should, if possible, be settled, I did not feel myself justified in giving less time to the consideration of them.

I am far from saying that I may not be wrong in the conclusions at which I have arrived, in opposition to those of Mr. Ricardo. But I am conscious that I have taken all the means to be right, which patient investigation and a sincere desire to get at the truth can give to the actual powers of my understanding. And with this consciousness, both with respect to the opinions I have opposed, and those which I have attempted to establish, I feel no reluctance in committing the results to the decision of the public.

T. R. MALTHUS.

East India College,
Dec. 1, 1819.

CHAPTER I.

ON THE DEFINITIONS OF WEALTH AND PRODUCTIVE LABOUR.

SECTION I.

On the Definitions of Wealth.

Of the subjects which have given rise to differences of opinion among political economists, the *definition* of wealth is not the least remarkable. Such differences could hardly have taken place, if the definition had been obvious and easy; but, in reality, the more the subject is considered, the more it will appear difficult, if not impossible, to fix on one not liable to some objection. In a work, however, on a science the great object of which is, to inquire into the causes which influence the progress of wealth, it seems natural to look for some definition of those objects, the increase or decrease of which we are about to estimate; and if we cannot arrive at perfect accuracy, so as to embrace all we wish and exclude all we wish in some short description, it seems desirable to approach as near to such a description as we can. It is known not to be very easy to draw a distinct line between the animal, vegetable, and mineral kingdoms; yet the advantage of such a classification is universally acknowledged; and no one, on account of a difficulty in a few cases of little consequence, would refuse to make use of so convenient an arrangement.

It has sometimes been said that every writer is at liberty to define his terms as he pleases, provided he always uses them strictly in the sense proposed. Such a liberty, however, may be fairly doubted; at least it must be allowed that if a person chooses to give a very inadequate or unusual definition in reference to the subject on which he proposes to treat, he may at once render his inquiries completely futile. If, for instance, a writer, professing to treat of the wealth of nations, were to define wealth to consist exclusively of broad cloth, it is obvious that, however consistent he might be in the use of his terms, or however valuable a treatise he might produce on this one article, he would evidently have given but very little information to those who were looking for a treatise on wealth, according to the common acceptation of the term.

So important, indeed, is an appropriate definition, that perhaps it is not going too far to say, that the comparative merits of the systems of the Economists and Adam Smith depend mainly upon their different definitions of wealth and of productive labour. If the definitions which the Economists have given of wealth and of productive labour be correct, *their* system has the advantage: if the definitions which Adam Smith has given of wealth and of productive labour be the most correct, *his* system is superior.

Of those writers who have either given a regular definition of wealth, or have left the sense in which they understand the term to be collected from their works, some appear to have confined it within too narrow limits, and others to have extended it greatly too far. In the former class the Economists stand pre-eminent. They have confined wealth, or riches, to the neat produce derived from the land; and in so doing they have greatly diminished the value of their inquiries, in reference to the most familiar and accustomed sense in which the term wealth is understood.

Among the definitions which have extended the meaning of the term wealth too far, Lord Lauderdale's may be taken as an example. He defines wealth to be, "All that man desires as useful and delightful to him."*

This definition obviously includes every thing, whether material or intellectual, whether tangible or otherwise, which contributes to the advantage or pleasure of mankind, and, of course, includes the benefits and gratifications derived from religion, from morals, from political and civil liberty, from oratory, from instructive and agreeable conversation, from music, dancing, acting, and other similar sources. But an inquiry into the nature and causes of these kinds of wealth would evidently extend beyond the bounds of any single science. If we wish to attain any thing like precision in our inquiries, when we treat of wealth,

* Inquiry into the Nature and Origin of Public Wealth, c. ii. p. 57. 2d edit.

we must narrow the field of inquiry, and draw some line, which will leave us only those objects, the increase or decrease of which is capable of being estimated with more accuracy.

The line, which it seems most natural to draw, is that which separates material from immaterial objects, or those which are capable of accumulation and definite valuation, from those which rarely admit of these processes, and never in such a degree as to afford useful practical conclusions.

Adam Smith has no where given a very regular and formal definition of wealth; but that the meaning which he attaches to the term is confined to material objects, is, throughout his work, sufficiently manifest. His prevailing description of wealth may be said to be, "the annual produce of land and labour." The objections to it, as a definition, are, that it refers to the sources of wealth before we are told what wealth is, and that it is besides not sufficiently discriminate, as it would include all the useless products of the earth, as well as those which are appropriated and enjoyed by man.

To avoid these objections, and to keep at an equal distance from a too confined or too indiscriminate sense of the term, I should define wealth to be, those *material* objects which are necessary, useful, or agreeable to mankind. And I am inclined to believe, that the definition, thus limited, includes nearly all the objects which usually enter into our conceptions when we speak of wealth or riches; an advantage of considerable importance,

so long as we retain these terms both in common use, and in the vocabulary of political economy.

It is obviously, indeed, rather a metaphorical than a strict use of the word wealth, to apply it to *every* benefit or gratification of which man is susceptible; and we should hardly be prepared to acknowledge the truth of the proposition which affirmed, that riches were the sole source of human happiness.

It may fairly, therefore, I think, be said, that the wealth spoken of, in the science of political economy, is confined to material objects.

A country will therefore be rich or poor according to the abundance or scarcity with which these material objects are supplied, compared with the extent of territory; and the people will be rich or poor according to the abundance with which they are supplied, compared with the population.

SECTION II.

On Productive and Unproductive Labour.

THE question of *productive* labour is closely connected with the definition of wealth. Both the Economists and Adam Smith have uniformly applied the term *productive* to that species of labour which produces what they call wealth, according to their several views of its nature and origin. The Economists, therefore, who confine wealth to the products of the soil, mean by *productive* labour that labour alone which is employed upon the land.

Adam Smith, who considers all the material objects which are useful to man as wealth, means by productive labour, that labour which realizes itself either in the production or increased value of such material objects.

This mode of applying the term, productive labour, to the labour which is productive of wealth, however wealth may be defined, is obviously useful, and, with a view to clearness and consistency in the use of the terms of political economy, should always be adhered to. But as some writers have not used the terms in this way, and as those who have been disposed so to use them have not agreed in their definitions of wealth, it was to be expected that the term *productive* labour should give rise to great differences of opinion.

The doctrine laid down by Adam Smith on this subject has been controverted by two opposite parties, one of which has imputed to him an incorrect and unphilosophical extension of the term productive to objects which it ought not to include, and others have accused him of a similar want of precision for attempting to establish a distinction between different sorts of labour where no distinction is to be found.

In proceeding to give my reasons for adopting the opinion of Adam Smith, I shall first endeavour to shew that some such classification of the different kinds of labour is really called for in an inquiry into the nature and causes of the wealth of nations, and that a considerable degree of confusion would be introduced into the science of political

economy by an attempt to proceed without it. We shall be less disposed to be disturbed by plausible cavils, or even by a few just exceptions to the complete accuracy of a definition, if we are convinced that the want of precision which is imputed to it, is beyond comparison less in amount and importance than the want of precision which would result from the rejection of it.

In the first place then, it will readily be granted that as capital, in whatever way it may be defined, is absolutely necessary to the division of labour and the use of machinery, its powerful influence on the progress of national wealth must be considered as incontrovertibly established. But in tracing the cause of the different effects of produce employed as capital, and of produce consumed as revenue, we shall find that it arises from the different kinds of labour maintained by each; and in speaking, therefore, and treating of capital, it seems quite necessary to have some term for the kind of labour which it generally employs, in contradistinction to the kind of labour generally employed by revenue, in order to explain its nature and operation, and the causes of its increase.

Secondly, it is stated by Adam Smith, and it must be allowed to be stated justly, that the produce which is annually saved is as regularly consumed as that which is annually spent, but that it is consumed by a different set of people. If this be the case, and if saving be allowed to be the immediate cause of the increase of capital, it must be absolutely necessary, in all discussions relating to the progress of wealth, to distinguish by some particular title a set of people who appear to act so important a part in accelerating this progress. Almost all the lower classes of people of every society are employed in some way or other, and if there were no grounds of distinction in their employments, with reference to their effects on the national wealth, it is difficult to conceive what would be the use of saving from revenue to add to capital, as it would be merely employing one set of people in preference to another, when, according to the hypothesis, there is no essential difference between them. How then are we to explain the nature of saving, and the different effects of parsimony and extravagance upon the national capital? No political economist of the present day can by saving mean mere hoarding; and beyond this contracted and inefficient proceeding, no use of the term, in reference to national wealth, can well be imagined, but that which must arise from a different application of what is saved, founded upon a real distinction between the different kinds of labour which may be maintained by it.

