with those in which it is higher, but it also forms a strong temptation to transfer capital to other countries. A reduction of wages, following a corresponding reduction in the price of corn, or any of the principal necessaries that enter into the consumption of the labourer, would certainly have the effect to raise profits, and thus, by raising their price, to narrow the foreign demand for cottons. But, a diminution in the amount of the commodities we now export to foreign countries, arising from this cause, instead of being injurious would be most beneficial. It would be the effect of industry having become more productive; and any capital that had previously been employed in the production of goods for the foreign market, that could not, under the supposed new circumstances of the country, be advantageously sent abroad, would be certain to meet with a more advantageous employment in other branches. But in so far as the cotton manufacture is concerned, there can be no manner of doubt that our high wages and low profits have most powerfully contributed to its extraordinary extension. And, however paradoxical it may seem, it is, nevertheless, unquestionably true, that, were wages to rise, additional capital would be attracted to the cotton manufacture, and the price of cottons would experience a

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further reduction; whereas, were wages to fall, capital would be drawn from the cotton manufacture to those businesses that employ less machinery, and the price of cottons would rise. *

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* Sir William Petty seems to have been the first person who has distinctly stated the principle, that the relative value of commodities depends entirely on the quantities of labour required for their production. "If," says he, "a man bring to London an ounce of silver out of the earth in Peru, in the same time that he can produce a bushel of corn, the one is the natural price of the other; *now, if, by reason of new and more easie mines, a man can get two ounces of silver as easily as formerly he did one, then corn will be as cheap at ten shillings the bushel as it was before at five shillings, cæteris paribus.*" (*Treatise of Taxes and Contributions, ed.* 1679, p. 31.) At page 24, he says, "Let a hundred men work ten years upon corn, and the same number of men the same time upon silver; I say that the neat proceed of the silver is the price of the whole neat proceed of the corn; and like parts of the one the price of like parts of the other:" and, at page 67, he says, "*Corn will be twice as dear when there are two hundred husbandmen to do the same work which an hundred could perform.*" These passages are curious and interesting, as exhibiting the first germs of that theory which Mr Ricardo has perfected.

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## Section VII.

*Circumstances which determine the Rate of Wages.—(1.) Market, or Real Wages; depend on the proportion between capital and population.—(2.) Natural or Necessary Wages; depend on the species and quantity of food and other articles required for the consumption of the labourer; different in different countries and periods.—Effect of fluctuations in the rate of Wages on the condition of the labouring classes—Advantage of a high rate of Wages—Advantage of having the labourers dependent for support on the cheapest species of food—High wages not a cause of idleness—Effect of the Poor Laws and of Education, on the condition of the labourers—(3.) Proportional Wages; depend partly on the amount and species of the articles consumed by the labourers, and partly on the productiveness of industry.*

We have already seen that the wages earned by the labourers engaged in different employments may really, when all things are taken into account, be considered as about equal; and, therefore, without regarding the differences that actually obtain in the amount of money, or of commodities, earned by different sets of workmen, I shall suppose all sorts of labour to be reduced to the same common standard, and shall endeavour to discover the principle that regulates the rate of wages paid for that common labour.

This inquiry will be facilitated by dividing it into three branches; the object in the *first* being to discover the circumstances which determine the *market* or *actual* rate of wages at any given moment; in the *second*, to discover the circumstances which deter-

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mine the *natural or necessary* rate of wages, or the wages required to enable the labourer to subsist and continue his race;—and in the *third*, to discover the circumstances which determine *proportional* wages, or the share of the produce of his industry, falling to the labourer.

I. CIRCUMSTANCES WHICH DETERMINE THE MARKET OR ACTUAL RATE OF WAGES.—The capacity of a country to support and employ labourers, is in no degree dependent on advantageousness of situation, richness of soil, or extent of territory. These, undoubtedly, are circumstances of very great importance, and must have a powerful influence in determining the rate at which a people *advances* in the career of wealth and civilization. But it is obviously not on these circumstances, but on the actual amount of the accumulated produce of previous labour, or of capital, devoted to the payment of wages, in the possession of a country, at any given period, that its power of supporting and employing labourers must wholly depend. A fertile soil affords the means of rapidly increasing capital; but that is all. Before this soil can be cultivated, capital must be provided for the support of the labourers employed upon it, just as it must be provided for the support of those engaged in manufactures, or in any other department of industry.

It is a necessary consequence of this principle, that the amount of subsistence falling to each labourer, or the *rate* of wages, must depend on the proportion

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which the whole capital bears to the whole amount of the labouring population. If the amount of capital were increased, without a corresponding increase taking place in the population, a larger share of such capital would fall to each individual, or the rate of wages would be augmented: And if, on the other hand, population were increased faster than capital, a less share would be apportioned to each individual, or the rate of wages would be reduced.

To illustrate this principle, let us suppose, that the capital of a country appropriated to the payment of wages, would, if reduced to the standard of wheat, form a mass of 10,000,000 of quarters: If the number of labourers in that country were *two* millions, it is evident that the wages of each, reducing them all to the same common standard, would be *five* quarters: and it is further evident, that this rate of wages could not be increased otherwise, than by increasing the quantity of capital in a greater proportion than the number of labourers, or by diminishing the number of labourers in a greater proportion than the quantity of capital. So long as capital and population continue to march abreast, or to increase or diminish in the same proportion, so long will the rate of wages, and consequently the condition of the labourers, continue unaffected; and it is only when the proportion of capital to population varies—when it is either increased or diminished, that the rate of wages sustains a corresponding advance or diminution. The well-being and comfort of the labouring classes are, therefore,

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especially dependent on the relation which their increase bears to the increase of the capital that is to feed and employ them. If they increase faster than capital, their wages will be reduced; and if they increase slower, they will be augmented. In fact, there are no means whatever by which the command of the labouring class over the necessaries and conveniences of life can be enlarged, other than by accelerating the increase of capital as compared with population, or by retarding the increase of population as compared with capital: and every scheme for improving the condition of the labourer, which is not bottomed on this principle, or which has not an increase of the ratio of capital to population for its object, must be completely nugatory and ineffectual.

The wages of labour are most commonly either paid or estimated in money; and it may perhaps be thought, that their amount will, in consequence, depend more on the quantity of money in circulation in a country, than on the magnitude of its capital. It is really, however, quite the same to the labourer whether the quantity of money received by him as wages is great or small. He will always receive such a quantity as will suffice to put him in possession of the portion of the national capital falling to his share. Men cannot subsist on coin or paper. Where wages are paid in money, the labourers must exchange it for necessaries and conveniences; and it is not the quantity of money they receive, but the quantity of necessaries and conveniences for which that money will exchange, that is to

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be considered as really forming their wages. If the quantity of money in Great Britain were reduced a half, the rate of wages, estimated in money, would decline in the same proportion; but, unless some change had, at the same time, taken place in the amount of that portion of the capital of the country which consists of the food, clothes, and other articles that enter into the consumption of the labourer, he would continue in precisely the same situation. He would carry a smaller quantity of pieces of gold and silver to market than formerly; but he would obtain the same quantity of commodities in exchange for them.

Whatever, therefore, may be the state of money wages in a country—whether they are 1s. or 5s. a day—it is still certain, that if the amount of the national capital and the population continue the same, or increase or diminish in the same proportion, no variation will take place in the rate of wages. Wages never really rise, except when the proportion of capital to population is enlarged; and they never really fall, except when that proportion is diminished.

The effects which the different rates at which capital and population advance in different countries have on the condition of their inhabitants, may be exemplified in a very striking manner, by comparing the rate of increase and the actual state of the people of Great Britain, with the rate of increase and the actual state of the people of Ireland. It is certainly true, that there has been a considerable increase in the capital of Ireland during the last hundred years; though no one, in the least acquainted with the progress of the



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different parts of the Empire, has ever presumed to say that this increase has been in the proportion of a *third* or even a *fourth*, to the increase of capital in England and Scotland during the same period. But the increase of population in Ireland, as compared with its increase in Britain, has been widely different from the increase in the capital of the two countries, or in their means of employing people, and supporting them in a state of comfort and respectability. According to the tables given in the Parliamentary Reports, the population of Great Britain amounted, in 1720, to 6,955,000, and, in 1821, it amounted to 14,391,000, having a little more than doubled in the course of the century: While, from the same Reports, it appears that the population of Ireland, whose capital had increased in so inferior a proportion to that of Britain, amounted to very little more than *two* millions in 1731, and to very near *seven* millions in 1821; having nearly *quadrupled* in less time than the population of Britain took to *double!*

Without entering upon any lengthened inquiries respecting the causes of this difference, it may be observed, that, on the first introduction of the potato into Ireland, in 1610, the peasantry, then very much degraded, and without any elevated notions of what was necessary for their comfortable subsistence, eagerly resorted to so cheap a species of food; and, owing to the unfortunate circumstances under which they have ever since been placed, they have never endeavoured to attain to any thing higher. Provided they have sufficient supplies of potatoes they are con-

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tent to vegetate, for they cannot be said to live, in rags and wretchedness. But whatever may have been the causes which have led to the disparity previously stated in the increase of population in Great Britain and Ireland as compared with the increase of their capitals, there cannot be the shadow of a doubt, that its successive augmentation in Ireland is the immediate and proximate cause of the want of demand for labour in that country, and of the misery and extreme poverty of the people. The number of persons soliciting employment, compared with the means of rewarding their exertions, is so very great, that wages have been reduced to the lowest pittance that can afford the smallest necessary supply of the coarsest and cheapest species of food capable of supporting human life. All the witnesses examined by the Committee of the House of Commons, on "*The Employment of the Poor of Ireland*" in 1823, concur in representing their numbers as excessive, and their condition as wretched in the extreme. Their cabins, which are of the most miserable description, are utterly unprovided with any thing that can be called furniture; in many families there are no such things as bed-clothes; the children, in extensive districts of Munster and the other provinces, have not a single rag to cover their nakedness; and, whenever the potato crop becomes even in a slight degree deficient, the scourge of famine and disease is felt in every corner of the country. Mr Maurice Fitzgerald, M. P. mentions, that "he had known the peasantry of Kerry quit their houses



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in search of employment, offering to work for the merest subsistence that could be obtained, for twopence a-day, in short, for any thing that would purchase food enough to keep them alive for the ensuing twenty-four hours." * Mr Tighe mentions, that "the number of persons in Ireland supported by charity is quite inconceivable; they must be supported either by charity, or by pillage and plunder; to the want of employment I attribute every thing that afflicts and disgraces that country." † And Dr Rogan, who had been employed by Government to report on the state of disease in the North of Ireland, states, in his valuable work on the Fever in Ulster, published in 1819, that "throughout the extensive counties of Tyrone, Donegall, and Derry, the population is only limited by the difficulty of procuring food. Owing to the universal adoption of the cottier system, and to the custom of dividing farms among the sons, on the death of the father, the labouring classes are infinitely more numerous than are required for the purposes of industry. Under these circumstances, they are engaged in a constant struggle for the bare necessaries of life, and never enjoy its comforts. ‡

These statements, which might, were it necessary, and did our space permit, be multiplied a thousand fold, conclusively show that a vast increase has taken place in the population of Ireland, and that it is now both superabundant and miserable in the extreme.

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* *Report*, p. 158. † *Report*, p. 108. ‡ P. 8.

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And hence the obvious and undeniable inference, that, in the event of the population having increased less rapidly than it has done, there would have been fewer individuals soliciting employment, and that, consequently, the rate of wages would have been proportionally higher, and the condition of the poor so far improved. No proposition then can be more true, than that the unexampled misery of the Irish people is directly owing to the excessive augmentation of their numbers; and nothing can be more perfectly futile, than to expect any real or lasting amendment in their situation, until an effectual check has been given to the progress of population. It is obvious, too, that the low and degraded condition into which the people of Ireland are now sunk, is the condition to which every people must be reduced, whose numbers continue, for any considerable period, to increase faster than the means of providing for their comfortable and decent subsistence; and such will most assuredly be the case, in every old settled country in which the principle of increase is not powerfully counteracted by the operation of moral restraint, or by the exercise of a proper degree of prudence and forethought in the formation of matrimonial connections.

II. Circumstances which determine the Natural or Necessary Rate of Wages.—There are obviously limits, however difficult it may be to specify them, to the extent to which a reduction of wages can be carried. *The cost of pro-*

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*ducing labour*, like that of producing all other articles brought to market, must be paid by the purchasers. The race of labourers would become altogether extinct, were they not to obtain a sufficient quantity of food and other articles required for their own support, and that of their families. This is the lowest amount to which the rate of wages can be permanently reduced; and it is for this reason, that it has been defined to be the *natural or necessary rate of wages*. The market or actual rate of wages may sink to the level of this rate; but it is plainly impossible it can continue below it. It is not, as has been already shown, on the quantity of money received by the labourer, but on the quantity of food and other articles necessary for his support, for which that money will exchange, that his ability to maintain himself, and to rear as many children, as may be required to keep up the number of labourers, must depend. The natural or necessary rate of wages must, therefore, be determined by the cost of producing the food and other articles which enter into the consumption of the labourers.* And though a rise in the market or

* L'ouvrier mineur, en Saxe, recoit, 18 sols par jour de salaire, tandis que l' ouvrier employé au même genre de travail, dans la province de Choco au Perou, recoit en argent six à sept fois plus. Mais ce dernier paie aussi six à sept plus cher le pain dont il se nourrit, parce que la farine des Etats-Unis y est transportée à dos de mulet à une longue distance des côtes, par des routes monteuses et difficiles. Ce que le maître doit fournir à l'ouvrier c'est la subsistence, et l' argent donné ne peut jamais être que la representation de cette subsistence. Garnier, *Richesse des Nations*, V. p. 351.

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current rate of wages is seldom exactly coincident with a rise in the price of necessaries, they can never, except in the rare case when the market rate of wages greatly exceeds the natural or necessary rate, be very far separated. However high the price of commodities may rise, the labourers must always receive a supply equivalent for their support: If they did not obtain this supply, they would be left destitute; and disease and death would continue to thin the population, until the reduced numbers bore such a proportion to the national capital as would enable them to obtain the means of subsistence.