If the labour of menial servants be as productive of wealth as the labour of manufacturers, why should not savings be employed in their maintenance, not only without being dissipated, but with a constant increase of value? But menial servants, lawyers, or physicians, who save from their salaries, are fully aware that their savings would be immediately dissipated again if they were advanced to

themselves instead of being employed in the maintenance of persons of a different description. To consider the expenditure of the unproductive labourers of Adam Smith, as advances made to themselves, and of the same nature as the advances of the master-manufacturer to his workmen, would be at once to confound the very useful and just distinction between those who live upon wages and those who live upon profits, and would render it quite impossible to explain the frequent and important operations of saving from revenue to add to capital, so absolutely necessary to the continued increase of wealth.*

It is not the question at present whether saving may or may not be carried too far (a point which will be considered in its proper place); but whether we can talk intelligibly of saving and accumulation, and discuss their effects on national wealth without allowing some distinction in the different kinds of labour.

Thirdly, it has been stated by Adam Smith, and stated truly, that there is a balance very different from the balance of trade, which, according as it happens to be favourable or unfavourable, occasions the prosperity or decay of every nation: this

* One of the most able impugners of the doctrine of Adam Smith respecting productive labour is Mr. Ganilh, in his valuable Work on the various Systems of Political Economy; but he appears to me to fail entirely, when he attempts to shew that savings are preserved instead of being destroyed, when consumed by the idle classes. I cannot understand in what sense it can be said that menial servants annually reproduce the capital by which they are fed. Book III. c. ii.

is the balance of the annual produce and consumption. If in given periods the produce of a country exceeds its consumption, the means of increasing its capital will be provided, its population will soon increase, or the actual numbers will be better accommodated, and probably both. If the consumption in such periods fully equals the produce, no means of increasing the capital will be afforded, and the society will be nearly at a stand. If the consumption exceeds the produce, every succeeding period will see the society worse supplied, and its prosperity and population will be evidently on the decline.

But if this balance be so important, if upon it depends the progressive, stationary, or declining state of a society, surely it must be of importance to distinguish those who mainly contribute to render this balance favourable from those who chiefly contribute to make the other scale preponderate. Without some such distinction we shall not be able to trace the causes why one nation is thriving and another is declining; and the superior riches of those countries where merchants and manufacturers abound, compared with those in which the retainers of a court and an overgrown aristocracy predominate, will not admit of an intelligible explanation.

If a taste for idle retainers and a profusion of menial servants had continued among the great landholders of Europe from the feudal times to the present, the wealth of its different kingdoms would have been very different from what it now is.

Adam Smith has justly stated that the growing taste of our ancestors for material conveniences and luxuries, instead of personal services, was the main cause of the change. Personal services neither require nor generate capital; and while they continue the predominant taste, must necessarily divide the great mass of society into two classes, the proprietors of land and their servants, the rich and the poor, one of which is in a state of abject dependance upon the other. But a taste for material objects, however frivolous, almost always requires for its gratification the accumulation of capital, and the existence of manufacturers or merchants, wholesale dealers and retail dealers. The face of society is thus wholly changed. A middle class of persons, living upon the profits of stock, rises into wealth and consequence. And an increasing accumulation of capital almost exclusively derived from the mercantile and manufacturing classes effects, to a considerable extent, the division and alienation of those immense landed properties, which, if the fashion of personal services had continued, might have remained to this time nearly in their former state, and prevented the increase of wealth on the land as well as elsewhere.

I am hardly aware how the causes of the increasing riches and prosperity of Europe since the feudal times could be traced, if we were to consider personal services as equally productive of wealth with the labours of merchants and manufacturers.

Surely then some distinction between the different kinds of labour, with reference to their different effects on national wealth, must be admitted to be not only useful but necessary; and if so, the next question is, what this distinction should be, and where the line between productive and unproductive labour should be drawn.

The opinion that the term, productive labour, should be exclusively confined to the labour employed upon the land has been maintained by the Economists and their followers. As another opportunity will occur of discussing the general merits of their system, it will only be necessary to observe here that, whatever advantages their definition may boast in point of precision and consistency, yet for the practical and useful purposes of comparing different countries together, with regard to all those objects which usually enter into our conceptions when we speak of wealth, it is much too confined. Two countries of the same territory and population might possess the same number of agricultural labourers, and even direct the same quantity of skill and capital to the cultivation of the soil; and yet, if a considerable portion of the remaining population in one of them consisted of manufacturers and merchants, and in the other of menial servants and soldiers, the former might have all the indications of wealth, and the latter all the symptoms of poverty. The number of agricultural labourers, therefore, cannot alone determine the national wealth. We evidently want some definition of productiveness, which shall refer to the effects of manufacturing and mercantile capital and skill; and unless we consider the labour which produces these most important results as productive of riches, we shall find it quite impossible to trace the causes of those different appearances in different nations, which all persons, whatever may be their theories, universally agree in attributing to different degrees of wealth.

The opinion which goes to the opposite extreme of the one here noticed, and calls all labour equally productive, has already been almost sufficiently considered in the endeavour to shew, that a distinction between the different kinds of labour is really wanted in an inquiry into the nature and causes of the wealth of nations.

I shall only add here, that some such distinction must be considered as so clearly the corner-stone of Adam Smith's work, and the foundation on which the main body of his reasonings rests, that, if it be denied, the superstructure which he has raised upon it must fall to the ground. Of course I do not mean to say, that his reasonings should not fall if they are erroneous; but it appears to me in some degree inconsistent, in those who allow of no distinction in the different kinds of labour, to attribute any considerable value to an *Inquiry into the nature and causes of the Wealth of Nations,* in which the increase of the quantity and skill of what is called productive labour is the main hinge on which the progress of national opulence and prosperity is made to turn.

There is, indeed, another way of considering the subject, which though different from that of

Adam Smith, would not invalidate his reasonings, and would merely require a slight alteration in the terms used.

If we do not confine wealth to tangible and material objects, we might call all labour productive, but productive in different degrees; and the only change that would be required in Adam Smith's work, on account of this mode of considering the subject, would be, the substitution of the terms more productive and less productive, for those of productive and unproductive.

All labour, for instance, might be stated to be productive of value to the amount of the value paid for it, and in proportion to the degree in which the produce of the different kinds of labour, when sold at the price of free competition, exceeds in value the price of the labour employed upon them.

Upon this principle the labours of agriculture would, generally speaking, be the most productive; because the produce of nearly all the land actually in use is not only of sufficient exchangeable value to pay the labourers employed upon it, but the profits of the stock advanced by the farmers, and the rents of the land let by the proprietors. Next to the labours of agriculture, those labours would in general be most productive the operations of which were most assisted by capital or the results of previous labour, as in all those cases the exchangeable value produced would most exceed the value of the labour employed in the production, and would support, in the shape of profits, the greatest number of additional persons, and tend most to the accumulation of capital.

The labour least productive of wealth would be that, the results of which were only equal in exchangeable value to the value paid for such labour, which would support therefore no other classes of society but the labourers actually employed, would replace little or no capital, and tend the least directly and effectively towards that kind of accumulation which facilitates future production. In this last division of productive labour would, of course, be found all the unproductive labourers of Adam Smith.

This mode of considering the subject has, perhaps, some advantages in particular points over that of Adam Smith. It would establish a useful and tolerably accurate scale of productiveness, instead of dividing labour only into two kinds, and drawing a hard line of distinction between them. It would determine, in the very definition, the natural pre-eminence of agriculture, which Adam Smith is obliged to explain afterwards, and, at the same time, shew the numerous cases where an increase of manufacturing and mercantile labour would be more productive, both to the state and to individuals, than an increase of agriculture; as in all those where, from a greater demand for manufactured and mercantile products, compared with the produce of the land, the profits of manufacturing and mercantile capital were greater than both the rent and profits combined of labour employed upon new and less fertile land.

It would answer sufficiently to all the reasonings of Adam Smith on the accumulation of capital, the distinction between capital and revenue, the nature and effects of saving, and the balance of produce and consumption, merely by using the terms more and less productive, for productive and unproductive; and would have the additional advantage of keeping more constantly in view the necessary union of capital and skill with the more productive kinds of labour; and thus shew the reason why all the labourers of a savage nation might, according to Adam Smith, be productive, and yet the nation increase very slowly in wealth and population, while a rapid increase of both might be taking place in an improved country under a proportion of productive labourers very much inferior.

With regard to the kinds of labour which Adam Smith has called unproductive, and for which classification his theory has been most objected to, their productiveness to the amount of their worth in the estimation of the society, varying, of course, according to the different degrees of skill acquired, and the different degrees of plenty or scarcity in which they are found, would be fully allowed, though they would still always be distinguished from those more productive kinds of labour which support other classes of the society besides the labourers themselves.

Agricultural labour would stand in the first rank, for this simple reason, that its gross produce is sufficient to maintain a portion of all the three great classes of society; those who live upon rent, those who live upon profits, and those who live upon wages. Manufacturing and mercantile labour would stand in the next rank; because the value of its produce will support a portion of two of these orders of society. And the unproductive labourers of Adam Smith would stand in the third rank of productiveness; because their labours directly support no other classes but themselves.

This seems to be a simple and obvious classification, and places the different kinds of labour in a natural order with regard to productiveness, without interfering in any respect with their mutual dependance on each other as stimulants to each other's increase.

The great objection to this scale of productiveness is that, at its first setting out, it makes the circumstance of the payment made for any particular kind of exertion, instead of the quality of the produce, the criterion of its being productive. According to Adam Smith, the exertion which produces a pair of stockings is productive labour, whether they are knit by a lady for her amusement, or made by a regular stocking-weaver; but, according to the present theory, as no payment has been made for them, they cannot be considered as wealth. Upon the same principle the song of a strolling actress, or the declamation of a speaker at the Westminster Forum, would be the result of productive labour, because paid for; while a very superior song by a lady, or a speech in the House of Commons from the first orator of the age, abounding in eloquence and information, would be unproductive.

And yet, if we once desert matter, and still make no distinction of this kind, with reference to payment, we are at once thrown upon a field so wide, as utterly to confound all attempts to estimate the comparative quantity of productive labour in different countries. If the exertion which produces a song, whether paid for or not, be productive labour, why should the exertion which produces the more valuable result of instructive and agreeable conversation be excluded? why should we exclude the efforts necessary to discipline our passions, and become obedient to all the laws of God and man, the most valuable of all labours? why, indeed, should we exclude any exertion, the object of which is to obtain happiness or avoid pain, either present or future? and yet under this description may be comprehended the exertions of every human being during every moment of his existence. It is quite clear, therefore, that, with any view to the use which may be made of the term, it must be more confined.

It may be said, indeed, with regard to the term labour, that it seems to imply valuation and payment, and has nothing to do with unbought, voluntary exertions. But the whole difficulty returns in the definition of riches; and if we do not confine them to material objects, and yet wish to make some practical use of the term in comparing different countries together, we must include in our definition only those personal services which are bought, and thus draw the line which separates what ought to be called riches from what ought

not to be so denominated, between objects which may in all respects be precisely the same, except that one is the result of paid labour, and the other of unbought exertions.

If, for instance, we were to define wealth to be whatever has value in exchange, it is obvious that acting, dancing, singing, and oratory would sometimes be wealth and sometimes not; and even with regard to food and the most essential necessaries of life, excessive plenty or the custom of producing without exchanging, would render the definition nugatory.

If, in denominating personal services wealth, we do not look to the quality of what is produced, but merely to the effect of the payment received for it in stimulating other wealth, this is introducing a new and separate consideration, which has no relation to the direct production of wealth. In this view it will be seen that I attach very great importance to the unproductive labourers of Adam Smith; but this is evidently not as producers themselves, but as stimulating others to produce, by the power which they possess of making a demand in proportion to the payment they have received. In this sense the mortgagee and public creditor are productive labourers to the amount of what they receive. But though the division of property occasioned by these classes of society may be useful, and tend indirectly to stimulate the production of wealth by increasing demand, it would be confounding all natural distinctions to call them productive labourers. It would be equally incorrect to assert that the unproductive labourers of Adam Smith necessarily create the wealth which pays them. It is true that the desire to enjoy the convenience or parade of personal attendance and the benefit of medical advice has a strong tendency to stimulate industry; but they are both purchased in large quantities by persons who have no means of increasing their incomes in consequence of this expenditure, and sometimes they are bought by the actual destruction of capital, and the positive diminution of the power of production. Though we allow, therefore, fully their tendency to act as a stimulus to the production of wealth, yet they can never be said necessarily to create it; and even under the circumstances most favourable to their influence, their operation is obviously indirect, and not immediate.

When we consider then the difficulties which present themselves on every supposition we can make, it may fairly be doubted whether it is probable that we shall be able to find a distinction more useful for practical purposes, and, on the whole, less objectionable in point of precision, than that of Adam Smith; which draws the line that distinguishes riches from other kinds of value, between what is matter and what is not matter, between what has duration and what has no duration, between what is susceptible of accumulation and definite valuation, and what is without either one or both of these essential properties.

Some degree of duration, and a consequent susceptibility of accumulation, seems to be essential

to our usual conceptions of wealth, not only because produce of this kind seems to be alone capable of forming those accumulations which tend so much to facilitate future production, but because they alone contribute to increase that store reserved for consumption, which is certainly one of the most distinguishing marks of riches compared with poverty. The characteristic of poverty seems to be to live from hand to mouth. The characteristic of riches is to have a store to apply to for the commodities wanted for immediate consumption. But in every case of productive labour, as explained by Adam Smith, there is always a period, though in some cases it may be very short, when either the stock destined to replace a capital, or the stock reserved for immediate consumption is distinctly augmented by it; and to this quality of adding to the national stock, the term, enriching or productive of riches seems to be peculiarly appropriate.

But it is not enough that it should be susceptible of accumulation, and of adding to the national stock, to entitle it to be called productive according to the general meaning of Adam Smith. In order to make the term useful for practical purposes, the kind of labour to which it refers should be susceptible of some sort of definite valuation. The laws of the legislator, the precepts of the moralist, and the conclusions of the natural philosopher, may certainly be said to be susceptible of accumulation and of receiving assistance from past labour; but how is it possible to estimate them, or to say to what amount the country has been enriched by them? whereas the labour which is the necessary condition of the supply of material objects is estimated in the price at which they are sold, and may fairly be presumed to add to the wealth of the country an amount at least equal to the value paid for such labour. And probably, with few or no exceptions, it is only the kind of labour which is realized upon material products that is at once susceptible of accumulation and definite valuation.

It has been observed by Monsieur Garnier in his valuable edition of the *Wealth of Nations*, that it seems very strange and inconsistent to denominate musical instruments riches, and the labour which produces them productive, while the music which they yield, and which is the sole object for which they are made, is not to be considered in the same light; and the performers, who can alone put them to their proper use, are called unproductive labourers.* But the difference between material products and those which are not matter sufficiently warrants the distinction in point of precision and consistency; and the utility of it is immediately obvious from the facility of giving a definite valuation to the instruments, and the absolute impossibility of giving such a valuation to all the tunes which may be played upon them.

It has also been observed by the same authority that it is still more inconsistent to denominate the clerk of a merchant a productive labourer, and a

* Vol. V. Note xx.

clerk employed by the government, who may in some cases have precisely the same kind of business to do, an unproductive labourer.* To this, however, it may be replied, that in all business conducted with a view to the profit of individuals, it may fairly be presumed that there are no more clerks or labourers of any kind employed, nor with higher salaries, than necessary. But the same presumption cannot be justly entertained with regard to the business of government; and as the results of the labours of its servants are not brought to market, nor their salaries distributed with the same rigid attention to the exchangeable value of their services, no just criterion is afforded for determining this value.

At the same time it may be remarked, that if a servant of government performs precisely the same kind of labour in the preparation or superintendance of material products as the servant of a merchant, he ought to be considered as a productive labourer, and one among the numerous instances which are always occurring of productive labourers, or labourers occasionally productive, to be found among those classes of society which, with regard to the great mass of their exertions, may with propriety be characterized as unproductive. This kind of exception must of course frequently happen, not only among the servants of government, but throughout the whole range of menial service, and in every other situation in society. Almost every

* Vol. V. Note xx.

person indeed must occasionally do some productive labour; and the line of separation which Adam Smith has drawn between productive and unproductive labour may be perfectly distinct, although the denomination which he has given to the different classes of society, founded on their general character, must unavoidably be inaccurate with regard to the exertions of some individuals.

It should also be recollected that Adam Smith fully allows the value and importance of many sorts of labour which he calls unproductive. From the enumeration indeed which he has made of these different sorts, he must be aware that some of them produce a value with which the results of the labour employed in making ribbands and laces, or indeed of any other labour but that which directly supplies our most pressing physical wants, cannot for a moment be compared. Indirectly indeed and remotely, there cannot be a doubt that even the supply of these physical wants is most powerfully promoted by the labours of the moralist, the legislator, and those who have exerted themselves to obtain a good government; but the main value of these labours evidently depends upon the encouragement which they give to the full developement of talents and industry, and their consequent invariable tendency to increase the quantity of material wealth. So far, therefore, as they contribute to promote this supply, their general effect, though not its precise amount, will be estimated in the quantity of those material objects which the country can command; and so far as they contribute to other sources of happiness besides those which are derived from matter, it may be more correct to consider them as belonging to a class of objects, many of which cannot, without the greatest confusion, be made to enter into the gross calculations which relate to national wealth. To estimate the value of Newton's discoveries or the delight communicated by Shakspeare and Milton by the price at which their works have sold, would be but a poor measure of the degree in which they have elevated and enchanted their country; nor would it be less groveling and incongruous to estimate the benefit which the country has derived from the Revolution of 1688 by the pay of the soldiers, and all other payments concerned in effecting it.

On the whole, therefore, allowing that the labours of the moralist and the manufacturer, the legislator and the lacemaker, the agriculturist and the vocal performer, have all for their object the gratification of some want or wish of mankind, it may still be the most natural, useful, and correct classification which the subject will admit, first to separate, under the name of wealth or riches, every thing which gratifies the wants of man by means of material objects, and then to denominate productive, every kind of labour which is directly productive of wealth, that is, so directly, as to be estimated in the value of the objects produced.