The opinion of those who contend, that the rate of wages is in no degree influenced by the cost of producing the articles consumed by the labourers, has obviously originated in their confounding the principles which determine the market rate of wages at any given period, with those which determine their natural or necessary rate. No proposition can be better established than that the market rate of wages, when reference is made only to a given moment, is exclusively determined by the proportion between capital and population. But in every inquiry of this nature, we ought not only to refer to particular points of time, but also to periods of *average* duration; and if we do this, we shall immediately perceive that the *average* rate of wages does not depend wholly on this proportion. The price of shoes, at any given instant, to take a parallel case, is plainly dependent on the extent of their supply, compared with the demand of those who have the means of purchasing them; but

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it is quite obvious, that if this price were to sink below the sum necessary to pay the cost of producing shoes, and bringing them to market, they would no longer be supplied:—And such is precisely the case with labourers. They neither will, nor in fact can, be brought to market, unless the rate of wages is such as will, on the *average*, suffice to bring them up and maintain them. From whatever point of the political compass we may set out at first, we shall find that the cost of production is the grand principle to which we must always come at last. It is this cost that determines the natural or necessary rate of wages, just as it determines the average price of commodities. However low the demand for labour may be reduced, still if the price of the articles necessary for the maintenance of the labourer is increased, the natural or necessary rate of wages must be increased also. Let us suppose, to illustrate this principle, that, owing to a scarcity, the price of the quartern loaf rises to 5s. In this case, it is plain, inasmuch as the same number of labourers would be seeking for employment after the rise as before, and as a rise in the price of bread, occasioned by a scarcity, could not increase the demand for labour, that wages would not be increased. The labourers would, in consequence, be forced to economise, and the rise of price would have the beneficial effect to lessen the consumption of food, and to distribute the pressure equally throughout the year. But suppose that the rise, instead of being occasioned by the accidental occurrence of a scarcity, has been occasioned by an



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increased difficulty of production, and that it will be *permanent*, the question to be determined is, will the money wages paid the labourer continue at their former elevation, or will they rise? Now, in this case it may be easily shown, that they *must* rise: For it is abundantly obvious, that the comforts of all classes of labourers would be greatly impaired by this rise in the price of bread; and those who, previously to its taking place, had only enough to subsist upon, would now be reduced to a state of extreme destitution, or rather I should say of absolute famine. Under such circumstances, an increase of mortality could not fail to take place; while the greater difficulty of providing subsistence would interpose a powerful check to the formation of matrimonial connections, and the increase of population. By these means, therefore, either the actual amount of the population, or the ratio of its increase, or both, would be diminished; and this diminution, by lessening the number of labourers, would increase the proportion of capital to population, and enable them to obtain higher wages.

The statements now made are not advanced on any arbitrary or supposed grounds, but have been deduced from, and are consistent with the widest and most comprehensive experience. Those who examine the registers of births, marriages, and deaths, kept in all large and populous cities, will find that there is invariably a diminution of the former, and an increase of the latter, whenever the price of corn or of the principal necessaries of life, sustains any material advance. "It will be ob-

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served," says Mr Milne, in his valuable Treatise on Annuities, in reference to the prices of wheat in England, "that any material reduction in the price of wheat, is almost always accompanied by an increase both of the marriages and births, and by a decrease in the number of burials; consequently by an increase in the excess of the births above the deaths: Also, that any material rise in the price is generally attended by a corresponding decrease in the marriages and births, and by an increase in the burials; therefore, by a decrease in the excess of the births above the deaths. Thus it appears, that an increase in the quantity of food, or in the facility with which the labouring classes can obtain it, accelerates the progress of the population, both by augmenting the number of births and diminishing the rate of mortality; and that a scarcity of food retards the increase of the people, by producing in both ways opposite effects." And in proof of the correctness of this statement, Mr Milne gives, among many others to the same effect, the following account of the number of births and deaths within the London bills of mortality in 1798, 1800, and 1802:

| | | Births. | | Deaths. | | Price of Wheat, |
|---|---|---|---|---|---|---|
| | 1798 | 19,581 | — | 20,755 | — | L.2 10 3 per Qr. |
| | 1802 | 21,308 | — | 20,260 | — | 3 7 5 |
| Medium of these two years. | | 20,445 | — | 20,508 | — | 2 18 10 |
| | 1800 | 18,275 | — | 25,670 | — | 5 13 7 |
| Differences | | 2,170 | — | 5,162 | — | 2 14 9 |
| | | Decrease. | | Increase. | | Increase.* |

* Milne *on Annuities*, Vol. II. p. 402.

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M. Messance, the author of a valuable work on the population of France, * has collected a great deal of important information on the same subject. "It has been established," says he, "by the various investigations that have been made, that those years in which corn has sold at the highest price, have also been those in which mortality was greatest, and disease most prevalent; and that those, on the contrary, in which corn has been cheapest, have been the healthiest, and least mortal." The tables published by M. Messance of the number of deaths and the price of wheat, for a considerable number of years, at Paris, Lyons, Rouen, and some other cities of France, bear the most unequivocal testimony to the truth of this doctrine. In 1744, for example, when the price of wheat at Paris was 11 livres 15 sols the septier, the number of deaths amounted to 16,205; and in 1753, when the price of wheat was 20 livres 3 sols, the deaths amounted to 21,716. In the *four* years of the *greatest* mortality at Paris, in the interval between 1743 and 1763, the average price of the septier of wheat was 19 livres 1 sol, and the average annual number of deaths 20,895; and in the *four* years of the *least* mortality during the same interval, the average price of the septier was 14 livres 18 sols, and the average annual number of deaths 16,859. †

It may here, perhaps, be proper to mention, that it has been long observed, that the tendency of wages is not to rise, but rather to fall in un-

* *Recherches sur la Population, &c.* p. 291. † Ibid. p. 311.

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usually dear years; and several of the witnesses examined before the Committees of the Houses of Lords and Commons, on the state of agriculture in 1814, endeavoured to prove, by comparing wages with the prices of corn and other necessaries, that there was really no such connection between the two as has been supposed; and that, so far from their varying in the same way, wages were generally *lowest* in years when the price of corn was highest. But it is not difficult to explain the causes of this apparent anomaly. The truth is, that the number of labourers, which is in no case immediately reduced, is, in most cases, immediately increased by a rise of prices. In dear years, an increased number of females, and such poor children of both sexes as are fit to work, are obliged to quit their homes, or to engage in some species of employment; while those labourers who work by the piece, endeavour, by increasing the quantity of their work, to obtain the means of purchasing a greater quantity of food. It is natural, therefore, that the *immediate* effect of a rise of prices, should be to lower, not to raise the rate of wages. But we should fall into the greatest imaginable error, if we supposed that, because this is the immediate, it is also the lasting and constant effect of such a rise! It is obvious, indeed, that this immediate fall of wages, and the greater exertions the rise of prices forces the labourers to make, must have a powerful tendency, as well by lessening their supplies of food, as by adding to the severity of their labour, to increase the rate of mortality, and, consequently, by diminishing their

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number, to hasten that rise of wages that will certainly take place if prices *continue* high.

But, in endeavouring to show that the market rate of wages cannot be permanently reduced below their natural or necessary rate, it is not meant to represent the latter as fixed and unvarying. If any given specific quantity of certain articles was absolutely necessary to enable the labourer to subsist and continue his race, then it is clear no lasting reduction could ever be effected in its amount. But such is not the case. By the natural or necessary rate of wages, is meant only, in the words of Dr Smith, such a rate as will enable the labourer to obtain "not only the commodities that are indispensably necessary for the support of life, but whatever the custom of the country renders it indecent for creditable people, even of the lowest order, to be without." Now it is plain, from this definition, that there neither is nor can be any absolute standard of natural or necessary wages. It is impossible to say what commodities are indispensable for the support of life; for, these, as well as the other articles required for the use of the lower orders, depend essentially on the physical circumstances under which every people is placed, and on custom and habit. The differences of climate, for example, by giving rise to very different physical wants in the inhabitants of different countries, necessarily occasion very considerable variations in the natural or necessary rate of wages. The labourer in cold climates, who must be warmly clad, and whose cottage must be built of solid materials and heated with a fire, could



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not possibly subsist on the same rate of wages that would suffice to supply all the wants of the labourer inhabiting more genial climates, where clothing, lodging, and fire were of very inferior importance. Humboldt mentions, that there is a difference of nearly a *third* in the cost of maintaining, and consequently in the necessary wages of a labourer in the hot and temperate districts of Mexico; and there is a still greater difference in the rates of necessary wages in different and distant countries. The food, too, of the labourers in different countries varies extremely. In some it is both expensive and abundant compared to what it is in others. In England, for example, the labourers principally subsist on wheaten bread and beef, in Ireland on potatoes, and in China and Hindostan on rice. In many provinces of France and Spain, a certain allowance of wine is considered indispensable to existence; and in England, the labouring class entertain nearly the same opinion with respect to beer and porter; whereas the drink of the Chinese and Hindoos consists of nothing but water. In Ireland the peasantry live in miserable mud cabins, without either a window or a chimney; while in England the cottages of the peasantry have all glass windows and chimneys, are well furnished, and are as much distinguished for their neatness, cleanliness, and comfort, as those of the Irish for their filth and misery. In consequence of these different habits, there is an extreme difference, not in the rate of necessary wages merely, but in their actual or market rate in these countries; so much so,

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that while the average market price of a day's labour in England may be taken at from 20d. to 2s., it cannot be taken at more than 5d. in Ireland, and 3d. in Hindostan! Nor have the habits of the people of the same countries, and the standard by which the natural rate of wages has been regulated at different periods, been less fluctuating and various. The habits of the English and Scottish labourers of the present day, are as widely different from those of their ancestors in the reigns of Elizabeth, James I., and Charles I., as they now are from the habits of the labourers of France and Spain. The standard by which the natural rate of wages was formerly regulated has been raised; there has been a greater prevalence of moral restraint; the proportion of capital to population has in consequence been increased; and the poor have been most fortunately taught to form much more elevated opinions, respecting the amount of necessaries and conveniences required for their subsistence.

The natural or necessary rate of wages is not, therefore, a fixed and unvarying quantity; and though it be strictly true that the market rate of wages can never sink permanently below its contemporary natural rate, it is no less true that this natural rate has a tendency to rise when the market rate rises, and to fall when it falls. The reason is, that the number of labourers in the market is a given quantity, which can neither be speedily increased when wages rise, nor speedily diminished when they fall. When wages rise, a period of eighteen or twenty years must plainly elapse before the effect of the in-

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creased stimulus that the rise gives to the principle of population can be felt in the market. During all this period, therefore, the labourers have an increased command over the necessaries and conveniences of life: In consequence their habits are improved; and as they learn to form more exalted notions with respect to what is required for their comfortable and decent support, the natural or necessary rate of wages is proportionally augmented. But, on the other hand, when the rate of wages declines either in consequence of an actual diminution of the capital of the country, or of a disproportionate increase of population, no corresponding immediate diminution can take place in the number of labourers, unless they have previously been subsisting on the smallest possible quantity of the cheapest species of food required to support mere animal existence. If the labourers have not been placed so very near the extreme limit of subsistence, their numbers will not be immediately reduced when wages fall, by an increase of mortality; but they will be gradually reduced, partly, as has been already shown, in that way, and partly by a diminished number of marriages and births: And in most countries, unless the fall were both sudden and extensive, it would require some years to render the effects of increased mortality, in diminishing the supply of labour in the market, very sensibly felt; while the force of habit, and the universal ignorance of the people with respect to the circumstances which determine the rate of wages, would prevent any effectual check being given to the formation of matrimo-

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nial connections, and consequently to the rate at which fresh labourers had previously been coming into market, until the misery occasioned by the restricted demand on the one hand, and the undiminished supply on the other, had been very generally and widely felt.

It is this circumstance—the impossibility which usually obtains of speedily adjusting the supply of labour proportionally to the variations which occasionally occur in the rate of wages—that gives to these variations the peculiar and extraordinary influence they exert on the condition of the labouring classes. If the supply of labour could be suddenly increased when wages rise, that rise would be of no advantage to the existing labourers. It would increase their number; but it would not enable them to mount in the scale of society, or to acquire a greater command over the necessaries and conveniencies of human life: And, on the other hand, if the supply of labourers could be suddenly diminished when wages fall, that fall would merely lessen their number, without having any tendency to degrade their habits, or to lower the condition of those that survived. But, in the vast majority of instances, before a rise of wages can be counteracted by the increased number of labourers it may be supposed to be the means of bringing into the market, time is afforded for the formation of those new and improved tastes and habits, which are not the hasty product of a day, a month, or a year, but the late result of a long series of continuous impressions. After the labourers have once acquired

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these tastes, population will advance in a slower ratio, as compared with capital, than formerly; and the labourers will be disposed rather to defer the period of marriage, than by entering on it prematurely to depress their own condition and that of their children. But if the number of labourers cannot be suddenly increased when wages rise, neither can it be suddenly diminished when they fall; a fall of wages has, therefore, a precisely opposite effect, and is, in most cases, as injurious to the labourer as their rise is beneficial. In whatever way wages may be restored to their former level after they have fallen, whether it be by a decrease in the number of marriages, or an increase in the number of deaths, or both, it is never, except in the exceedingly rare case already mentioned, suddenly effected. It must, generally speaking, require a considerable time before it can be brought about; and an extreme risk arises in consequence, lest the tastes and habits of the labourers, and their opinion respecting what is necessary for their comfortable subsistence, should be degraded in the interim. When wages are considerably reduced, the poor are obliged to economise, or to submit to live on a smaller quantity of necessaries and conveniences, and those, too, of an inferior species, than they had previously been accustomed to use; and the danger is, that the coarse and scanty fare which has thus been, in the first instance, forced on them by necessity, should in time become congenial from habit. Should this, unfortunately, be the case, the condition of the poor would be permanently depressed; and no prin-

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ciple would be left in operation, that could raise wages to their former level; for, the labourers could no longer have a motive to lessen the increase of population as compared with that of capital, and, unless they did this, it is quite impossible they could ever emerge from their depressed condition. Under the circumstances supposed, the cost of raising and supporting labourers would really be reduced; and it is by this cost, that the natural or necessary rate of wages, to which the market rate must generally be proportioned, is always regulated. This lowering of the opinions of the labouring class with respect to the mode in which they ought to live, is perhaps the most serious of all the evils that can befall them. Let them once become contented with a lower species of food and an inferior standard of comfort, and they may bid a long adieu to any thing better. And every reduction in the rate of real wages, which is not of a very transient description, will certainly have this effect, if its debasing influence be not counteracted by the intelligence, forethought, and consideration of the people, producing an increased prevalence of moral restraint, and a diminished supply of labourers. An increase in the proportion of capital to population, is the only means by which a rise of wages can ever be effected; and unless the labourers, who have been reduced from a higher to a lower rate of wages, defer the period of marriage, and thus retard the progress of population, the chances are ten thousand to one, that they will never again attain to the elevation from which they have fallen.