The reader will see that I have not introduced this discussion with a view to the establishment of any nice and subtle distinctions without a practical object. My purpose is to shew that there is really some difficulty in the definition of wealth, and of productive labour; but that this difficulty should not deter us from adopting any classifications which are really useful in conducting inquiry; that in treating of the nature and causes of the wealth of nations a distinction between the different sources of gratification and the different kinds of labour seems to be not only highly useful, but almost absolutely necessary; and consequently that we should be satisfied with the best classification which we can get on these subjects, although it may not in all its parts be unobjectionable.

CHAPTER II.

ON THE NATURE AND MEASURES OF VALUE.

SECTION I.

Of the different Sorts of Value.

MOST writers in treating of the nature of value, have considered it as having two different meanings, one, value in use, and the other, value in exchange. It may be questioned whether in fact we are in the habit of using the term in the first of these two senses. We do not often hear of the value of air and water, although they are bodies in the highest degree useful, and indeed essentially necessary to the life and happiness of the human race. It may be admitted, however, that the term, taken perhaps in a metaphorical rather than a literal sense, may imply, and is sometimes used to imply, whatever is necessary or beneficial to us, and in this sense may apply, without impropriety, to a clear spring of water or to a fine air, although no question could arise respecting their value in exchange.

As this meaning, therefore, of the word value has already been admitted by many writers into the vocabulary of political economy, and, although not much sanctioned by custom, is justifiable in a metaphorical if not in a literal sense, it may not be worth while to reject it; and it need only be observed that as the application of the word value in this way is very much less frequent than in the other, it should never appear alone, but should always be marked by the addition, *in use.*

Value in exchange is founded, as the term seems to imply, on the will and power to exchange one commodity for another. It does not depend merely upon the scarcity in which commodities exist, nor upon the inequality of their distribution; but upon the circumstance of their not being distributed according to the wills and powers of individuals, or in such quantities to each, as the wills and powers of individuals will enable them ultimately to effect by means of exchanges.

If nature were to distribute, in the first instance, all her goods precisely as they are ultimately distributed previous to consumption, there would be no question of exchanges or exchangeable value, and yet the mass of commodities would both exist in a degree of scarcity and be very unequally divided.

In this distribution one man might have only bread, and another venison and claret in addition to bread. The man who had only bread might wish to make an exchange, but would not have the power, and the man who had venison and claret besides bread would have the power to make an exchange, but not the wish. Under these circumstances the commodities possessed by each would not be brought into contact, and the relative value of bread and venison would never be determined.

To determine this, it is necessary that the possessors of venison should want bread, as well as that the possessors of bread should want venison, and when this was the case, venison and bread would soon be brought into comparison with each other, and the means afforded of ascertaining their relative values.

Every exchange, therefore, must imply, not only the power and will to give some article in exchange for one more wanted, but a reciprocal demand in the party possessing the article wanted, for the article proposed to be exchanged for it.

When this reciprocal demand exists, the rate at which the exchange is made, or the portion of one commodity which is given for an assigned portion of the other, will depend upon the relative estimation in which they are held by the parties, founded on the desire to possess, and the difficulty or facility of procuring possession.

Owing to the necessary difference of the desires and powers of individuals, it is probable that the contracts thus made were in the first instance very different from each other. Among some individuals it might be agreed to give six pounds of bread for a pound of venison, and among others only two. But the man who was ready and willing to give six pounds of bread for a pound of venison, if he heard of a person at a little distance who would take two pounds for the same quantity, would of course not continue to give six; and the man who would consent to give a pound of venison for only two pounds of bread, if he could any where else obtain six, would not continue to make an exchange from which he derived only two.

After a certain time it might be expected that an average would be formed, founded upon all the offers of bread, compared with all the offers of venison. And thus, as is very happily described by Turgot, a current value of all commodities in frequent use would be established.*

It would be known, not only that a pound of venison was worth four pounds of bread, but that it was also worth perhaps a pound of cheese, a quarter of a peck of wheat, a quart of wine, a certain portion of leather, &c. &c. each of an average quality.

Each commodity would in this way measure the exchangeable value of all others, and would, in its turn, be measured by any one of them. Each commodity would also be a representative of value. The possessor of a quart of wine might consider himself in possession of a value equal to four pounds of bread, a pound of cheese, a certain portion of leather, &c. &c. and thus each commodity would, with more or less accuracy and convenience, possess two essential properties of money, that of being both a representative and measure of value.

But long before it is conceivable that this general valuation of commodities, with regard to each other, should have taken place to any considerable extent, or with any tolerable degree of accuracy, a great difficulty in the estimation of relative value would be constantly recurring, from the want of a reciprocal demand. The possessor of

* Formation et Distribution des Richesses, § xxxv.

† Id. § xli.

venison might want bread, but the possessor of bread to whom he applies may not want venison, or by no means that quantity which the owner would wish to part with. This want of reciprocal demand must occasion, in many instances, and in places not very remote from each other, the most unequal exchanges, and except in large fairs or markets, where a great quantity and variety of commodities were brought together, would seem almost to preclude the possibility of any thing like such a general average valuation of commodities as has been just described.

Every man, therefore, in order to secure this reciprocal demand, would endeavour, as is justly stated by Adam Smith,* so to carry on his business as to have by him, besides the produce of his own particular trade, some commodity for which there was so general and constant a demand, that it would scarcely ever be refused in exchange for what he wanted. In order that each individual in a society should be furnished with that share of its whole produce to which he is entitled by his wants and powers, it is not only necessary that there should be some measure of this share, but some medium by which he can obtain it in the quantity and at the time best suited to him.

The constantly recurring want of some such medium occasioned the use of various commodities for this purpose in the early periods of society.

Of these, cattle seem to have been the most general. Among pastoral nations cattle are not

* Wealth of Nations, Book I. c. iv.

only kept without difficulty or loss by those who may receive them, but as they form the principal possessions and wealth of society in this stage of its progress, they must naturally have been the subject of frequent exchanges, and their exchangeable value, in consequence, compared with other commodities, would be pretty generally known.

It seems to be quite necessary indeed, that the commodity chosen for a medium of exchange should, in addition to the other qualities which may fit it for that purpose, be in such frequent use, as that its current value should be tolerably well established.

A curious and striking proof of this, is that, notwithstanding the peculiar aptitude of the precious metals to perform the functions of a medium of exchange, they had not been used for that purpose in Mexico at the period of its conquest by the Spaniards, although these metals were in some degree of plenty as ornaments, and although the want of some medium of exchange was clearly evinced by the use of the nuts of cacao for that purpose.*

It is probable that as the practice of smelting and refining the ores of the precious metals had not yet been resorted to, the supply of them was not sufficiently steady, nor was the use of them sufficiently general to fit them for the purpose required.

In Peru, where the precious metals were found by the Spaniards in much greater abundance, the practice of smelting and refining the richest ores had begun to prevail, although no shafts had been sunk

* Robertson's America, Vol. III. Book vii. p. 215.

to any depth in the earth.* But in Peru the state of property was so peculiar, and so nearly approaching to a community of goods, that a medium of exchange seems not to have been called for, at least, there is no account of the use of either of the precious metals or of any other commodity in the capacity of money.

In the Old World, the art of smelting and refining the ores of gold, silver, and copper, seems to have been known to some of the most improved nations of which we have accounts, from the earliest ages; and as soon as the annual accumulations of these metals and the means used to obtain them had rendered their supply to a certain degree steady, and they had been introduced into common use in the shape of ornaments, instruments, and utensils, their other peculiar and appropriate qualities, such as their durability, divisibility, uniformity of substance, and great value in a small compass, would naturally point them out as the best commodity that could be selected to answer the purpose of a measure of value and medium of exchange.

But when they were adopted as the general measure of value, it would follow of course that all commodities would be most frequently compared with this measure. The precious metals would be, on almost all occasions, the commodity named, and might properly, therefore, be called the nominal value of the commodities to the measure of which they were applied.

* Robertson's America, Vol. III. Book vii. p. 252.

This sort of value has sometimes been exclusively designated by the name of price; and though it is not uncommon to speak of the price of a commodity in labour, or in other commodities, and the term when so used is sufficiently intelligible, yet it would certainly be better to confine it strictly to the value of commodities estimated in the precious metals, or in the currencies of different countries which profess to represent them; and, indeed, when used without the above additions, this is what the term is always understood to mean. Price then may be considered as a more confined term than value, and as representing one, and one only of the senses in which the more general term is used.

The introduction of a measure which determined the nominal and relative value of commodities, and of a medium which would be accepted at all times in exchange for them, was a most important step in the progress of society, and tended to facilitate exchanges and stimulate production to an extent which, without such an instrument, would have been perfectly impossible.

It is very justly observed by Adam Smith, that it is the nominal value of goods, or their prices only, which enter into the consideration of the merchant. It matters very little to him whether a hundred pounds, or the goods which he purchases with this sum, will command more or less of the necessaries and conveniences of life in Bengal than in London. What he wants is an instrument by which he can obtain the commodities in which he

deals and estimate the relative values of his sales and purchases. His returns come to him wherever he lives; and whether it be in London or Calcutta, his gains will be in proportion to the excess of the amount at which he sells his goods compared with the amount which they cost him to bring to market, estimated in the precious metals.

But though the precious metals answer very effectually the most important purposes of a measure of value, in the encouragement they give to the distribution and production of wealth; yet it is quite obvious that they fail as a measure of the exchangeable value of objects in different countries, or at different periods in the same country.

If we are told that the wages of day-labour in a particular country are, at the present time, fourpence a day; or that the revenue of a particular sovereign, 700 or 800 years ago, was 400,000*l.* a year; these statements of nominal value convey no sort of information respecting the condition of the lower classes of people, in the one case, or the resources of the sovereign, in the other. Without further knowledge on the subject, we should be quite at a loss to say, whether the labourers in the country mentioned were starving, or living in great plenty; whether the king in question might be considered as having a very inadequate revenue, or whether the sum mentioned was so great as to be incredible.*

* Hume very reasonably doubts the possibility of William the Conqueror's revenue being £400,000 a year, as represented by an ancient historian, and adopted by subsequent writers.

It is quite obvious that in cases of this kind, and they are of constant recurrence, the value of wages, incomes, or commodities estimated in the precious metals, will be of little use to us alone. What we want further is some estimate of a kind which may be denominated real value in exchange, implying the quantity of the necessaries and conveniences of life which those wages, incomes, or commodities will enable the possessor of them to command. Without this knowledge, the nominal values above mentioned may lead us to the most erroneous conclusions; and in contradistinction to such values, which often imply an increase or decrease of wealth merely in name, the term real value in exchange seems to be just and appropriate, as implying an increase or decrease in the power of commanding real wealth, or the most substantial goods of life.

That a correct measure of real value in exchange would be very desirable cannot be doubted, as it would at once enable us to form a just estimate and comparison of wages, incomes, and commodities, in all countries and at all periods; but when we consider what a measure of real value in exchange implies, we shall feel doubtful whether any one commodity exists, or can easily be supposed to exist, with such properties, as would qualify it to become a standard measure of this kind. Whatever article, or even mass of articles, we refer to, must itself be subject to change; and all that we can hope for is an approximation to the measure which is the object of our search.

We are not however justified, on this account, in giving a different definition of real value in exchange, if the definition already adopted be at once the most usual and the most useful. We have the power indeed arbitrarily to call the labour which has been employed upon a commodity its real value; but in so doing we use words in a different sense from that in which they are customarily used; we confound at once the very important distinction between *cost* and *value*; and render it almost impossible to explain, with clearness, the main stimulus to the production of wealth, which, in fact, depends upon this distinction.

The right of making definitions must evidently be limited by their propriety, and their use in the science to which they are applied. After we have made a full allowance for the value of commodities in use, or their intrinsic capacities for satisfying the wants of mankind, every other interpretation of the term value seems to refer to some power in exchange; and if it do not refer to the power of an article in exchange for some one commodity named, such as money, it must refer to its power in exchange for 3 or 4, 5 or 6, 8 or 10 together, to the mass of commodities combined, or to its power of commanding labour which most nearly represents this mass.

There can be no question of the propriety and usefulness of a distinction between the power of a commodity in commanding the precious metals, and its power of commanding the necessaries and conveniences of life, including labour. It is a distinction absolutely called for, whenever we are comparing the wealth of two nations together, or whenever we are estimating the value of the precious metals in different states and at different periods of time. And till it has been shewn that some other interpretation of the term real value in exchange, either agrees better with the sense in which the words are generally applied, or is decidedly more useful in an inquiry into the nature and causes of the wealth of nations, I shall continue to think, that the most proper definition of real value in exchange, in contradistinction to nominal value in exchange, is, the power of commanding the necessaries and conveniences of life, including labour, as distinguished from the power of commanding the precious metals.

If then we continue to apply the term value in the first sense mentioned, we shall have three sorts of value—

1. Value in use; which may be defined to be the intrinsic utility of an object.

2. Nominal value in exchange; which may be defined to be the value of commodities in the precious metals.

3. Real value in exchange; which may be defined to be the power of an object to command in exchange the necessaries and conveniences of life, including labour.

The distinctions here made between the different kinds of value are, in the main, those of Adam Smith; though it must be acknowledged that he has not been sufficiently careful to keep them always separate. In speaking of the value of corn, he has sometimes left us in doubt whether he means value in use, or real value in exchange;* and he sometimes, as I shall have occasion to notice further on, confounds the cost of a commodity in labour with its value in commanding labour, which are essentially different.†

These instances however may, perhaps, be fairly considered in the light of inadvertences. At the end of the third chapter of his first book he has explained value in use in the same manner as it has been explained here; and in part of the succeeding chapter, *on the real and nominal prices of commodities*, he has made exactly the same distinction between real and nominal value, the propriety of which, as it has been controverted, it has been my endeavour to establish. To these distinctions he has, in the main, adhered; they properly belong to his system; and he has only deviated from them when, from some cause or other, he was not fully aware of the inconsistency of such deviation.

SECTION II.

Of Demand and Supply, as they affect Exchangeable Value.

THE terms Demand and Supply are so familiar to the ear of every reader, and their application in

* Wealth of Nations, Book IV. Chap. v. p. 278. 6th Edit.

† Id. Book I. Chap. v.

single instances so fully understood, that in the slight use which has hitherto been made of them, it has not been thought necessary to interrupt the course of the reasoning by explanations and definitions. These terms, however, though in constant use, are by no means applied with precision. And before we proceed farther, it may be advisable to clear this part of the ground as much as possible, that we may be certain of the footing on which we stand. This will appear to be the more necessary, as it must be allowed, that of all the principles in political economy, there is none which bears so large a share in the phenomena which come under its consideration as the principle of supply and demand.

It has been already stated, that all value in exchange depends upon the power and will to exchange one commodity for another; and when, by the introduction of a general measure of value and medium of exchange, society has been divided, in common language, into buyers and sellers, demand may be defined to be, the will combined with the power to purchase, and supply, the production of commodities combined with the intention to sell them. In this state of things, the relative values of commodities in money, or their prices, are determined by the relative demand for them, compared with the supply of them; and this law appears to be so general, that probably not a single instance of a change of price can be found which may not be satisfactorily traced to some previous change in the causes which affect the demand or supply.

In examining the truth of this position we must constantly bear in mind the terms in which it is expressed; and recollect that, when prices are said to be determined by demand and supply, it is not meant that they are determined either by the demand alone or the supply alone, but by their relation to each other.

But how is this relation to be ascertained? It has been sometimes said that supply is always equal to demand, because no permanent supply of any commodity can take place for which there is not a demand so effective as to take off all that is offered. In one sense of the terms in which demand and supply have occasionally been used, this position may be granted. The actual *extent* of the demand, compared with the actual *extent* of the supply, are always on an average proportioned to each other. If the supply be ever so small, the extent of the effective demand cannot be greater; and if the supply be ever so great, the extent of the demand, or the consumption, will either increase in proportion, or a part of it will become useless and cease to be produced. It cannot, therefore, be in this sense that a change in the proportion of demand to supply affects prices; because in this sense demand and supply always bear the same relation to each other. And this uncertainty in the use of these terms renders it an absolutely necessary preliminary in the present inquiry clearly to ascertain what is the nature of that change in the mutual relation of demand and supply, on which the prices of commodities so entirely depend.

The demand for a commodity has been defined to be, the will combined with the power to purchase it.

The greater is the degree of this will and power with regard to any particular commodity, the greater or the more intense may be fairly said to be the demand for it. But however great this will and power may be among the purchasers of a commodity, none of them will be disposed to give a high price for it, if they can obtain it at a low one; and as long as the abilities and competition of the sellers induce them to bring the quantity wanted to market at a low price, the real intensity of the demand will not shew itself.

If a given number of commodities, attainable by labour alone, were to become more difficult of acquisition, as they would evidently not be obtained unless by means of increased exertion, we might surely consider such increased exertion, if applied, as an evidence of a greater intensity of demand, or of a power and will to make a greater sacrifice in order to obtain them.

In fact it may be said, that the giving a greater price for a commodity absolutely and necessarily implies a greater intensity of demand; and that the real question is, what are the causes which either call forth or render unnecessary the expression of this intensity of demand?

It has been justly stated, that the causes which tend to raise the price of any article estimated in some commodity named, and supposed for short periods not essentially to vary, are an increase in

the number or wants of its purchasers, or a deficiency in its supply; and the causes which lower the price are a diminution in the number or wants of its purchasers, or an increased abundance in its supply.

The first class of these causes is obviously calculated to call forth the expression of a greater intensity of demand, and the other of a less.

If, for instance, a commodity which had been habitually demanded and consumed by a thousand purchasers were suddenly to be wanted by two thousand, it is clear that before this increased extent of demand could be supplied, some must go without what they wanted; and it is scarcely possible to suppose that the intensity of individual demand would not increase among a sufficient number of these two thousand purchasers, to take off all the commodity produced at an increased price. At the same time, if we could suppose it possible that the wills and powers of the purchasers, or the intensity of their demand, would not admit of increase, it is quite certain that, however the matter might be settled among the contending competitors, no rise of price could take place.