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The example of such individuals, or bodies of individuals, as submit quietly to have their wages reduced, and who are content if they get only the mere necessaries of life, ought never to be held up for public imitation. On the contrary, every thing should be done to make such apathy be esteemed disgraceful. The best interests of society require that the rate of wages should be elevated as high as possible—that a taste for the comforts, luxuries, and enjoyments of human life, should be widely diffused, and, if possible, interwoven with the national habits and prejudices. A low rate of wages, by rendering it impossible for increased exertions to obtain any considerable increase of comforts and enjoyments, effectually hinders any such exertions from ever being made, and is of all others the most powerful cause of that idleness and apathy that contents itself with what can barely continue animal existence.

The state of the peasantry of Ireland furnishes a striking example of the disastrous effects resulting from having the natural or necessary rate of wages determined by a very low standard. Having no taste for conveniences or luxuries, the labouring classes of Ireland are satisfied if they obtain a sufficient supply of potatoes. But as the potato is raised at less expence than any other species of food hitherto cultivated in Europe, and as the wages of labour, in a country where it forms the main article of subsistence, are necessarily determined chiefly by the cost of its production, it is easy to see that the labourers must be reduced to a state of extreme, and

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almost irremediable distress, whenever that root happens to be deficient. When the standard of natural or necessary wages is high—when wheat and beef, for example, form the principal part of the food of the labourer, and porter and beer the principal part of his drink—he can bear to retrench in a period of scarcity. Such a man has room to fall; he can resort to a cheaper species of food—to barley, oats, rice, and potatoes. But he who is habitually and constantly fed on the very cheapest species of food, has plainly nothing to resort to when deprived of it. Labourers placed in this situation are absolutely cut off from every resource. You may take from an Englishman, but you cannot take from an Irishman. The latter is already so low, he can fall no lower: He is placed on the very verge of existence: His wages, being regulated by the price of potatoes, will not buy him wheat, or barley, or oats; and whenever, therefore, the supply of potatoes fails, it is next to impossible he can escape falling a sacrifice to famine!

The history of the late scarcity in Ireland affords a melancholy illustration of the accuracy of the statement now made. Owing to the failure of the potato crop of 1821, a very large proportion of the peasantry of Clare, Limerick, and other counties bordering on the Shannon, were reduced to a state of almost absolute destitution, and had nothing but a miserable mixture, consisting of a little oatmeal, nettles, and water-cresses, to subsist upon. In some instances the potatoes, after being planted, were again dug from the ground, and eaten; and in con-

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sequence of the insufficiency and bad quality of the food, disease became exceedingly prevalent; and *typhus* fever, in its worst and most malignant form, carried its destructive ravages into every corner of the country. But there was, notwithstanding, a continued exportation of oats and other grain, from Ireland to this country, up to the very moment when the contributions of government and of the public were applied to purchase corn for the peasantry. The price of potatoes rose in Limerick, in the course of a few weeks, from 1½d. to 6d. and 7d. a stone, being a rise of from 400 to 500 per cent., while the price of corn sustained no material elevation, none at least to prevent its being sent to the then overloaded markets of England! And it is obvious, that to whatever extremity the peasantry might have been reduced, they could not have relieved themselves by purchasing corn. But if wheat had formed the principal part of the subsistence of the Irish labourer, grain would have been poured into Ireland from every quarter of the world, as soon as it was known that the crop was materially deficient. But a people, who have become habitually dependent on the potato, can never become purchasers of corn; nor can they even become purchasers of foreign potatoes, inasmuch as the freight on such a bulky commodity would raise its price far too high for their limited means. In a period of scarcity, men cannot go from a low to a high level; they must always go from a higher to a lower. But to the Irish this is impossible; they have already reached the lowest

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point in the descending scale; and dearth is to them attended with all the horrors of famine.

It is, therefore, quite essential to the protection of the people from famine, in seasons when the crops happen to be deficient, that they should not subsist principally on the cheapest species of food. They may advantageously use this cheapest species in limited quantities, and as a subsidiary and subordinate article: But if they once adopt it for the principal part of their diet, their wages will be regulated accordingly, and whenever a period of deficient supply occurs, they will be absolutely without resource.

It has, I am aware, been often contended, by many very intelligent persons, of whose benevolence and zeal in the cause of humanity no doubt can be entertained, and to whose opinions on most subjects the greatest deference is due, that high wages, instead of encouraging industry, uniformly become a fruitful source of idleness and dissipation! Nothing, however, can be more entirely incorrect than these representations—more completely opposed both to principle and experience. It is true, indeed, that, in every country and situation of life, individuals will be found who are careless of the future and intent only on present enjoyment; but these always form a very small, and even inconsiderable minority of each particular class. Whatever may be the case with a few individuals, the principle of accumulation always predominates in aggregate bodies over the passion for expence. Whenever the wages of labour are so low, as to render it impossible for an ordinary



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increase of exertion to make any material and visible addition to their comforts and conveniences, the labourers invariably sink into a state of idleness, and of sluggish and stupid indifference. But the desire to rise in the world, and to improve our condition, is too deeply seated in the human breast ever to be wholly eradicated. And as soon as labour is rendered more productive, as soon as an increase of industry brings a visible increase of comforts and enjoyments along with it, indolence uniformly gives place to exertion; a taste for the conveniences and enjoyments of life gradually diffuses itself; increased exertions are made to obtain them; and ultimately the workman considers it discreditable to be without them. Have the *low* wages of the people of Ireland, Poland, and Hindostan, made them industrious? or the *high* wages of the Americans, the English, and the Hollanders, made them lazy, riotous, and profligate?—Just the contrary. The former are as notoriously and proverbially indolent, as the latter are laborious, active, and enterprising. The experience of all ages and nations, proves that high wages are at once the keenest spur—the most powerful stimulus to unremitting and assiduous exertion, and the best means of attaching the people to the institutions under which they live, "*Dans aucune histoire, on ne rencontre une seule trait qui prouve que l'aisance du peuple par le travail a nui à son obeissance.*"*

* Forbonnais' *Recherches sur les Finances*, Tome I. p. 109.



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The influence of the poor laws of England is undoubtedly very unfavourable to the formation of those prudential and economical habits among the labouring classes so essential to their well-being. It is, in most cases, quite impossible to discriminate between that poverty and misery that has been produced by accidental and uncontrollable causes, and that which has originated in the folly or ill-conduct of the individual. But it is obvious that, unless this can be done, the establishment of a legal provision on which every pauper shall have a claim, must, by placing the industrious and the idle, the frugal and the dissipated, on the same footing, have a powerful tendency to weaken all the motives to good conduct in the virtuous part of the community, and to strengthen the vicious propensities in those who are bad. "If the poor are exceedingly diligent, sober, and industrious, while they are young and in health, what is the consequence? Why, they lay up a small sum monthly to support them easily and comfortably when aged or in sickness: This is in the power of the most. But, suppose they are idle, drunken, and worthless, what attends such a contrast? Why, precisely the same effect; ease and comfort, either in sickness or age, not from themselves, indeed, but from the parish. Is it not, therefore, apparent, that, unless the majority of them be perfectly *well-inclined*, the necessary consequence must be idleness? Who can suppose that men will work the harder against old age and sickness, when every one knows so well that the parish *must* provide them, in such a day, with all

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which their own labour could, were they ever so industrious?" *

There may be some exaggeration in this statement, but, in the main, it is perfectly accurate. But although such a system could be organized, by means of select vestries or otherwise, as would prevent any except the really deserving poor from being admitted to participate in the parish funds, still the policy of instituting a legal provision for their support would be very doubtful. No man, it must be remembered, loves exertion and industry for their own sake. All have some end in view, some purpose which is to be served, and the accomplishment of which is to repay the toils and privations to which they may at present submit. But the desire to provide immediate subsistence, and to amass a little capital for the support of age and infirmity, must, with the great body of mankind, be the principal motive impelling them to industry and economy: And whatever tends to weaken this motive—whatever tends to make a man trust to others rather than himself, must certainly have the effect to paralyze his exertions, and to render him less industrious and less economical. "*Languescet industria*, (says Tacitus,) *intendetur socordia, si nullus ex se metus aut spes, et securi omnes aliena subsidia expectabunt, sibi ignavi, nobis graves.*" †

Perhaps, however, the strongest objection to an es-

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* *Farmer's Letters*, I. p. 285.

† Lib. ii. p. 73. Ed. Elz.

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tablished poor rate, is its tendency to derange the natural relation between the supply of labour and the demand for it. Were the Poor Laws abolished, it may be presumed that most tolerably well educated workmen, on finding their wages insufficient for the proper support of a family, would be deterred from marriage; and the check thus given to population, by reducing the supply of labour, would have the effect to raise its real price to the proper level. But this effect can hardly take place under a system of compulsory provision. The Poor Laws teach the labourer to consider it as indifferent whether his wages will suffice for the support of a family or not—that, if they are insufficient, the deficit will be made up from the parish funds, and thus remove the natural and most powerful check to over-population. No institution can, however, be so pernicious to the poor, as that which tends to increase the supply of labour beyond the demand. Whenever the market is overstocked with labour, wages decline; and though they cannot fall lower than the sum indispensable for the support of the labourer and his family, they may be reduced to that miserable pittance. This reduction in the rate of wages, is a consequence that ought to be most carefully guarded against; but to this the poor laws directly lead. By their means, a greater supply of labour is brought into the market than there is a real demand for; its price is consequently diminished; and it is by no means true, that the parish provision makes up the difference. The labourer who has

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been reduced to a total or partial dependence on this resource, receives only what will preserve him from absolute want: His independence is at an end; he no longer treats with his employers on a footing of equality; he must accept what their liberality may offer; and he must bid adieu to those comforts and gratifications which every labourer ought to enjoy, and which they always do enjoy, wherever their numbers are not in excess.

But although the Poor Laws are thus prejudicial to the labouring classes, it is not true that they are of any advantage to their employers. Although the wages of each particular workman are diminished, yet, as the number of workmen is artificially increased, the total expence incurred in their support, is more than equal to what would keep a smaller number in a state of comparative comfort. An apathy and want of spirit among the labourers, is at present universally felt and complained of in the southern counties of England, where the pernicious practice of paying a portion of wages, out of the rates, has been generally introduced. A less amount of labour is, in consequence, performed by the same hands; at the same time that immense sums are misapplied by those finding employment for the poor, and managing the funds destined for their support; and that endless and expensive law-suits arise about the question of residence, which seem to be inseparable from the present system. There can, therefore, be little doubt, that the sum now expended on the poor

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of England, is greater than would, under different circumstances, afford them a really high remuneration for their labour, and enable them to form a fund amply sufficient for their support in periods of distress.

Care, however, should be taken, in discussing the subject of the Poor Laws, not to ascribe, as very many have done, a greater effect to them than they really have had. The principles now stated, show that they are essentially injurious. But the abuses inseparable from their management—the difficulties they throw in the way of obtaining settlements, the disinclination on the part of the poor to imprisonment in work-houses, and to submit themselves to the petty tyranny of overseers—deter very many from making a demand on the parish funds; a feeling that is powerfully assisted by the decent pride derived by the peasantry from the free institutions under which they live, and the privileges they enjoy.

In proof of the strong desire, by which the labourers of England are still animated to provide for themselves, without becoming a burden on the parish, it is sufficient to mention, that, according to the Parliamentary returns, there were, in 1815, no fewer than 925,429 individuals enrolled as members of Friendly Societies.* And though there is reason to fear that a considerable number of the societies then in existence were founded on erroneous principles,

* Commons' *Report on the Poor Laws*, 1817, p. 629.

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and have in consequence been dissolved, several new ones have since been projected, and Savings Banks have also been established in most parts of the country. In fact, if a separation were made between the sums really collected for the support of the poor, and those collected in order to make up a portion of the common and ordinary rate of wages paid for their labour, it would be found that the rates are not nearly so oppressive as is generally supposed; and that their influence has not been by any means so injurious as we might have been led, on general principles, to expect.

Of all the means for providing for the permanent improvement of the poor hitherto suggested, there does not seem to be any that promises to be so effectual as the establishment of a really useful system of public education. It is no exaggeration to affirm, that nine-tenths of the misery and crime which afflict and disgrace society have their source in ignorance—in the ignorance of the poor with respect to the circumstances that really determine their condition. Those who have laboured to promote the education of the poor seem, generally speaking, to be satisfied, provided they succeed in making them able to read and write. But the education that stops at this point omits those parts that are really the most important. A knowledge of the arts of reading, writing, and arithmetic may, and, indeed, very often does, exist in company with the grossest ignorance of all those principles with respect to which it is most for the in-

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terest of the poor themselves, as well as of the community in general, that they should be well informed. To render education productive of all the utility that may be derived from it, the poor ought, in addition to the elementary instruction now communicated to them, to be made acquainted with the duties enjoined by religion and morality, and with the circumstances which occasion that gradation of ranks and inequality of fortunes that usually exist: And they should, above all, be impressed, from their earliest years, with a conviction of the important and undoubted truth, that they are really the arbiters of their own fortune—that what others can do for them is but as the dust of the balance compared with what they can do for themselves—and that the most tolerant and liberal government, and the best institutions, cannot possibly shield them from poverty and degradation, without the exercise of a proper degree of prudence, forethought, frugality, and good conduct on their part. That the ultimate effect of such a system of education would be most advantageous, there can be no doubt; though it would be unreasonable to expect, that it should produce any very immediate effect on the habits of the multitude. If, however, there is but little room for the formation of sanguine hopes of early improvement, there is none for despondency. The harvest of sound instruction may be late, but in the end it will be most luxuriant; and will amply reward the patriotic efforts of those who are not discouraged in their attempts to make education embrace

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objects of real utility, by the difficulties they may expect to encounter at the commencement and during the progress of their labours.

Mr Sumner has excellently observed, in reference to the diffusion of education, that—"Of all obstacles to improvement, ignorance is the most formidable, because the only true secret of assisting the poor is to make them agents in bettering their own condition, and to supply them, not with a temporary stimulus, but with a permanent energy. As fast as the standard of intelligence is raised, the poor become more and more able to co-operate in any plan proposed for their advantage, more likely to listen to any reasonable suggestion, more able to understand, and therefore more willing to pursue it. Hence it follows, that when gross ignorance is once removed, and right principles are introduced, a great advantage has been already gained against squalid poverty. Many avenues to an improved condition are opened to one whose faculties are enlarged and exercised; he sees his own interest more clearly, he pursues it more steadily, he does not study immediate gratification at the expence of bitter and late repentance, or mortgage the labour of his future life without an adequate return. Indigence, therefore, will rarely be found in company with good education."*

III. Circumstances which determine the Rate of Proportional Wages. Proportional

* *Records of the Creation,* Vol. II. p. 298.