In the same manner, if a commodity were to be diminished one half in quantity, it is scarcely possible to suppose that a sufficient number of the former purchasers would not be both willing and able to take off the whole of the diminished quantity at a higher price; but if they really would not or could not do this, the price could not rise.

On the other hand, if the permanent cost of producing the commodity were doubled, it is evident that only such a quantity could be permanently produced as would supply the wants of those who were able and willing to make a sacrifice for the attainment of their wishes equal to double the amount of what they did before. The quantity of the commodity which would be brought to market under these circumstances might be extremely different. It might be reduced to the supply of a single individual, or might remain precisely the same as before. If it were reduced to the supply of a single individual, it would be a proof that only one of all the former purchasers was both able and willing to make an effective demand for it at the advanced price. If the supply remained the same, it would be a proof that all the purchasers were in this state, but that the expression of this intensity of demand had not before been rendered necessary. In the latter case, there would be the same quantity supplied and the same quantity demanded; but there would be a much greater intensity of demand called forth; and this may be fairly said to be a most important change in the relation between the supply and the demand of these commodities; because, without the increased intensity of demand, which in this case takes place, the commodity would cease to be produced; that is, the failure of the supply would be contingent upon the failure of the power or will to make a greater sacrifice for the object sought.

Upon the same principles, if a commodity were to become much more abundant, compared with the former number of purchasers, this in-

creased supply could not be all sold, unless the price were lowered. Each seller wishing to dispose of that part of the commodity which he possessed would go on lowering it till he had effected his object; and though the wills and powers of the old purchasers might remain undiminished, yet as the commodity could be obtained without the expression of the same intensity of demand as before, this demand would of course not then shew itself.

A similar effect would obviously take place from the consumers of a commodity requiring a less quantity of it.

If, instead of a temporary abundance of supply compared with the demand, the cost of producing any particular commodity were greatly diminished, the fall of price would in the same manner be occasioned by an increased abundance of supply, either actual or contingent. In almost all practical cases it would be an actual and permanent increase, because the competition of sellers would lower the price; and it very rarely happens that a fall of price does not occasion an increased consumption. On the supposition, however, of the very rare case that a definite quantity only of the commodity was required, whatever might be its price, it is obvious that from the competition of the producers a greater quantity would be brought to market than could be consumed, till the price was reduced in proportion to the increased facility of production; and this excess of supply would be always contingent on the circumstance of the price being at any time higher than the price which returns average profits.

In this case of a fall of prices, as in the other of a rise of prices, the actual quantity of the commodity supplied and consumed may possibly, after a short struggle, be the same as before; yet it cannot be said that the demand is the same. It may indeed exist precisely in the same degree, and the actual consumers of the commodity might be perfectly ready to give what they gave before rather than go without it; but such has been the alteration in the means of supply compared with the demand, that the competition of the producers renders the same intensity of demand no longer necessary to effect the supply required; and not being necessary, it is of course not called forth, and the price falls.

It is evidently, therefore, not merely *extent* of actual demand, nor even the extent of actual demand compared with the extent of actual supply, which raises prices, but such a change in the relation between supply and demand as renders necessary the expression of a greater intensity of demand, in order either peaceably to divide any actual produce, or prevent the future produce of the same kind from failing.

And, in the same manner, it is not merely *extent* of actual supply, nor the extent of the actual supply compared with the actual demand, that lowers prices, but such a change in the relation of the supply, compared with the demand, as renders a fall of price necessary, in order to take off a temporary abundance, or to prevent a constant excess of supply contingent upon a diminution in the cost of production, without a proportionate diminution in the price of the produce.

If the terms demand and supply be understood and used in the way here described, there is no case of price, whether temporary or permanent, which they will not determine; and in every instance of bargain and sale it will be perfectly correct to say that the price will depend upon the relation of the demand to the supply.

I wish it particularly to be observed that in this discussion I have not given any new meaning to the terms, demand and supply. In the use which I have occasionally made of the words *intense* and *intensity* as applied to demand, my sole purpose has been to explain the meaning which has hitherto always been attached to the term demand when it is said to raise prices. Mr. Ricardo in his chapter *On the influence of demand and supply on prices*,* observes, that "the demand for a commodity cannot be said to increase, if no additional quantity of it be purchased or consumed." But it is obvious, as I have before remarked, that it is not in the sense of mere extent of consumption that demand raises prices, because it is almost always when the prices are the lowest that the *extent* of consumption is the greatest. This, therefore, cannot be the meaning hitherto attached to the term, demand, when it is said to raise prices. Mr. Ricardo, however, subsequently quotes Lord Lauderdale's statements respecting value,† and allows them to be true,

* Principles of Polit. Econ. chap. xxx. p. 493. 2d edit.
† Id. p. 495.

as applied to monopolized commodities, and the market prices of all other commodities for a limited period. He would allow, therefore, that the deficiency of any article in a market would occasion a great demand for it, compared with the supply, and raise its price, although in this case less than usual of the article must be purchased by the consumers. Demand, in this sense, is obviously quite different from the sense in which Mr. Ricardo had before used the term. The one implies extent of consumption, the other intensity of demand, or the will and power to make a greater sacrifice in order to obtain the object wanted. It is in this latter sense alone that demand raises prices; and my sole object in this section is to shew that, whenever we talk of demand and supply as influencing prices, whether market or natural, the terms should always be understood in the sense in which Mr. Ricardo and every other person has hitherto understood them, when speaking of commodities bought and sold in a market.

SECTION III.

Of the Cost of Production as it affects Exchangeable Value.

It may be said, perhaps, that even according to the view given of demand and supply in the preceding section, the permanent prices of a great mass of commodities will be determined by the cost of their production. This is true, if we include all the component parts of price stated by Adam Smith, though not if we consider only those stated by Mr. Ricardo. But, in reality, the two systems, one of which accounts for the prices of the great mass of commodities by the cost of their production, and the other accounts for the prices of all commodities, under all circumstances, permanent as well as temporary, by the relation of the demand to the supply, though they touch each other necessarily at a greater number of points, have an essentially different origin, and require, therefore, to be very carefully distinguished.

In all the transactions of bargain and sale there is evidently a principle in constant operation, which can determine, and does actually determine, the prices of commodities, quite independently of any considerations of cost, or of the quantity of labour and capital employed upon their production. And this is found to operate, not only permanently upon that class of commodities which may be considered as monopolies, but temporarily and immediately upon all commodities, and strikingly and pre-eminently so upon all sorts of raw produce.

It has never been a matter of doubt that the principle of supply and demand determines exclusively, and very regularly and accurately, the prices of monopolized commodities, without any reference to the cost of their production; and our daily and uniform experience shews us that the prices of raw products, particularly of those which are most affected by the seasons, are at the moment of their sale determined always by the higgling of the market, and differ widely in different years and at different times, while the labour and capital employed upon them may have been very nearly the same. This is so obvious, that probably very few would hesitate to believe what is certainly true, that, if in the next year we could by any process exempt the farmers from all cost in the production of their corn and cattle, provided no change were made in the quantity brought to market, and the society had the same wants and the same powers of purchasing, the prices of raw products would be the same as if they had cost the usual labour and expense to procure them.

With regard, therefore, to a class of commodities of the greatest extent, it is acknowledged that the existing market prices are, at the moment they are fixed, determined upon a principle quite distinct from the cost of production, and that these prices are in reality almost always different from what they would have been, if this cost had regulated them.

There is indeed another class of commodities, such as manufactures, particularly those in which the raw material is cheap, where the existing market prices much more frequently coincide with the cost of production, and may appear, therefore, to be exclusively determined by it. Even here, however, our familiar experience shews us that any alteration in the demand and supply quite overcomes for a time the influence of this cost; and further, when we come to examine the subject more closely, we find that the cost of production

itself only influences the prices of these commodities as the payment of this cost is the necessary condition of their continued supply.

But if this be true, it follows that the great principle of demand and supply is called into action to determine what Adam Smith calls natural prices as well as market prices.

It will be allowed without hesitation that no change can take place in the market prices of commodities without some previous change in the relation of demand and supply. And the question is, whether the same position is true in reference to natural prices? This question must of course be determined by attending carefully to the nature of the change which an alteration in the cost of production occasions in the state of the demand and supply, and particularly to the specific and immediate cause by which the change of price that takes place is effected.

We all allow, that when the cost of production diminishes, a fall of price is generally the consequence; but what is it, specifically, which forces down the price of the commodity? It has been shewn in the preceding section that it is an actual or contingent excess of supply.

We all allow that, when the cost of production increases, the prices of commodities generally rise. But what is it which specifically forces up the price? It has been shewn that it is a contingent failure of supply. Remove these contingencies, that is, let the extent of the supply remain exactly the same, without contingent failure or excess, whether the price of production rises or falls, and there is not the slightest ground for supposing that any variation of price would take place.

If, for instance, all the commodities that are consumed in this country, whether agricultural or manufactured, could be produced, during the next ten years, without labour, and yet could only be supplied exactly in the same quantities as they would be in a natural state of things; then, supposing the wills and the powers of the purchasers to remain the same, there cannot be a doubt that all prices would also remain the same. But, if this be allowed, it follows, that the relation of the supply to the demand, either actual or contingent, is the dominant principle in the determination of prices whether market or natural, and that the cost of production can do nothing but in subordination to it, that is, merely as this cost affects actually or contingently the relation which the supply bears to the demand.