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wages, or the share of the produce of his industry falling to the labourer, depend partly on the magnitude of the market or actual rate of wages at the time, and partly on the difficulty of producing the commodities which enter into and really form this market rate. Suppose, to illustrate this statement, that the wages actually paid to the labourers in England, and the United States, are, when reduced to the standard of wheat, precisely equal: Under these circumstances, the *condition* of the labourer, or his power over the necessaries and luxuries of life, will be about the same in both countries; but the rate of proportional wages will, at the same time, be much higher in England than in the United States; for, owing to the greater fertility of the soils under cultivation in America, the same quantity of labour that would there produce 100 quarters of wheat, will not probably produce more than 60 or 70 quarters in England; and as the labourers, in both countries, get the same *actual quantity* of produce in return for a given quantity of work, they are obviously getting a greater *proportion* of the produce of their *labour*, and consequently a greater *real value* in England than in the United States.

It is plain, from this statement, that proportional wages may, as was formerly remarked, be increased at the same time that wages, if estimated in silver, corn, or any other commodity, are reduced; and such, in point of fact, is almost uniformly found to be the case, when tillage is extended over inferior



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soils. Wherever the best lands only are cultivated, the proportion or share of the produce of industry falling to the labourer, is, generally speaking, small; but as labour is, under such circumstances, comparatively productive, a small share of its total produce, gives a large absolute quantity of necessaries and conveniences: while, in the advanced stages of society, and when cultivation is widely extended over lands of very inferior fertility, proportional wages are almost invariably high; but, owing to the increased difficulty that then obtains of producing supplies of food, these high proportional wages rarely afford a large supply of necessaries and conveniences.

## Section VIII.

*Division of the Produce of Industry, under Deduction of Rent, between Capitalists and Labourers—Definition of Profits—Mr Ricardo's Theory of Profits; sense in which it is true—Causes which occasion a Rise or Fall of Profits—Accumulation of Capital, not a cause of a Fall of Profits—Influence of the decreasing Fertility of the Soil, and of Taxation on Profits.*

Before attempting to investigate the circumstances which determine the rate of profit, it is necessary to be aware of those which determine the proportion in which the *whole produce of industry*, under deduction of rent, is divided between labourers and capitalists.

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This latter inquiry may be disposed of in a few words. We have seen that the whole produce of the land and labour, of every civilized society, is always divided, in the first instance, into *three*, and not more than *three*, portions;—the *first* of which goes to the labourers, the *second* to the capitalists or proprietors of stock, and the *third* to the landlords: And we have also seen, that the portion of the produce of industry which belongs to the landlords, or the rent of land, is altogether extrinsic to the cost of production, and that the circumstance of the landlords' consenting to give it up, would not occasion any change in the productiveness of industry, or any reduction in the price of raw produce. Supposing, then, that rent is deducted or set aside, it is obvious that all the *remaining produce* of the land and labour of every country must be primarily divided between the two great classes of labourers and capitalists. And it is further obvious, that if there were no taxes in a country, or if the rate of taxation was invariable, the *proportion* of the whole produce of industry, under deduction of rent, falling to the share of the labourers, could not be increased except by an equivalent reduction in the *proportion* falling to the share of the capitalists, and *vice versa*. Suppose, still better to illustrate this position, that the whole produce of industry in Great Britain is represented by the number 1000: Suppose, farther, that the landlords got 200 of this sum as rent, and that the remaining 800 is divided, in equal portions,



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between labourers and capitalists. Under these circumstances, it is quite obvious, that nothing can be added to the proportion of the produce, or to the 400 falling to the labourers, except at the expence of the capitalists; nor to the proportion, or 400 falling to the latter, except at the expence of the former.

Whether the 800 were increased to 1600, or reduced to 400, so long as those between whom it must be divided receive the same *proportional* shares, their relative condition must continue the same. And hence the propriety of the distinction between *proportional* and *real* wages, or wages estimated in money or in quantities of produce. If the productiveness of industry were to diminish, proportional wages might rise, notwithstanding that real wages, or the absolute amount of the produce of industry falling to the share of the labourer, might be diminished: and if, on the other hand, the productiveness of industry were to increase, proportional wages might be diminished, while real wages might, at the same time, be increased.

It is undeniably certain, therefore, that, wherever taxation is either unknown or constant, the whole produce of industry, under deduction of rent, is divided between capitalists and labourers; and that the proportion of that produce falling to either party, varies inversely to the proportion falling to the other—that is, the proportion falling to the capitalists is increased when that falling to the labourers is diminished, and diminished when it is increased.

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But the *profit* accruing to the capitalists is different and totally distinct from the proportion of the produce of industry falling to their share. Profits consist of the excess of the commodities produced by the expenditure of a given quantity of capital over that quantity of capital; and are always measured in aliquot parts of the capital employed in production. Suppose that an individual employs a capital of a 1000 quarters of wheat in the cultivation of a farm—700 quarters being laid out in the payment of wages, and 300 in seed and other outgoings: Suppose now that the return to this capital is 1200 quarters: Under these circumstances, the proportion of the produce of industry, falling to the share of the labourers, will be to that falling to the share of the capitalist as 7 to 5. But of the 500 quarters falling, in the first instance, to the capitalist, 200 only are profits, 300 being required to replace the quantity he had expended in seed, &c. In this case, therefore, the *rate* of profit would be said to be 20 per cent.;—meaning, that the quantity of produce belonging to the capitalist, after all that has been laid out in its production is fully replaced, amounts to 20 per cent. of the capital he employed.

It is very commonly supposed, that profits depend on *exchanges;* but this is an error. The bootmaker, for example, who sells boots at 50s. which only cost him 40s. of outlay, does not make his 10s. of profit at the expence of his customers. He produces, in a given time, a quantity of boots equivalent

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to, or worth in silver, 50s. while the various expences to which he is necessarily put in the manufacture of these boots, only amount, when rated in the same medium, to 40s. But the very same thing will be taking place among his customers, they will all be making the same rate of profit in their respective businesses;—that is, they will be producing quantities equal to 50, by an outlay of 40; and, consequently, in exchanging silver for boots, the one party gains nothing at the expence of the other. Profit is in every case the result of more being produced in a given period, than is consumed in that period. And the advantage that is found in exchanging one commodity for another, consists entirely in its enabling labour to be divided, and commodities to be produced, in the best and most expeditious manner.

Mr Ricardo has endeavoured to show, in one of the most original and ingenious chapters of his work, that the *RATE of profit* depends entirely on the *proportion* in which the produce of industry, under deduction of rent, is divided between capitalists and labourers; that a rise of profits can never be brought about, except *by* a fall of proportional wages, nor a fall of profits, except *by* a corresponding rise of proportional wages. It is evident, however, that this theory is universally true, only in the event of our attaching a different sense to the term profits, from what is usually attached to it; and supposing it to mean the *real* value of the entire portion of the produce of industry, falling, in the first instance, to the

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share of the capitalist, without reference to the proportion which the *magnitude* of this produce bears to the *magnitude* of the capital employed in its production. Thus understood, Mr Ricardo's theory holds universally; and, on this hypothesis, it would follow, that, so long as the proportion, in which the produce of industry, under deduction of rent, is divided between capitalists and labourers, continues the same, no conceivable increase or diminution in the powers of production, could occasion any variation in the rate of profit. But, if we consider profits, in the light in which they are invariably considered in the real business of life,—as the portion of the produce of industry, accruing to the capitalists in a given period of time, after all the produce expended by them in production during the same period is fully replaced, it will immediately be seen, that there are very many exceptions to Mr Ricardo's theory.

It will facilitate the acquisition of clear and precise ideas respecting the circumstances which determine the rate of profit, in the common acceptation of the term, if we confine our attention, in the first place, to an investigation of the circumstances that determine agricultural profits—both because these profits admit of being accurately measured, and because agriculture is a branch of industry that must be carried on at all times, and under all circumstances. It is plain, however, that it would not be carried on, if it did not yield as great a return to the capital invested in it, as other businesses; and it is equally plain, that these other businesses would not be carried on, if

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they yielded a less return than is derived from agriculture. It necessarily follows, therefore, that the average returns obtained from agricultural industry, or agricultural profits, must be identical with the returns, or profits obtained from all other businesses. Whenever, for example, the average return to an outlay of capital or labour worth 100 quarters of wheat, employed in the cultivation of the soil, amounts to 110 quarters, we shall know, that L.100 employed in manufactures, must be yielding L.110 also: For, a regard to their own interest will not permit those engaged in those departments, to prosecute them for *less* profit, than is obtained in agriculture; and the competition of the agriculturists, will not permit them to obtain more.

Taking, then, as we are entitled to do, agricultural profits for a standard of all other profits, let us suppose that a landlord employs a capital equal in value to 10,000 quarters, or L. 10,000, in the cultivation of his estate; that he expends 5000 quarters, or L. 5000 of this capital in seed, in the keeping of horses, and in defraying the necessary wear and tear of implements and machines; and 5000 quarters, or L.5000, in paying the wages of his labourers.—Suppose now that the return obtained by this landlord is 12,000 quarters, or L.12,000; of which 10,000 quarters, or L. 10,000, goes to replace his capital, and 1000 quarters, or L.1000, to pay his taxes, leaving 1000 quarters, or L.1000 as profits;—which is 10 per cent. on the capital employed. It is plain from this case, and this case is,



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in point of principle, the actual case of every cultivator in the world, that the rate of profit may be increased in *three*—but only in one or other of three —ways, viz. (1) by a fall of wages, (2) a fall of taxes, or (3) an increased productiveness of industry.

Thus, it is obvious, (1) that if wages were reduced from 5000 to 4000 quarters, profits, supposing other things to be invariable, would be increased from 1000 to 2000 quarters, or from 10 to 20 per cent.: If (2) the burden of taxation, were reduced from 1000 to 500 quarters, profits would be increased from 1000 to 1500 quarters, or from 10 to 15 per cent. And if (3) owing to the introduction of an improved system of agriculture, the return to a capital of 10,000 quarters, were increased from 12,000 to 13,000 quarters, profits, supposing wages still to amount to 5000, and taxes to 1000 quarters, would be increased to 2000 quarters, or to 20 per cent.: And though, in this case, after the increased productiveness of industry had taken place, wages would form a less proportion of the whole produce of industry than they had done previously, it is to be observed, that this diminished proportion is the *consequence*, and not the cause of profits having risen; and, therefore, in such cases as this, and they are of very frequent occurrence, it is true to say, that the fall of proportional wages has been occasioned by the rise of profits; but the converse of the proposition is not true, for profits rose from causes that had nothing whatever to do with wages, and which were, in fact, totally independent of them.

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It is, indeed, certain, inasmuch as the rise of profits has been occasioned by an increased productiveness of industry, that the *real* value of the 13,000 quarters will not exceed the *real* value of the 12,000 previously obtained by the same quantity of labour: But profits, in the sense in which they are commonly understood, and as I now understand them, do not depend on real values, but on the excess of the commodities produced above those expended in production; and, whenever this excess is augmented without any previous depression in the rate of wages, it is evident the rate of profit has been increased by the operation of causes extrinsic to variations in the rate of wages.

Nor is this all. The rate of profit might really remain stationary, though the *proportion* of the produce of industry falling to the share of the labourer were actually increased. Suppose, to exemplify this, that a landlord employs 1,000 quarters of wheat as a capital, 500 of which are laid out in seed, keep of horses, &c. and 500 in paying wages; if the produce is 1,200 quarters, and the taxes to which he is subjected 100, his profits will amount to 100 quarters, or to 10 per cent. Suppose now, that, owing to the introduction of improved machinery, and improved methods of culture, the same landlord only requires to employ 400 quarters of capital in seed, keep of horses, &c. but that wages rise from 500 to 600 quarters, and that the same return is obtained; in this case, supposing taxation to have contined constant, the profits of the landlord will be exactly the

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same as in the former case, though proportional wages have risen from 5-12ths to 6-12ths of the whole produce.

It may be said, however, that if this increased productiveness was confined to agriculture, and did not extend to most other important businesses, the price of agricultural produce would fall, while that of other produce would remain stationary; and that, in such a case, the profits of agricultural industry, if estimated in money, or in any commodity other than corn, would be diminished in consequence of the rise of wages. This is true; but Mr Ricardo has made no exception, in laying down his theory, in favour of those possible, and indeed frequently occurring cases, when, from any single circumstance, or combination of various circumstances, industry becomes generally more productive, and when, consequently, profits, estimated either in money, corn, cloth, or any commodity usually demanded, would have risen, without their rise having been occasioned by a fall of wages. And it is also true, that an increased productiveness of agricultural industry, whether it has been caused by the introduction of an improved system of agriculture, or by the repeal of restrictions on the importation of corn into a comparatively populous country, necessarily extends itself to other businesses, and has the effect to bring about a universal rise of profits: For, as raw produce must always form the principal part of the labourer's subsistence, and as his proportional wages must, in consequence, be mainly regulated by the quantity of



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it that he receives, his employers are able, after corn has fallen in price, to furnish him, at a less cost, with the same quantity of necessaries and conveniences he previously obtained. The rate of profit will thus be universally increased; while it is obvious that the greater productiveness of agricultural industry is the cause both of this increase of profit, and of the fall of proportional wages.

When industry, instead of becoming more productive, becomes less so, the opposite effects follow. Profits then fall, without any fall having previously taken place in the rate of wages.

It is evident, therefore, that the proposition that a rise of profits can never be brought about otherwise than by a fall of wages, nor a fall of profits otherwise than by a rise of wages, is true only in those cases in which the productiveness of industry remains constant. So long as this is the case, or, which is the same thing, so long as the same capital is employed, and the same quantity of produce has to be divided between capitalists and labourers, it is impossible the share of the one can be increased without that of the other being diminished: And it is also true, that if profits depended on the proportion in which the produce of industry is divided between capitalists and labourers, they could not be affected by variations in its productiveness, but would be determined wholly by the state of proportional wages. But *profits depend on the proportion which they bear to the capital by which they are produced*, and not on the proportion which they

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bear to wages. Suppose an individual employs a capital of 1000 quarters, or a L.1000 in cultivation, that he lays out the half of this capital in the payment of wages, and obtains a return of 1200 quarters, or L.1200; in this case, assuming he is not affected by taxation, his profits will amount to 200 quarters, or L.200, being at the rate of 20 per cent. and will be to wages in the proportion of 2 to 5. Suppose now that the productiveness of industry is *universally doubled*, and let it be farther supposed, that the additional 1200 quarters, or L. 1200, is divided between the capitalist and his labourers in the former proportion of 2 to 5, or that the capitalist gets 343 quarters, or L.343 of additional profits, and the labourers 857 quarters, or L.857 of additional wages: In this case, both parties will still obtain the same proportions of the produce of industry as before; and if we look only to them, we must say that neither profits nor wages have risen. But, when we compare, as is invariably done in estimating profits, the return obtained by the capitalist with the capital he employs, it will be found, notwithstanding proportional wages have remained constant, that the *rate* of profit has increased from 20 to 54 per cent.

Thus, then, it appears, as was previously stated, that profits may *rise* in one or other of three ways, viz. either (1) from a fall of wages, or (2) from a fall of taxes affecting them, or (3) from an increased productiveness of industry; and they will *fall*, either (1) from a rise of wages, or (2) from an increase of taxes, or (3) from a diminished produc-

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tiveness of industry. But they can neither rise nor fall, except from the operation of one or other of the causes now stated.

It is consistent with universal experience, that profits are invariably much higher in colonies, and thinly-peopled countries, than in countries that have been long settled, and where the population is comparatively dense; and that, when reference is made to periods of average duration, their uniform tendency is to fall in the progress of society. This sinking of profits in rich and populous countries has been ascribed by Dr Smith to the competition of capitalists. He supposed that, when capital is augmented, its owners endeavour to encroach on each others employments; and that, in furtherance of their object, they are tempted to offer their goods at a lower price, and to give higher wages to their workmen; which would have a twofold effect in reducing profits. This theory was long universally assented to. It has been espoused by M.M. Say, Sismondi, and Storch, by the Marquis Garnier, and, with some trifling modifications, by Mr Malthus. But, notwithstanding the deference due to these authorities, it is easy to see, that the principle of competition could never be productive of a general fall of profits. Competition prevents any one individual, or set of individuals, from monopolizing a particular branch of industry; and reduces the rate of profit in different businesses nearly to the same level; but, that is its whole effect. Most certainly, competition has no tendency to lessen the productiveness of

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industry, or to raise the average rate of wages, or the rate of taxation; and if it can do none of these things, it is quite impossible it can lower profits. So long as the individual who employs a capital of 1000 quarters, or L. 1000, obtains from it a return of 1200 quarters, or L. 1200, of which he has to pay 100 quarters, or L. 100, as taxes, so long will his profits continue at 10 per cent., whether he has the market to himself, or has 50,000 competitors. It is not competition, but it is the increase of taxation, and the necessity under which society is placed of resorting to soils of a decreasing degree of fertility to obtain supplies of food to feed an increasing population, that are the great causes of that reduction in the rate of profit which uniformly takes place in the progress of society. When the last lands taken into cultivation are fertile, there is a comparatively large amount of produce to be divided between profits and wages; and both profits and *real* wages may, in consequence, be high. But, with every successive diminution in the fertility of the soils to which recourse must be had, the quantity of produce obtained by a given quantity of capital and labour must necessarily be diminished: And this diminution will obviously operate to reduce the rate of profit—(1) by lessening the *quantity of produce* to be divided between the capitalist and the labourer, and, (2) by increasing the proportion falling to the share of the latter.

The effect of the decreasing productiveness of the soil, as well on the condition and fortunes of society in general, as on the rate of profit, is so very power-

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ful, that I shall endeavour to trace and exhibit its operation a little more fully. It has already been shown, in treating of Population, that the principle of increase in the human race is so very strong, as not only to keep population steadily up to the means of subsistence, but, generally speaking, to give it a tendency to exceed them. It is true that a peculiar combination of favourable circumstances may occasionally cause capital to increase faster than population, and wages will in consequence be augmented: But such augmentation is rarely permanent; for the additional stimulus it is sure to give to the principle of population, seldom fails, by proportioning the supply of labour to the increased demand, to reduce wages to their old level. If, therefore, it were possible always to employ additional capital in the raising of raw produce, in the manufacturing of that raw produce when raised, and in the conveyance of the raw and manufactured products from place to place, with an equal return, it is evident, supposing taxation to continue invariable, that, generally speaking, no conceivable increase of the national capital could occasion the slightest fall in the rate of profit. So long as labour can be obtained at the same rate, and so long as the productive power of that labour is not diminished, so long *must* the profits of stock continue unaffected. It is evident, then, that the mere increase of capital has of itself no lasting effect on wages, and it must obviously be the same thing, in so far as the rate of profit is concerned, whether ten, or ten thousand millions be

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employed in the cultivation of the soil, and in the manufactures and commerce of this or any other kingdom; provided the last million so employed be as productive, or yields as large a return as the first. Now this is invariably the case with the capital employed in manufactures and commerce. The greatest possible amount of capital and labour may be employed in fashioning raw produce and adapting it to our use, and in transporting it from where it is produced to where it is to be consumed, without a diminished return. If a given quantity of labour will now build a ship of a given burden, or construct a machine of a given power, it is certain that an equal quantity of labour will, at any future period, be able to build a similar ship, or to construct a similar machine; and it is also certain, that although these ships and machines were indefinitely multiplied, the last would be equally well adapted to every useful purpose, and equally serviceable as the first. The probability, indeed, or rather, the certainty is, that the last would be much more serviceable than the first. No possible limits can be assigned to the powers and resources of genius, nor consequently to the improvement of machinery, and of the skill and industry of the labourer. Future Watts, Arkwrights, and Wedgwoods will arise; and the stupendous discoveries of the last and present age will doubtless be equalled, and perhaps surpassed, in the ages that are to come. It is, therefore, clear to demonstration, that if equal quantities of capital and labour could always raise *equal quantities*

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*of raw produce*, the utmost additions to the capital of the nation could never lessen the capacity to employ that capital with advantage, or sink the rate of profit. But here, and here only, the bounty of Nature is limited, and she deals out her gifts with a frugal and parsimonious hand.

——*Pater ipse* COLENDI
*Haud facilem esse viam voluit*——

Equal quantities of capital and labour do not always produce equal quantities of raw produce. The soil is of limited extent, and of still more limited fertility; and it is this limited fertility that proves the only real check—the only insuperable obstacle—which prevents the means of subsistence, and, consequently, the inhabitants, of every country, from increasing in a geometrical proportion, until the space required for carrying on the operations of industry should become deficient.

But it is easy to see, that the decreasing productiveness of the soils to which every improving society is obliged to resort, must not, as was previously observed, merely lessen *the quantity* of produce to be divided between profits and wages, but must also increase the *proportion* of that produce falling to the share of the labourer. It is utterly impossible to go on increasing the cost of raw produce, the principal part of the subsistence of the labourer, by taking inferior lands into cultivation, without also increasing his wages. A rise of wages is seldom indeed exactly coincident with a rise in the

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price of necessaries, but they can never be very far separated. The price of the necessaries of life is in fact the cost of producing labour. The labourer cannot work if he is not supplied with the means of subsistence—and although a certain period of varying extent, according to the circumstances of the country at the time, must generally elapse, when necessaries are rising in price, before wages are proportionally augmented, such an augmentation must certainly be brought about in the end.

It is plain, therefore, inasmuch as there is never any falling off, but a constant increase, in the productiveness of the labour employed in manufacturing and commercial industry, that the subsistence of the labourer could never be increased in price, and, consequently, that no additions could ever be made to his *necessary* wages—that is, to the wages required to enable him to subsist and continue his race—were it not for the diminished power of agricultural labour, originating in the inevitable necessity under which man is placed, of resorting to poorer soils to obtain increased supplies of raw produce. *The decreasing fertility of the soil is therefore, at bottom, the great and only necessary cause of a fall of profits.* The *quantity* of produce forming the return of capital and labour would never diminish, but for the diminution that uniformly takes place in the productiveness of the soil: nor is there any other physical cause in existence why the *proportion* of wages to profits should be increased, and the *rate* of profit di-

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minished, as it uniformly is, in the progress of society.

I have thus endeavoured to exhibit the ultimate and certain effect which the necessity of resorting to poorer lands for supplies of food to feed an increasing population, must always have on profits and wages. But though this cause of the reduction of profits be *of such magnitude and power as finally to overwhelm every other*,* its operations may be, and indeed frequently are, counteracted or facilitated by extrinsic causes. It is obvious, for example, that every new discovery or improvement in agriculture, which enables a greater quantity of produce to be obtained for the same expence, must really have the same effect on profits as if the supply of superior soils had been increased, and may, for a considerable period, increase the rate of profit.

Had the inventive genius of man been limited in its powers, and had the various machines and implements used in agriculture, and the skill of the husbandman, at once attained to their utmost perfection, the rise in the price of raw produce, and the fall of profits consequent upon the increase of population, would have been much more apparent and obvious. When, in such a state of things, it became necessary to resort to poorer soils to raise an additional quantity of food, a corresponding increase of labour would plainly have been required—for, on this supposition, no improvement could take place in the powers of the

* Malthus's *Principles of Political Economy*, &c. p. 317.

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labourer himself. Having already reached the perfection of his art, a greater degree of animal exertion could alone overcome fresh obstacles. More labour would, therefore, have been necessary to the production of a greater quantity of food; and it would have been necessary in the precise proportion in which the quantity of food was to be increased. So that it is plain, if the arts had continued in this stationary state, that the price of raw produce would have varied directly with every variation in the qualities of the soils successively brought under tillage.

But the circumstances regulating the real and exchangeable value of raw produce in an improving society, are extremely different. Even there, it has, as has been shown, a constant tendency to rise; for, the rise of profits consequent upon every improvement, by occasioning a greater demand for labour, gives a fresh stimulus to population, and thus by increasing the demand for food, again inevitably forces the cultivation of poorer soils, and raises prices. But it is evident, that these effects of this great law of nature, from whose all-pervading influence the utmost efforts of human ingenuity can never enable man to escape, are rendered less palpable and obvious in consequence of improvements. After inferior soils are cultivated, more labourers are, no doubt, required to raise the same quantities of food; but, as the powers of the labourers are improved in the progress of society, a smaller number is required in proportion to the whole work to be performed, than if no such improvement had taken place. It is in this way that

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the natural tendency to an increase in the price of raw produce is counteracted in the progress of society. The productive energies of the earth itself gradually diminish, and we are compelled to resort to soils of a constantly decreasing degree of fertility; but the productive energies of the labour employed to extract produce from these soils, are as constantly augmented by the discoveries and inventions that are always being made. Two directly opposite and continually acting principles are thus set in motion. From the operation of fixed and permanent causes, the increasing sterility of the soil must, in the long-run, overmatch the increasing power of machinery and the improvements of agriculture—and prices must experience a corresponding rise, and profits a corresponding fall. Occasionally, however, improvements in the latter more than compensate for the deterioration in the quality of the former, and a fall of prices and rise of profits take place, until the constant pressure of population again forces the cultivation of poorer lands.

The previous reasoning, in so far as the general principle is concerned, is equally applicable to the commercial world, or to any single nation. It is quite plain, however, that the fall in the rate of profit, and the consequent check to the progress of society originating in the necessity of resorting to poorer soils, will be more severely felt in an improving country, which excludes foreign corn from her markets, than in one which maintains a free and unfettered intercourse with her neighbours. A highly

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manufacturing and commercial country, like England, which should deal with all the world on fair and liberal principles, could avail herself of all those capacities of production with which Providence has endowed different countries; and, besides obtaining supplies of food at the cheapest rate at which they can be raised, the numberless markets to which she could resort, would prevent her from feeling any very injurious consequences from the occasional failure of her own harvests, and would not only secure her constant plenty, but, what is of hardly less importance, constant steadiness of price. Such a nation would have the foundations of her greatness established on a broad and solid basis; for they would rest, not on the productive energies of her own soil only, but, on those of all the countries of the world; nor is there any natural and necessarily operating cause, why her profits should be reduced, and she should get clogged in her progress, until the general increase of population had forced the cultivation of inferior soils, in all the countries whence she had been in the custom of drawing a portion of her supplies. And even then, she would not be surpassed by her neighbours; her progress would only be retarded by the same cause which must also retard theirs; her *relative* power would not be impaired; and should new markets be opened, or new discoveries made in agricultural industry, in any quarter of the world, she would reap her full share of the advantage, and be renovated and strengthened for a new career of exertion.

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A relative lowness in the rate of profit in a particular country, not only lessens its power to accumulate capital, or to add to that fund by which its population and industry must always be regulated; but it also creates a strong temptation to transmit a part of it to other countries. The rate of profit has a constant tendency to equalize itself. The same principle that would prevent the employment of capital in Yorkshire, if it did not yield as great a rate of profit there as in Kent or Surrey, regulates its distribution among the different countries of the world. It is true that the love of country—the thousand ties of society and friendship—the ignorance of foreign languages, and the desire to have our stock employed under our own inspection, would make a greater difference in the rate of profit necessary to occasion a transfer of capital from one country to another, than from one province of the same country to another. But this love of country has its limits. The love of gain is a no less powerful and constantly operating principle; and if capitalists are once assured that their stock can be laid out with tolerable security, and with considerably greater advantage, in foreign states, an efflux of capital, to a greater or less extent, will certainly take place.

The rate of taxation has, throughout this discussion, been supposed to be invariable. It is plain, however, that when it is increased, such increase must either immediately fall wholly on profits or wages, or partly on the one, and partly on the other. If it falls on profits, it must make an equivalent deduction from



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them; and if it falls on wages, it must proportionally depress the condition of the great mass of the people. There are limits, however, and those not very remote, to the power of the labourer to pay taxes; and whenever these limits have been attained, they must entirely fall on profits. It has, therefore, been most justly and truly observed by Dr Smith, that a heavy taxation has exactly the same effects as an increased barrenness of the soil, and an increased inclemency of the heavens.