It is not however necessary to resort to imaginary cases in order to fortify this conclusion. Actual experience shews the principle in the clearest light.

In the well known instance, noticed by Adam Smith, of the insufficient pay of curates, notwithstanding all the efforts of the legislature to raise it,* a striking proof is afforded that the *permanent* price of an article is determined by the demand and supply, and not by the cost of production. The real cost of production would, in this case, be more likely to be increased than diminished by the

* Wealth of Nations, Book I. c. x. p. 202. 6th edit.

subscriptions of benefactors; but being paid by others and not by the individuals themselves, it does not regulate and limit the supply; and this supply, on account of such encouragement, becoming and continuing abundant, the price is and must always be low, whatever may be the real cost of the education given.

The effects of the poor-rates in lowering the wages of labour present another practical instance of the same kind. It is not probable that public money should be more economically managed than the income of individuals. Consequently the cost of rearing a family cannot be supposed to be diminished by parish assistance; but, a part of the expense being borne by the public, a price of labour adequate to the maintenance of a certain family is no longer a necessary condition of its supply; and as, by means of parish rates, this supply can be obtained without such wages, the real costs of supplying labour no longer regulate its price.

In fact, in every kind of bounty upon production, the same effects must necessarily take place; and just in proportion as such bounties tend to lower prices, they shew that prices depend upon the supply compared with the demand, and not upon the costs of production.

But the most striking instance which can well be conceived to shew that the cost of production only influences the prices of commodities as it regulates their supply, is continually before our eyes, in the artificial value which is given to Bank notes, by limiting their amount. Mr. Ricardo's admirable and efficient plan for this purpose proceeds upon the just principle, that, if you can limit the supply of notes, so that they shall not exceed the quantity of gold which would have circulated, if the currency had been metallic, you will keep the notes always of the same value as gold. And I am confident he would allow that if this limitation could be completely effected without the paper being exchangeable for gold, the value of the notes would not be altered. But, if an article which costs comparatively nothing in making, though it performs one of the most important functions of gold, can be kept to the value of gold by being supplied in the same quantity, it is the clearest of all possible proofs that the value of gold itself no further depends upon the cost of its production, than as this cost influences its supply, and that if the cost were to cease, provided the supply were not increased, the value of gold in this country would still remain the same.

It does not, however, in any degree follow from what has been said, that labour and the costs of production have not a most powerful effect upon prices. But the true way of considering these costs is, as the necessary condition of the supply of the objects wanted.

Although, at the time of the actual exchange of two commodities, no circumstance affects it but the relation of the supply to the demand; yet, as almost all the objects of human desire are obtained by the instrumentality of human exertion, it is

clear that the supply of these objects must be regulated—first, by the quantity and direction of this exertion; secondly, by the assistance which it may receive from the results of previous labour; and thirdly, by the abundance or scarcity of the materials on which it has to work, and of the food of the labourer. It is of importance, therefore, to consider the different conditions which must be fulfilled, in order that any commodity should continue to be brought to market.

The first condition is, that the labour which has been expended on it should be so remunerated in the value of the objects given in exchange, as to encourage the exertion of a sufficient quantity of industry in the direction required, as without such adequate remuneration the supply of the commodity must necessarily fail. If this labour should be of a very severe kind, few comparatively would be able or willing to engage in it; and, upon the common principles of exchangeable value before explained, it would rise in price. If the work were of a nature to require an uncommon degree of dexterity and ingenuity, a rise of price would take place in a greater degree; but not certainly, as stated by Adam Smith, on account of the esteem which men have for such talents,* but on account of their rarity, and the consequent rarity of the effects produced by them. In all these cases the remuneration will be regulated, not by the intrinsic qualities of the commodities produced, but by the state of the demand for them compared with the supply, and of course by the demand and supply

* Wealth of Nations, Book I. c. vi. p. 71. 6th edit.

of the sort of labour which produced them. If the commodities have been obtained by the exertion of manual labour exclusively, aided at least only by the unappropriated bounties of nature, the whole remuneration will, of course, belong to the labourer, and the usual value of this remuneration, in the existing state of the society, would be the usual price of the commodity.

The second condition to be fulfilled is, that the assistance which may have been given to the labourer, from the previous accumulation of objects which facilitate future production, should be so remunerated as to continue the application of this assistance to the production of the commodities required. If by means of certain advances to the labourer of machinery, food, and materials previously collected, he can execute eight or ten times as much work as he could without such assistance, the person furnishing them might appear, at first, to be entitled to the difference between the powers of unassisted labour and the powers of labour so assisted. But the prices of commodities do not depend upon their intrinsic utility, but upon the supply and the demand. The increased powers of labour would naturally produce an increased supply of commodities; their prices would consequently fall; and the remuneration for the capital advanced would soon be reduced to what was necessary, in the existing state of the society, to bring the articles to the production of which they were applied to market. With regard to the labourers employed, as neither their exertions nor their skill would

necessarily be much greater than if they had worked unassisted, their remuneration would be nearly the same as before, and would depend entirely upon the exchangeable value of the kind of labour they had contributed, estimated in the usual way by the demand and the supply. It is not, therefore, quite correct to represent, as Adam Smith does, the profits of capital as a deduction from the produce of labour. They are only a fair remuneration for that part of the production contributed by the capitalist, estimated exactly in the same way as the contribution of the labourer.

The third condition to be fulfilled is, that the price of commodities should be such as to effect the continued supply of the food and raw materials used by the labourers and capitalists; and we know that this price cannot be paid without yielding a rent to the landlord on almost all the land actually in use. In speaking of the landlords, Adam Smith's language is again exceptionable. He represents them, rather invidiously, as loving to reap where they have never sown, and as obliging the labourer to pay for a licence to obtain those natural products, which, when land was in common, cost only the trouble of collecting.* But he would himself be the first to acknowledge that, if land were not appropriated, its produce would be, beyond comparison, less abundant, and consequently dearer; and, if it be appropriated, some persons or other must necessarily be the proprietors. It matters not to the society whether these

* Wealth of Nations, Book I. ch. vi. p. 74. 6th edit.

persons are the same or different from the actual labourers of the land. The price of the produce will be determined by the general supply compared with the general demand, and will be precisely the same, whether the labourer pays a rent, or uses the land without rent. The only difference is that, in the latter case, what remains of this price, after paying the labour and capital, will go to the same person that contributed the labour, which is almost equivalent to saying, that the labourer would be better off, if he were a possessor of land as well as labour—a fact not to be disputed, but which by no means implies that the labourer, who in the lottery of human life has not drawn a prize of land, suffers any hardship or injustice in being obliged to give something in exchange for the use of what belongs to another. The possessors of land, whoever they may be, conduct themselves, with regard to their possessions, exactly in the same way as the possessors of labour and of capital, and exchange what they have, for as many other commodities as the society is willing to give them for it.

The three conditions therefore above specified must, in every society, be necessarily fulfilled, in order to obtain the supply of by far the greater part of the commodities which it wants; and the compensation which fulfils these conditions, or the price of any exchangeable commodity, may be considered as consisting of three parts—that which pays the wages of the labourer employed in its production; that which pays the profits of capital

by which such production has been facilitated; and that which pays the rent of land, or the remuneration for the raw materials and food furnished by the landlord;—the price of each of these component parts being determined exactly by the same causes as those which determine the price of the whole.

The price which fulfils these conditions is precisely what Adam Smith calls the natural price. I should be rather more disposed to call it the necessary price, because the term necessary better expresses a reference to the conditions of supply, and is, on that account, susceptible of a more simple definition. To explain natural price, Adam Smith is obliged to use a good deal of circumlocution; and though he makes it on the whole sufficiently clear, yet, as he calls to his assistance two other terms, each of which might almost as well have been used as the one adopted, the definition is not quite satisfactory.* If, however, we use the term suggested, the definition of necessary price will be very easy and simple. It will be, the price necessary, in the actual circumstances of the society, to bring the commodity regularly to the market. This is only a shorter description of what Adam Smith means by natural price, as contradistinguished from market price, or the price at which commodities actually sell in the market, which, from the variations of the seasons or the accidental miscalculations of the suppliers, are sometimes sold higher and sometimes lower than

* Book I. chap. vii.

the price which is necessary to fulfil the conditions of a regular supply.

When a commodity is sold at this its natural price, Adam Smith says, it is sold for precisely what it is worth. But here, I think, he has used the term worth in an unusual sense. Commodities are continually said to be worth more than they have cost, ordinary profits included; and according to the customary and proper use of the term *worth*, we could never say, that a certain quantity of corn, or any other article, was not worth more when it was scarce, although no more labour and capital might have been employed about it. The *worth* of a commodity is its market price, not its natural or necessary price; it is its value in exchange, not its cost; and this is one of the instances in which Adam Smith has not been sufficiently careful to keep them separate.*

But if it appear generally that the cost of production only determines the prices of commodities, as the payment of it is the necessary condition of their supply, and that the component parts of this cost are themselves determined by the same causes which determine the whole, it is obvious that we cannot get rid of the principle of demand and supply by referring to the cost of production. Natural and necessary prices appear to be regulated by this principle, as well as market prices; and the only difference is, that the former are regulated by the ordinary and average relation of the demand to the supply, and the latter, when they differ from the

* Book I. chap. vii.

former, depend upon the extraordinary and accidental relations of the demand to the supply.