It was the excessive weight of taxation that was the real cause of the lowness of profits in Holland, and consequently of the decline of her manufacturing and commercial prosperity. Notwithstanding the rigid and laudable economy of her rulers, the vast expence which the republic incurred in her revolutionary struggle with Spain, and in her subsequent contests with France and England, having led to the contraction of an immense public debt, she was obliged, in order to provide funds for the payment of the interest and other necessary charges, to lay heavy taxes on the most indispensable necessaries.* Among others, high duties were laid on foreign corn

* In 1579, at the Union of Utrecht, the interest of the public debt of the province of Holland amounted to only 117,000 florins; but so rapidly did it increase, that, in 1655, during the administration of the famous John De Witt, the States were compelled to reduce the interest from 5 to 4 per cent., and yet, notwithstanding this reduction, it amounted, in 1678, to 7,107,000 florins! See Metelerkamp, *Statistique de la Hollande*, p. 203.

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when imported, on flour and meal when ground at the mill, and on bread when it came from the oven. Taxation affected all the sources of national wealth; and so oppressive did it ultimately become, that it was a common saying at Amsterdam, that every dish of fish brought to table, was paid once to the fisherman, and *six times* to the state! Wages being necessarily raised so as to enable the labourers to subsist and continue their race, the weight of these enormous taxes fell almost wholly on the capitalists. Profits being in consequence reduced below their level in other countries, the prosperity of Holland gradually declined; and her capitalists were tempted to employ their stocks in other countries rather than at home. "*L'augmentation successive des impôts, que les payments des interêts, et les remboursements ont rendu indispensable, a détruit une grande partie de l'industrie, a diminué le commerce, a diminué ou fort alteré l'état florissant ou étoit autrefois la population, en resserrant chez le peuple les moyens de subsistence.*" *

* *Richesse de la Hollande,* Tome II. p. 179 This work contains a great deal of most valuable information. The author, (M. de Luzac,) mentions, that the Hollanders had, in 1778, about 1500 millions of livres (62 millions Sterling) in the public funds of France and England!—See also, on the subject of the taxation of Holland, a *Memoir on the Means of Amending and Redressing the Commerce of the Republic,* drawn up from information communicated by the best informed merchants, and published by order of the Stadtholder, William IV. Prince of Orange, in 1751. This Memoir was translated into English, and published in London in the same year.

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No people have any reason whatever to be alarmed at the effects of competition in any department of industry, for instead of losing, they are always sure to gain by every discovery which tends to facilitate production, or to reduce cost. It is not by improvements among their neighbours, but by a decline in the productiveness of industry at home —a decline which will always be indicated and correctly measured by the fall of profits it must infallibly occasion—that either their absolute or relative situation can ever be injuriously affected. But every such fall of profits will undoubtedly tend to sink them in the scale of national power and importance, and to enable their rivals to outstrip them in the career of wealth and greatness. Neither the skill and industry of the most intelligent and persevering artisans, nor the most improved and powerful machinery, can permanently withstand the paralysing and deadening influence of a relatively low rate of profit—And, let it never be forgotten, that such relative lowness must necessarily be produced by every system or regulation, which, by excluding foreign corn or otherwise, forces the premature cultivation of poor soils at home, and artificially raises prices; and can only be prevented by acting on a liberal commercial system, and enforcing the strictest economy in the public expenditure.

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# PRINCIPLES

OF

# POLITICAL ECONOMY.

## PART IV.

### CONSUMPTION OF WEALTH.

HAVING, in the previous parts of this work, endeavoured to explain the means by which labour is facilitated, and wealth produced, and to investigate the laws regulating its distribution among the various classes of society, we come now to the *fourth* and last division of our subject, or to that which treats of the CONSUMPTION of Wealth.

*Definition of Consumption—Consumption the end of Production—Test of Advantageous and Disadvantageous Consumption—Injurious operation of Sumptuary Laws—Advantage of a Taste for Luxuries—Error of Dr Smith's Opinion with respect to Unproductive Consumption—Error of those who contend, that to facilitate Production it is necessary to encourage Consumption—Consumption of Government—Conclusion.*

IT was formerly shown, that, by the production of a commodity was not meant the production of mat-

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ter, for that is the exclusive prerogative of Omnipotence, but the giving to matter already in existence such a shape as might fit it for ministering to our wants and enjoyments. In like manner, by consumption is not meant the consumption, or annihilation of matter, for that is equally impossible as its creation, but merely *the consumption or annihilation of those qualities which render commodities useful and desirable.* To consume the products of art and industry is, therefore, really to deprive the matter of which they consist of the utility, and consequently of the exchangeable value communicated to it by labour. And hence we are not to measure consumption by the magnitude, the weight, or the number of the products consumed, but exclusively *by their value.* Large consumption is the destruction of large value, however small the bulk in which that value may happen to be compressed.

Consumption, in the sense in which the word is used by Political Economists, is synonymous with *use.* We produce commodities only that we may be able to use or consume them. Consumption is the great end and object of all human industry. Production is merely a means to attain an end. No one would produce were it not that he might afterwards consume. All the products of art and industry are destined to be consumed, or made use of; and when a commodity is brought into a state fit to be used, if its consumption be deferred, a loss is incurred. All products are intended either to satisfy the immediate wants, or to add to the enjoyments of their produ-

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cers; or they are intended to be employed for the purpose of reproducing a greater value than themselves. In the *first* case, by delaying to use them, it is plain we either refuse to satisfy a want, or deny ourselves a gratification it is in our power to obtain; —and, in the *second*, by delaying to use them, it is equally plain we allow the instruments of production to lie idle, and lose the profit that might be derived from their employment.

But, although all commodities are produced only to be consumed, we must not fall into the error of supposing, that all consumption is equally advantageous to the individual or the society. It is, however, exceedingly difficult to draw a distinct line of demarcation between advantageous or disadvantageous, or, as it is more commonly termed, productive and unproductive consumption. In so far, however, as the public interests are involved, and it is such only that we are now called upon to consider, all consumption of the products of art and industry may be held to be productive *if it occasions, whether directly or indirectly, the production of the same or of a greater quantity of equally valuable products, and unproductive if it has not that effect.* The mere fact of a commodity being consumed for a particular purpose, or, in a particular way, will not authorize us to affirm, without farther inquiry, that its consumption has been advantageous, or the reverse. Before we can decide on such a point we must take into view, and carefully examine the remote as well as the immediate effects of the consumption. It would

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not, for example, be enough to prove, that a certain amount of wealth had been productively employed, to be told, that it had been laid out in the improvement of the soil, in the excavation of a canal, or in any similar undertaking; for it might have been laid out injudiciously, or in such a way that it could not reproduce itself. Neither, on the other hand, would it be enough to prove, that any given amount of wealth had been laid out unproductively, to be told, that it had been expended in equipages or entertainments; for the desire to indulge in this expence might have been the cause of the wealth being originally produced, and the desire to indulge in similar expence might occasion the subsequent production of a still greater quantity.

But, whatever may be the mode in which commodities are consumed, it is plain, that it is on the balance between consumption and reproduction, that the advancement or decline of every nation is dependent. If, in given periods, the commodities produced in a country, exceed those consumed in it, the means of increasing its capital will be provided, and its population will either increase, or the actual numbers will be better accommodated, or both. If the consumption in such periods fully equals the reproduction, no means will be afforded of increasing the stock or capital of the nation, and society will be at a stand. And if the consumption exceeds the reproduction, every succeeding period will see the society worse supplied; its prosperity and population

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will evidently decline, and pauperism will gradually spread itself over the whole country.

It seems to be impossible to fix on any standard for the regulation of individual expenditure. The sentiments of no two persons will ever exactly coincide with respect to the advantage to be derived from any given expenditure of wealth; and as each must be held to be, in his own situation, the best judge of what is profitable and advantageous for himself, there are no means of deciding who is right or who is wrong. The opinions of different individuals necessarily depend more or less on the circumstances under which they are placed. The rich man is naturally inclined to give a greater extension to the limits of advantageous consumption than the man of middling fortune; and the latter than he who is poor. And it is undoubtedly true that a man's expences ought always to bear some proportion to the magnitude of his fortune, his prospects, and his station in society; and that what might be proper and advantageous expenditure in one case, might be exceedingly improper and disadvantageous in another. These, however, are matters with respect to which individuals ought to be left at full liberty to use their own discretion; and though a few may waste their fortunes in wanton and unprofitable expence, we may be assured that the efforts of the vast majority will be directed to their increase.

But, though governments have been generally, or rather, perhaps, it should be said, universally, more

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profuse and lavish than their subjects, they have very frequently enacted *sumptuary* laws, to restrain what they were pleased to consider the improper expenditure of the latter. These laws were long popular in Rome; and were formerly in use in this, and most other European countries. But it may be safely affirmed, that they have not, in any instance, been productive of any good effect. They are, in truth, a manifest infringement on the right of property; and no legislator can ever fetter his subjects in the disposal of the fruits of their industry, without rendering them less zealous about their acquisition, and paralyzing their exertions.

Sir Dudley North has set the effect of sumptuary laws in its true light. "Countries," he says, "which have these laws, are generally poor; for, when men are thereby confined to narrower expence than they otherwise would be, they are at the same time discouraged from the industry and ingenuity which they would have employed, in obtaining wherewithal to support them, in the full latitude of expence they desire. It is possible, families may be supported by such means, but then, the growth of wealth in the nation is hindered; for that never thrives better, than when riches are tost from hand to hand. The meaner sort, seeing their fellows become rich and great, are spirited up to imitate their industry. A tradesman sees his neighbour keep a coach, presently, all his endeavours are at work to do the like, and many times he is beggared by it; however, the extraordi-

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nary application he makes to gratify his vanity, is beneficial to the public." *

The public interest requires that the national capital should, if possible, be constantly kept on the increase; or, which is the same thing, that the consumption of any given period should be made the means of reproducing a greater amount of useful and desirable products. But it has been sufficiently proved that this cannot, in any case, or under any circumstances, be the result of a system of *surveillance* and restriction. Industry and frugality never have been, and never can be, promoted by such means. To render a man industrious, secure him the peaceable enjoyment of the fruits of his industry;—to wean him from extravagance, and to render him frugal and parsimonious, allow him to reap all the disadvantage of the one line of conduct, and all the advantage of the other.

Besides, it is clear that sumptuary laws, even if they were in other respects advantageous, must necessarily be partial and oppressive in their operation. What would be wanton and ridiculous extravagance in one man, may be well regulated moderate expenditure in another. If, therefore, for the sake of the prodigal, you proscribe this expence, you deprive the other of those gratifications to which his fortune entitles him; and if you allow it to those who *can afford it*, then, in order to ascertain to whom the regulation is applicable, you must institute an odious and gener-

* *Discourses on Trade*, p. 15.

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ally ineffectual investigation into the circumstances of individuals. Certainly, however, it is no part of the business of government to pry into the affairs of individuals. It was not instituted for the purpose of keeping their accounts, and balancing their ledgers; but in order to protect the equal rights and liberties of all: "If its own extravagance does not ruin the state, that of its subjects never will." The poverty and loss of station which is the necessary and inevitable result of improvident and prodigal consumption, is a sufficient security against its ever becoming injuriously prevalent; and wherever the public burdens are moderate, property protected, and the perfect and uncontrolled freedom of industry secured, the constant efforts of the great body of the people to rise in the world and improve their condition, will insure the continued increase of national wealth. It is idle to expect that all unproductive and unprofitable expenditure can ever be avoided; but the experience of all tolerably well governed states proves, that the amount of the produce of industry productively expended, is always infinitely greater than that which is expended unproductively.

It was long a prevalent opinion among moralists, that the labour bestowed on the production of luxuries, and consequently their consumption, was unproductive and disadvantageous. If a man wished to get rich, his object, it was said, ought not to be to increase his fortune, but to lessen his wants. *Si quem volueris esse divitem, non est quod augeas divitias sed minuas cupiditates.* Had these opinions ever ob-

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tained any considerable influence, they would have formed an insuperable obstacle to all improvement. Those who are contented with the situation in which they are placed, can have no motive to induce them to aspire at any thing better. And hence it is to the absence of this feeling of contentment, and the existence of that which is directly opposed to it,—to the desire to rise in the world, to improve our condition, and to obtain a constantly increasing command over the conveniences and luxuries of life, that society is indebted for every improvement. No progress can be made in civilization, in any country, until this desire has been excited: and the more powerful and urgent it becomes, the more rapid will be the accumulation of wealth, and the more prosperous will every individual become. The mere necessaries of life may be obtained with comparatively little labour; and those savage and uncivilized hordes, who have no desire to possess its comforts, are proverbially and notoriously indolent and dissipated. To make men industrious—to make them shake off that lethargy which is natural to them, they must be inspired with a taste for the luxuries and enjoyments of civilized life. When this is done, their artificial wants will become equally clamorous with those that are strictly necessary, and they will increase exactly as the means of gratifying them increase. Wherever a taste for comforts and conveniences has been generally diffused, the wants and desires of man become altogether unlimited. The gratification of one leads directly to the formation of another. In highly civi-

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lized societies, new products and new modes of enjoyment are constantly presenting themselves as motives to exertion, and as means of rewarding it. Perseverance is, in consequence, given to all the operations of industry; and idleness, and its attendant train of evils, almost entirely disappear. "What," asks Dr Paley, "can be less necessary, or less connected with the sustentation of human life, than the whole produce of the silk, lace, and plate manufactory? Yet what multitudes labour in the different branches of these arts! What can be imagined more capricious than the fondness for tobacco and snuff? Yet how many various occupations, and how many thousands in each, are set at work in administering to this frivolous gratification!" It is the *stimulus* which the desire to possess these articles of luxury gives to industry that renders their introduction advantageous. The earth is capable of furnishing food adequate for the support of a much greater portion of human beings than can be employed in its cultivation. But those who are in possession of the soil will not part with their produce for nothing; or rather, they will not raise at all what they can neither use themselves nor exchange for what they want. As soon, however, as a taste for conveniences and luxuries has been introduced, the occupiers of the ground raise from it the utmost that it can be made to produce, and exchange the surplus for such conveniences and gratifications as they are desirous of obtaining; and, in consequence, the producers of these articles, though they have neither property in the soil, nor any



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concern in its cultivation, are regularly and liberally supplied with its produce. In this way, the quantity of *necessaries*, as well as of useful and agreeable products, is vastly increased by the introduction of a taste for luxuries: and the population are, in consequence, not only better provided for, but their numbers are proportionally and greatly augmented.

There is hardly a single article, among those that are now reckoned most indispensable to existence, or a single improvement of any sort, which has not been denounced at its introduction as an useless superfluity, or as being in some way injurious. Few things are now considered more essential than shirts; and yet there are instances on record of individuals being put in the pillory for presuming to wear so expensive and unnecessary an article! Chimnies were not commonly used in England until about the middle of the sixteenth century; and, in the introductory discourse to Hollinshed's *Chronicles*, published in 1577, there is a bitter complaint of the multitude of chimnies lately erected, and of the exchange of wooden platters for earthen-ware and pewter. Another author of the same period laments that nothing but oak is used for building, instead of willow as heretofore;—adding, that "formerly our houses indeed were of willow, but our men were of oak; but now that our houses are of oak, our men are not only of willow, but some altogether of straw!" *

Many volumes have been filled with lamentations

* Slaney *on Rural Expenditure*, p. 41.

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over the prevalence of a taste for tea, sugar, coffee, spices, and other foreign luxuries; and the idea that their consumption is prejudicial to the increase of wealth, is still very common. Voltaire, who in general entertained very correct opinions on such subjects, has in this instance given his sanction to the popular prejudice. "Henry IV." says he, "breakfasted on a glass of wine and wheaten bread; he neither used tea, nor coffee, nor chocolate. But the products of Martinique, Mocha, and China, are now required for the breakfast of a servant! And if we reflect that these products cost France upwards of 50 millions a-year, it is obvious we must be carrying on some very advantageous branches of commerce, to enable us to support this continued loss." Voltaire forgot that the commodities with which the gold and silver exported to India are purchased, are the produce of the industry of France; and that the desire of acquiring tea, coffee, &c. is the sole principle that sets this industry in motion. It is therefore obvious, that, in the event of the importation of these articles being prevented, there would no longer be a motive for the exertion of the industry that is now employed in the production of the equivalents given for them; and France, instead of becoming richer by such a measure, would become just so much the poorer.

"Un préjugé vulgaire," says the Marquis Garnier, "porte à regarder comme desavantageux, l'echange dans lequel on donne un morceau de metal qui peut durer des siecles, pour avoir une denrée que

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la consommation va detruire en une minute. Cependant le métal, ainsi que la plante, n'ont de valeur qu'en raison du travail qu'ils ont coûté ; l'argent ne manquera pas plus que le thé au travail qui voudra l'extraire du sein de la terre ; et de ces deux substances, celle qui se consomme le plus rapidement, est, par cette meme raison, celle qui tient plus de travail en activité. Une revolution qui abimeroit sous les eaux toutes les mines de l'Amerique, appauvrirait fort peu les nations de l'Europe. Mais si le sucre, le caffé, le thé, &c. venait à perdre tout à coup leur saveur et leur arôme, s'ils n'avaient plus la propriété de charmer le palais, ils cesseraient de tenir rang parmi les richesses ; alors s'arrêterait le travail qui les produit dans les deux Indes, et, par contre-coup, tout le travail qui s'exerce en Europe pour les acheter." *

I do not, however, mean to affirm, that a taste for tea or coffee, champagne or burgundy, dogs or horses, is the best possible taste, or that it might not be infinitely better if the same stimulus could be given to industry, by a desire to procure other articles and enjoyments. But the first and grand object ought always to be to excite a taste for superfluities ; for, when once this taste has been excited, it is comparatively easy to give it any particular bias or direction ; and until it has been excited, society can make no progress. †

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* Garnier, *Richesse des Nations,* Tome V. p. 509.

† The excessive indolence of the Mexicans has been ascribed



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It is plain, therefore, that the consumption of luxuries cannot, provided it be confined within proper limits, be justly considered as either disadvantageous or unproductive. If, indeed, a man were to consume more luxuries than his labour or his fortune enabled him to command, his consumption would be disadvantageous. But it would be equally disadvantageous were he to consume a greater quantity of *necessaries* than he could afford. The mischief does not consist in the *species* of articles consumed, but in the *excess of their value* over the means of purchasing them possessed by the consumer. This, however, is a fault which ought always to be left to be corrected by the *self-interest* of those concerned. The poverty and degradation caused by indulging in unproductive consumption is a natural and sufficient guarantee against its ever being carried to an injurious extent. And to attempt to lessen unproductive consumption by proscribing luxury, is

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partly to the facility of obtaining supplies of food by the cultivation of the banana, and partly to the mildness of the climate, which renders clothing and lodging of inferior importance. Humboldt mentions, that it is a prevalent opinion, that nothing short of the extirpation of the banana will ever render them industrious. It may, however, be expected that the altered circumstances under which Mexico is now placed, the many new avenues the revolution has opened to wealth and consideration, and the desire that will most probably be excited to obtain those European commodities which the freedom of commerce will pour into the country at a comparatively cheap rate, will have the effect to infuse a spirit of industry into the inhabitants.

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in effect attempting to enrich a country by taking away the most powerful motives to production!

Dr Smith has given another criterion of productive and unproductive consumption; but his opinions on this subject, though exceedingly ingenious, and supported with his usual ability, appear to rest on no solid foundation. He divides society into two great classes. The *first* consists of those who fix, or, as he terms it, "realize their labour in some particular subject, or vendible commodity, which lasts for some time at least after that labour is past;" the *second*, of those whose labour leaves nothing in existence after the moment of exertion, but perishes in the act of performance. The former are said by Dr Smith to be *productive*, the latter *unproductive*, labourers. Not that, in making this distinction, Dr Smith means to undervalue the services performed by the unproductive class, or to deny that they are often of the highest utility; for he admits that such is frequently the case: but he contends that these services, however useful, do not augment the *wealth* of the country; and, consequently, that the commodities consumed by this class are unproductively consumed, and have a tendency to impoverish, not to enrich, the society. But to avoid the chance of misrepresentation, I shall give Dr Smith's opinions in his own words.

"There is one sort of labour," says he, "which adds to the value of the subject upon which it is bestowed; there is another which has no such effect.

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The former, as it produces a value, may be called productive; the latter unproductive labour. Thus the labour of a manufacturer adds, generally, to the value of the materials which he works upon, that of his own maintenance, and of his master's profit. The labour of a menial servant, on the contrary, adds to the value of nothing. Though the manufacturer has his wages advanced to him by his master, he, in reality, costs him no expence, the value of those wages being generally restored, together with a profit, in the improved value of the subject upon which his labour is bestowed. But the maintenance of a menial servant never is restored. A man grows rich by employing a multitude of manufacturers; he grows poor by maintaining a multitude of menial servants. The labour of the latter, however, has its value, and deserves its reward as well as that of the former. But the labour of the manufacturer fixes and realizes itself in some particular subject, or vendible commodity, which lasts for some time at least after that labour is past. It is, as it were, a certain quantity of labour stocked and stored up to be employed, if necessary, upon some other occasion. That subject, or, what is the same thing, the price of that subject, can afterwards, if necessary, put into motion a quantity of labour equal to that which had originally produced it. The labour of the menial servant, on the contrary, does not fix or realize itself in any particular subject or vendible commodity. His services generally perish in the very instant of their performance, and seldom leave any trace or value behind them for

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which an equal quantity of service could afterwards be procured.

"The labour of some of the most respectable orders in the society is like that of menial servants, *unproductive of any value*, and does not fix or realize itself in any permanent subject or vendible commodity, which endures after that labour is past, and for which an equal quantity of labour could afterwards be procured. The sovereign, for example, with all the officers both of justice and war who serve under him, the whole army and navy, are unproductive labourers. They are the servants of the public, and are maintained by a part of the annual produce of the industry of other people. Their service, how honourable, how necessary, or how useful soever, produces nothing for which an equal quantity of service can afterwards be procured. The protection, security, and defence of the commonwealth, the effect of their labour this year, will not purchase its protection, security, and defence for the year to come. In the same class must be ranked some both of the greatest and most important, and some of the most frivolous professions: churchmen, lawyers, physicians, men of letters of all kinds; players, buffoons, musicians, opera-singers, opera-dancers, &c. The labour of the meanest of these has a certain value, regulated by the very same principles which regulate that of every other sort of labour; and that of the noblest and most useful produces nothing which could afterwards purchase or procure an equal quantity of labour. Like the declamation of the actor, the harangue of

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the orator, or the tune of the musician, the work of all of them perishes in the very instant of its production." *

These statements are plausible; still, however, it is not difficult to show the fallacy of the distinction Dr Smith has endeavoured to establish between the labour, and consequently also the consumption, of the different classes of society. To begin with his strongest case, that of the menial servant:—Dr Smith says, that his labour is *unproductive*, because it is not realized in a vendible commodity, while the labour of the manufacturer is *productive*, because it is so realized. But of what is the labour of the manufacturer really productive? Does it not consist exclusively of comforts and conveniences required for the use and accommodation of society? The manufacturer is *not* a producer of matter, but of *utility* only. And is it not obvious that the labour of the menial servant is also productive of utility? It is universally allowed, that the labour of the husbandman who raises corn, beef, and other articles of provision, is productive; but if so, why is the labour of the menial servant who performs the *necessary* and *indispensable* task of preparing and dressing these articles, and fitting them to be used, to be set down as unproductive? It is clear to demonstration, that there is no difference whatever between the two species of industry—that they are either both productive, or both unproductive.

* *Wealth of Nations*, II. p. 1.

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To produce a fire, it is just as necessary that coals should be carried from the cellar to the grate, as that they should be carried from the bottom of the mine to the surface of the earth: And if it is said, that the miner is a productive labourer, must we not also say the same of the servant, who is employed to make and mend the fire? The whole of Dr Smith's reasoning proceeds on a false hypothesis. He has made a distinction where there is none, and where it is not in the nature of things there can be any. The end of all human exertion is the same—that is, to increase the sum of necessaries, comforts, and enjoyments; and it must be left to the judgment of every one to determine what proportion of these comforts he will have in the shape of menial services, and what in the shape of material products. It is true, as has been sometimes stated, that the results of the labour of the menial servant are seldom capable of being estimated in the same way as the results of the agriculturist, manufacturer, or merchant; but they are not, on that account, the less real or valuable. Could the same quantity of work be performed by those who are called productive labourers, were it not for the assistance they derive from those who are falsely called uproductive? A merchant or banker, who is making L. 5,000 or L. 10,000 a year by his business, may perhaps be expending L. 1,000 on his servants; now it is plain, that if he tries to save this sum, he can do so only by turning his servants adrift, and becoming coachman, footman, and washerwoman

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for himself; and, if he does this, he will, instead of making L. 5,000 or L. 10,000 a year, be most probably unable to make even L. 50! No doubt a man will be ruined if he keeps more servants than he has occasion for, or than he can afford to pay; but his ruin would be equally certain were he to purchase an excess of food or clothes, or to employ more workmen in any branch of manufacture than are required to carry it on, or than his capital could employ. To keep two ploughmen when one only might suffice, is just as improvident and wasteful expenditure as it is to keep two footmen to do the business of one. *It is in the extravagant quantity of the commodities we consume or of the labour we employ, and not in the particular species of commodities or labour, that we must seek for the causes of impoverishment.*

The same reasoning applies to all the other cases mentioned by Dr Smith. Take, for example, the case of the physician. Dr Smith tells us that he is an unproductive labourer, because he does not directly produce something that has exchangeable value. But if he does the same thing *indirectly*, what is the difference? If the exertions of the physician are conducive to health, and if, as is undoubtedly the case, he enables others to produce more than they could do without his assistance, then it is plain he is *indirectly*, at least, if not directly, a productive labourer. Dr Smith makes no scruple about admitting the just title of the workman employed to repair a steam-engine to be enrolled in the productive

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class; and yet he would place a physician, who had been instrumental in saving the life of an Arkwright or a Watt, among those that are unproductive! It is impossible that these inconsistencies and contradictions could have occurred to Dr Smith; and the errors into which he has fallen in treating this important branch of the science, shows, in the strongest manner, the absolute necessity of advancing with extreme caution, and of subjecting every theory, how plausible and ingenious soever it may appear when first stated, to a severe and patient examination.

An occupation may be futile and trifling to the last degree without being unproductive. We are entitled to affirm, at once, that an individual who employs himself an hour a day in blowing bubbles or building houses of cards, is engaged in a futile employment; but we are not, without further inquiry, entitled to affirm that it is unproductive. This will depend on a contingency: The employment will be as unproductive as it is frivolous, if it does not stimulate the individual to make any greater exertion during the remaining twenty-three hours of the twenty-four than he did previously: But if, in order to indemnify himself for the time that is thus spent, he produces as many useful and desirable commodities during the period he can still devote to that purpose as he previously produced, the employment will *not* be unproductive: And if the desire to indulge in it leads him to produce more commodities than he did before, it will be positively productive.

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Dr Paley had a distinct perception of this doctrine, and has stated it with his usual force and clearness. "A watch," he observes, "may be a very unnecessary appendage to the dress of a peasant; yet if the peasant will till the ground in order to obtain a watch, the true design of commerce is answered; and the watchmaker, while he polishes the case and files the wheels of his ingenious machine, is contributing to the production of corn as effectually, though not so directly, as if he handled the plough or the spade. The use of tobacco is an acknowledged superfluity; but if the fisherman will ply his nets, and the mariner fetch rice from foreign countries, in order to procure to himself this indulgence, the market is supplied with two important articles of provision by the instrumentality of a merchandise which has no other apparent use than the gratification of a vitiated palate." *

It is on this principle that the productiveness of the labour of players, singers, opera dancers, buffoons, &c. depends. A taste for the amusements they afford has exactly the same effect on national wealth as a taste for tobacco, champagne, or any other luxury. We wish to be present at their exhibitions; and, in order to get admittance, we pay the price or equivalent demanded by them for their services. But this price or equivalent is not a gratuitous product of nature—it is the result of industry. And hence it is, that the amusements afforded by these

* Works, Vol. II. p. 80. Ed. 1819.

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persons—however trifling they may seem in the estimation of cynics and *soi-disant* moralists—create new wants, and by so doing necessarily stimulate our industry to procure the means of gratifying them. They are unquestionably, therefore, a *cause* of production; and it is very like a truism to say that what is a cause of production must be productive.

The productiveness of the higher class of functionaries mentioned by Dr Smith is still more obvious. So far, indeed, from being unproductive, they are, when they properly discharge the duties of their high station, the most productive labourers in a state. Dr Smith says, that the results of their service, that is, to use his own words, "the protection, security, and defence of the commonwealth any one year, will not purchase its protection, security, and defence for the year to come." But this is plainly an error. The protection and security afforded by good government may not be directly a cause of wealth; but it is indirectly so; for it is plain that, without this security and protection, the productive powers of industry could not be brought into action. Dr Smith would allow that the material products produced by the society one year, were to form the means of producing its supplies of necessaries, conveniences, and enjoyments during the following year. But without the security and protection afforded by government, these products would either not exist at all, or their quantity would be very greatly diminished. How, then, is it possible to deny that those whose labour is necessary to afford this security are

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productively employed? Take the case of the labourers employed to construct fences; no one ever presumed to doubt that their labour is productive; and yet they do not contribute *directly* to the production of corn or of any other valuable product. The object of their industry is to give protection and security; to guard the fields that have been fertilized and planted by the husbandman from depredation; and to enable him to prosecute his employments without having his attention distracted by the care of watching. But if the security and protection afforded by the hedger or ditcher justly entitle him to be classed among those who contribute to enrich their country, on what principle can those public servants whose exertions protect property in the mass, and render every portion of it secure against hostile aggression, and the attacks of thieves and plunderers, be said to be unproductive? If the labourers who protect a single corn field from the neighbouring crows and cattle be productive, then surely the judges and magistrates, the soldiers and sailors, who protect every field in the empire, and to whom it is owing that all classes of inhabitants feel secure in the enjoyment of their property, rights, and privileges, have a right to be classed among those whose services are supereminently productive.

That much wealth has been unproductively consumed by the servants of the public, both in this and other countries, it is impossible to doubt. But we are not to argue from the abuses extrinsic to a beneficial institution against the institution itself. If the

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public pay their servants excessive salaries, or employ a greater number than is required for the purposes of good government and security, it is their own fault. Their conduct is the same as that of a manufacturer who should pay his labourers comparatively high wages, and employ more of them than he had occasion for. But, although a state, or an individual, may act in this foolish and extravagant manner, it would be rather rash to conclude from thence that *all* public servants and *all* manufacturing labourers are unproductive! If the establishments which provide security and protection be formed on an extravagant scale,—if we have more judges or magistrates, more soldiers or sailors, than are necessary, or if we pay them larger salaries than would suffice to procure the services of others, let their numbers and their salaries be reduced. The excess, if there be any, is not a fault inherent in the nature of such establishments, but results entirely from the extravagant scale on which they have been arranged.

But, in showing that Dr Smith was mistaken in considering the consumption of menial servants, and of lawyers, physicians, and public functionaries, unproductive, we must beware of falling into the opposite extreme, and of countenancing the erroneous and infinitely more dangerous doctrine of those who contend that consumption, even when most unproductive, ought to be encouraged as a means of stimulating production, and of increasing the demand for labour! The consumption of the classes mentioned by

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Dr Smith is advantageous, because they render services in return, which those who employ them, and who are the only proper judges in such a case, consider to be of greater value than the wages they pay them. But the case would be totally different, if Government and those who employ labourers, were to do so, not in order to profit by their services, but to stimulate production by their consumption! It is a fallacy and an absurdity to suppose that production can ever be encouraged by a wasteful consumption of the products of industry. A man is stimulated to produce when he finds a ready market for the products of his labour, that is, when he can readily exchange them for other products. And hence the true and only real encouragement of industry consists, not in the increase of wasteful and improvident consumption, but as was formerly shown, in the increase of production.

Montesquieu has said, and the same sentiment has been expressed in a thousand different shapes, "*Si les riches ne depensent pas beaucoup les pauvres mourront de faim.*" * Montesquieu was betrayed into this error, from his being unacquainted with the nature and functions of capital. The profusion of the rich, far from being of any advantage to the poor, is really one of the greatest calamities that can befall them. It is impossible that the demand for labour can be increased without an increase of capital. Wherever the parsimonious principle predomi-

* Liv. VII. chap. 4.

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nates, capital increases, and as capital increases, the demand for labour is increased, the existing inhabitants are better provided for, and their numbers are increased; on the contrary, wherever profusion and wasteful expenditure predominate, capital is diminished, the inhabitants are daily worse and worse provided for, and idleness, pauperism, and disease prevail.

There is, however, no instance of any people having ever missed an opportunity to save and amass. In all tolerably well governed countries, the principle of accumulation has uniformly had a marked ascendancy over the principle of expence. Individuals are fully sensible of the value of the articles they expend; for, in the vast majority of instances, they are the immediate result of their industry, perseverance, and economy; and they will not consume them, unless to obtain an equivalent advantage. But this, it must be allowed, is but rarely the case with the consumption of governments and their servants. Generally speaking, they consume the produce of the labour of others, not of their own; and this circumstance prevents them from being so much interested in its profitable outlay, or so much alive to the injurious consequences of extravagant and wasteful expenditure as their subjects. But economy on the part of government, though more difficult to be practised, is of infinitely greater importance than economy on the part of any individual. Should a private gentleman think of acting on the principle that profusion is a virtue, and that industry



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may be encouraged by increasing unprofitable consumption, he will most certainly be ruined; his ruin, however, will only be *directly* injurious to the individuals in his own employment, and will have but a very slight *indirect* effect on others. But similar conduct on the part of government would most probably be productive either of revolution, or of national poverty and degradation. If, then, it is most desirable that individuals should have a correct knowledge of their real interest in the consumption of commodities; how much more so must it be that governments should possess that knowledge? Economy and frugality are virtues in a private station; but in a public station their influence upon national happiness is so vast, that they are not only the first of virtues, but the most pressing of duties.

"Si les depenses publiques," M. Say observes, "affectent la somme des richesses précisément de la même maniere que les depenses privées, les mémes principes d'economie doivent presider aux unes et aux autres. *Il n'y a pas plus deux sortes d'economie, qu'il n'y a deux sortes de probité, deux sortes de morale.* Si un gouvernement comme un particulier font des consommations desquelles il doive resulter une production de valeur superieure à la valeur consommé, ils exercent une industrie productive; si la valeur consommé n'a laissé aucun produit, c'est une valeur perdue pour l'une comme pour l'autre, mais qui en se dissipant, a fort bien pu rendre le service qu'on en attendait. Les munitions de guerre et de bouche, le tems et les travaux de fonctionnaires ci-

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vils et militaires qui ont servi à la defense de l'etat, n'existent plus, quoique ayant été parfaitement bien employés, il en est des ces choses comme de denrées et des services qu'une famille a consommés pour son usage. Cet emploi n'a presentée aucun avantage autre que la satisfaction d'un besoin ; si le besoin n'existoit pas, la consommation, la depense, n'ont plus été qu'un mal sans compensation. Il en est de même des consommations de l'etat ;—consommer pour consommer, depenser par systeme, réclamer une service pour l'avantage de lui accorder une salaire, anneantir une chose pour avoir occasion de la payer est une extravagance de la part d'un gouvernement comme de la part d'un particulier, dans un petit etat comme dans un grand, dans une republique comme dans un monarchie. Un gouvernement dissipateur est même bien plus coupable qu'un particulier : celui ci consomme les produits qui lui appartiennent, tandis qu'un gouvernement n'est pas proprietaire : il n'est qu'administrateur de la fortune publique." *

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I have now brought this sketch of the Principles of Economical Science to a close. I have endeavoured to show the close and indissoluble connection subsisting between private and public opulence —to show that whatever has any tendency to increase the former, must, to the same extent, in-

* Tome II. p. 268.



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crease the latter; and that SECURITY OF PROPERTY, FREEDOM OF INDUSTRY, DIFFUSION OF SOUND INFORMATION, AND MODERATION IN THE PUBLIC EXPENDITURE, are the only, as they are the certain, means by which the various powers and resources of human talent and ingenuity can be called into action, and society made continually to advance in the career of wealth and civilization. Every increase of security, freedom, and intelligence, is a benefit, as every diminution, whether of one or the other, is an evil. It is by the spontaneous, and unconstrained, but well protected efforts of individuals to improve their condition, and to rise in the world, and by these efforts only, that nations become rich and powerful. The labour and the savings of individuals are at once the source and the measure of national opulence and public prosperity. They may be compared to the drops of dew which invigorate and mature all vegetable nature: None of them has singly any perceptible influence; but we owe the foliage of summer and the fruits of autumn to their combined action.

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# APPENDIX.

## P. 50.

THAT M. Quesnay is entitled to the merit of originality cannot be disputed. It is certain, however, that he had been anticipated in several of his peculiar doctrines by some English writers of the previous century. The fundamental principles of the economical system are distinctly and clearly stated in a tract entitled *Reasons for a limited Exportation of Wool*, published in 1677. "That it is of the greatest concern and interest of the nation," says the author of the tract, "to preserve the nobility, gentry, and those to whom the land of the country belongs, at least, much greater than a few artificers employed in working the superfluity of our wool, or the merchants who gain by the exportation of our manufactures, is manifest—1. Because they are the *masters and proprietaries of the foundation of all the wealth in this nation, all profit arising out of the ground which is theirs.* 2. *Because they bear all taxes and public burdens;* which, in truth, are only borne by those who buy, and sell not; all sellers, raising the price of their commodities, or abating of their goodness, according to their taxes."—p. 5.

In 1696, Mr Asgill published a treatise entitled *Several Assertions Proved, in order to Create Another Species of Money than Gold*, in support of Dr Chamberlayne's proposition for a Land Bank. The following extract from this

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treatise breathes, as Mr Stewart has justly observed, in his Life of Dr Smith, the very spirit of Quesnay's philosophy :—

"What we call commodities is nothing but land severed from the soil—*Man deals in nothing but earth.* The merchants are the factors of the world, to exchange one part of the earth for another. The king himself is fed by the labour of the ox: and the clothing of the army and victualling of the navy must all be paid for to the owner of the soil as the ultimate receiver. All things in the world are originally the produce of the ground, and there must all things be raised."—(This passage has been quoted in Lord Lauderdale's *Inquiry into the Nature and Origin of Public Wealth*, 2d ed. p. 109.)

These passages are interesting, as exhibiting the first germs of the theory of the Economists. But there is no reason whatever to suppose that Quesnay was aware of the existence of either of the tracts referred to. The subjects treated in them were of too local a description to excite the attention of foreigners; and Quesnay was too candid to conceal his obligations, had he really owed them any. It is probable he may have seen Mr Locke's treatise on *Raising the Value of Money*, where the idea is thrown out that all taxes fall ultimately on the land. But there is an immeasurable difference between the suggestion of Locke and the well-digested system of Quesnay.

I subjoin from the work of Dupont, *Sur l'Origine et Progrès d'une Nouvelle Science*, a short statement of the various institutions the Economists held to be necessary for the good government of a country.

"Voici le résumé de toutes les institutions sociales fondées sur l'ordre naturel, sur la constitution physique des hommes et des autres êtres dont ils sont environnés.

"*Propriété personnelle*, établie par la nature, par la né-

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cessité physique dont il est à chaque individu de disposer de toutes les facultés de sa personne, pour se procurer les choses propres à satisfaire ses besoins, sous peine de souffrance et de mort.

" *Liberté de travail*, inseparable de la propriété personnelle dont elle forme une partie constitutive.

" *Propriété mobiliaire*, qui n'est que la propriété personnelle même, considérée dans son usage, dans son objet, dans son extension nécessaire sur les choses acquises par le travail de sa personne.

" *Liberté d'échange*, de commerce, d'emploi de ses richesses, inséparable de la propriété personnelle et de la propriété mobiliaire.

" *Culture*, qui est un usage de la propriété personnelle, de la propriété mobiliaire et de la liberté qui en est inséparable : usage profitable, nécessaire, indispensable pour que la population puisse s'accroître, par une suite de la multiplication des productions nécessaires à la subsistance des hommes.

" *Propriété fonciere*, suite nécessaire de le culture, et qui n'est que la conservation de la propriété personnelle et de la propriété mobiliaire, employées aux travaux et aux dépenses preparatoires indispensables pour mettre la terre en état d'être cultivée.

" *Liberté de l'emploi de sa terre*, de l'espece de sa culture, de toutes les conventions relatives à l'exploitation, à la concession, à la rétrocession, à l'échange, à la vente de sa terre, inséparable de la propriété fonciere.

" Partage naturel des récoltes, *en reprises des cultivateurs*, ou richesses dont l'emploi doit indispensablement être de perpétuer la culture sous peine de diminution des récoltes et de la population et *produit net*, ou richesses disponibles dont la grandeur décide de la prospérité de la société, dont l'emploi est abandonné à la volonté et à l'intérêt des propriétaires fonciers, et qui constitue pour eux le

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prix naturel et légitime des dépenses qu'ils on faites, et des travaux auxquels ils se sont livrés pour mettre la terre en état d'être cultivé.

" *Sureté*, sans laquelle la propriété et la liberté ne seraient que de droit et non de fait, sans laquelle le *produit net* serait bientôt anéanti, sans laquelle la culture même ne pourrait subsister.

" *Autorité tutèlaire et souveraine*, pour procurer la sureté essentiellement nécessaire à la propriété et à la liberté ; et qui s'acquitte de cet important ministere, en promulguant et faisant exécuter les loix de l'ordre naturel, par lesquelles la propriété et la liberté sont établies.

" *Magistrats*, pour décider dans les cas particuliers quelle doit être l'application des loix de l'ordre naturel, réduites en loix positives par l'autorité souveraine ; et qui ont le devoir impérieux de comparer les Ordonnances des Souverains avec les loix de la Justice par essence, avant de s'engager à prendre ces Ordonnances positives, pour régle de leurs jugemens.

" *Instruction publique et favorisée*, pour que les citoyens, l'autorité et les Magistrats, ne puissent jamais perdre de vue les loix invariables de l'ordre naturel, et se laisser égarer par les prestiges de l'opinion, ou par l'attrait des intérêts particuliers exclusifs qui, dès qu'ils sont *exclusifs* sont toujours malentendus.

" *Revenu public*, pour constituer la force et le pouvoir nécessaire à l'autorité Souveraine ; pour faire les frais de son ministere protecteur, des fonctions importantes des Magistrats, et de l'instruction indispensable des loix de l'ordre naturel.

" *Impôt direct*, ou partage du produit net du territoire, entre les propriétaires fonciers et l'autorité Souveraine ; pour former le revenu public d'une maniere qui ne restraigne ni

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la propriété ni la liberté, et qui par conséquent ne soit pas destructive.

" *Proportion essentielle et nécessaire de l'impôt direct*, avec le produit net, telle qu'elle donne à la société le plus grand revenu public qui soit possible, et par conséquent le plus grand degré possible de sureté, sans que le sort des propriétaires fonciers cesse d'être le meilleur sort dont on puisse jouir dans la société.

" *Monarchie héréditaire*, pour que tous les intérêts presens et futurs du dépositaire de l'autorité Souveraine, soient intimement liés avec ceux de la société par le partage proportionnel du *produit net*."

THE END.

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