SECTION IV.

Of the Labour which a Commodity has Cost considered as a Measure of Exchangeable Value.

Adam Smith, in his chapter on the real and nominal price of commodities,* in which he considers labour as an universal and accurate measure of value, has introduced some confusion into his inquiry by not adhering strictly to the same mode of applying the labour which he proposes for a measure.

Sometimes he speaks of the value of a commodity as being determined by the quantity of labour which its production has cost, and sometimes by the quantity of labour which it will command in exchange.

These two measures are essentially different; and, though certainly neither of them can come under the description of a standard, one of them is a very much more useful and accurate measure of value than the other.

When we consider the degree in which labour is fitted to be a measure of value in the first sense used by Adam Smith, that is, in reference to the quantity of labour which a commodity has cost in its production, we shall find it radically defective.

* Book I. chap. v.

In the first place, a moment's consideration will shew us that it cannot be applied in a positive sense. It is indeed almost a contradiction in terms to say that the exchangeable value of a commodity is proportioned to the quantity of labour employed upon it. Exchangeable value, as the term implies, evidently means value in exchange for some other commodities; but if, when more labour is employed upon one commodity, more labour is also employed on the others for which it is exchanged, it is quite obvious that the exchangeable value of the first commodity cannot be proportioned to the labour employed upon it. If, for instance, at the same time that the labour of producing corn increases, the labour of producing money and many other commodities increases, there is at once an end of our being able to say with truth that all things become more or less valuable in proportion as more or less labour is employed in their production. In this case it is obvious that more labour has been employed upon corn, although a bushel of corn may still exchange for no more money nor labour than before. The exchangeable value of corn, therefore, has certainly not altered in proportion to the additional quantity of labour which it has cost in its production.

But, even if we take this measure always in a relative sense, that is, if we say that the exchangeable value of commodities is determined by the *comparative* quantity of labour expended upon each, there is no stage of society in which it will be found correct.

In the very earliest periods, when not only land was in common, but scarcely any capital was used to assist manual exertions, exchanges would be constantly made with but little reference to the quantity of labour which each commodity might have cost. The greatest part of the objects exchanged would be raw products of various kinds, such as game, fish, fruits, &c. with regard to which, the effects of labour are always uncertain. One man might have employed five days' labour in procuring an object which he would subsequently be very happy to exchange for some other object that might have cost a more fortunate labourer only two, or perhaps one day's exertion. And this disproportion between the exchangeable value of objects and the labour which they had cost in production would be of perpetual recurrence.

I cannot, therefore, agree either with Adam Smith or Mr. Ricardo in thinking that, "in that rude state of society which precedes both the accumulation of stock and the appropriation of land, the proportion between the quantities of labour necessary for acquiring different objects seems to be the only circumstance which can afford any rule for exchanging them for one another."* The rule, which would be acted upon in the exchange of commodities, is unquestionably that which has been so happily described by Turgot, and which I have stated in the first section of this chapter. The results of this rule might or might not agree, on an average, with those of the rule

* Principles of Polit. Econ. c. i. p. 4. 2d edit.

founded on the quantity of labour which each article had cost; but if they did not, or if commodities were found by accident, or the labour employed upon them was utterly unknown when they were brought to market, the society would never be at a loss for a rule to determine their exchangeable value; and it is probable that the exchanges actually made in this stage of society would be less frequently proportioned to the labour which each object had cost than in any other.

But in fact there is scarcely any stage of society, however barbarous, where the cost of production is confined exclusively to labour. At a very early period, profits will be found to form an important part of this cost, and consequently to enter largely into the question of exchangeable value as a necessary condition of supply. To make even a bow and arrow, it is obviously necessary that the wood and reed should be properly dried and seasoned; and the time that these materials must necessarily be kept by the workman before his work is completed, introduces at once a new element into the computation of cost. We may estimate the labour employed in any sort of capital just upon the same principle as the labour employed in the immediate production of the commodity. But the varying quickness of the returns is an entirely new element, which has nothing to do with the quantity of labour employed upon the capital, and yet, in every period of society, the earliest as well as the latest, is of the utmost importance in the determination of prices.

The fixed capital necessary to hollow out a canoe, may consist of little more than a few stone hatchets and shell chissels; and the labour necessary to make them might not add much to the labour subsequently employed in the work to which they were applied; but it is likewise necessary that the workman should previously cut down the timber, and employ a great quantity of labour in various parts of the process very long before there is a possibility of his receiving the returns for his exertions, either in the use of the canoe, or in the commodities which he might obtain in exchange for it; and during this time he must of course advance the whole of his subsistence. But the providence, foresight, and postponement of present enjoyment for the sake of future benefit and profit, which are necessary for this purpose, have always been considered as rare qualities in the savage; and it can scarcely admit of a doubt that the articles which were of a nature to require this long preparation would be comparatively very scarce, and would have a great exchangeable value in proportion to the quantity of labour which had been actually employed upon them, and on the capital necessary to their production. On this account, I should think it not improbable, that a canoe might, in such a state of society, possess double the exchangeable value of a number of deer, to produce which successively in the market might have cost precisely the same number of days' labour, including the necessary fixed capital of the bows and arrows, &c. used for killing them; and the great difference of price in this case would arise from the circumstance that the returns for the labour of killing each successive deer always came in within a few days after it was employed, while the returns for the labour expended on the canoe were delayed perhaps beyond a year. Whatever might be the rate of profits, the comparative slowness of these returns must tell proportionally on the price of the article; and, as there is reason to think that among savages the advances necessary for a work of slow returns would be comparatively seldom made, the profits of capital would be extremely high, and the difference of exchangeable value in different commodities which had cost in their production, and in the production of the necessary capital, the same quantity of labour, would be very great.

If to this cause of variation we add the exception noticed by Mr. Ricardo, arising from the greater or less proportion of fixed capital employed in different commodities, the effects of which would shew themselves in a very early period of savage life; it must be allowed that the rule which declares "that commodities never vary in value unless a greater or less quantity of labour be bestowed on their production," cannot possibly, as stated by Mr. Ricardo, be "of universal application in the early stages of society."*

In countries advanced in civilization, it is obvious that the same causes of variation in the ex-

* Principles of Polit. Econ. p. 31. 2d edit.

changeable value of commodities, independently of the labour which they may have cost, must prevail, as in the early periods of society, and as might be expected some others. Probably indeed the profits of stock will not be so high, and consequently neither the varying proportions of the fixed capitals, nor the slowness or quickness of the returns will produce the same proportionate difference on prices; but to make up for this, the difference in the quantity of fixed capital employed is prodigious, and scarcely the same in any two commodities; and the difference in the returns of capital varies sometimes from two or three days to two or three years.

The proposition of Mr. Ricardo, which shews that a rise in the price of labour lowers the price of a large class of commodities,* has undoubtedly a very paradoxical air; but it is nevertheless true; and the appearance of paradox would vanish if it were stated more naturally.

Mr. Ricardo would certainly allow that the effect he contemplates is produced by a fall of profits, which he thinks is synonimous with a rise of wages. It is not necessary here to enter into the question how far he is right in this respect; but undoubtedly no one could have thought the proposition paradoxical, or even in the slightest degree improbable, if he had stated that a fall of profits would occasion a fall of price in those commodities, where from the quantity of fixed capital employed, the profits of that capital had before formed the principal ingredient in the cost of production. But this is what he has in

* Principles of Polit. Econ. pp. 34 and 41. 2d edit.

substance said. In the particular case which he has taken to illustrate his proposition, he supposes no other labour employed than that which has been applied in the construction of the machine, or fixed capital used; and consequently the price of the yearly produce of this machine would be formed merely of the ordinary profits of the £20,000 which it is supposed to have cost, together with a slight addition to replace its wear and tear. Now it is quite certain that if, from any cause whatever, the ordinary profits of stock should fall, the price of the commodity so produced would fall. This is sufficiently obvious. But the effects arising from an opposite supposition, equally consistent with facts, have not been sufficiently considered by Mr. Ricardo, and the general result has been totally overlooked.

The state of the case, in a general view of it, seems to be this. There is a very large class of commodities, in the production of which, owing to the quantity of fixed capital used and the long time that elapses before the returns of the capital, whether fixed or circulating, come in, the proportion which the value of the capital bears to the value of the labour which it yearly employs is, in various degrees, very considerable. In all these cases it is natural to suppose, that the fall of price arising from a fall of profits should, in various degrees, more than counterbalance the rise of price which would naturally be occasioned by a rise in the price of labour; and consequently on the supposition of a rise in the money price of labour and a fall in the rate of profits, all these commodities will, in various degrees, naturally fall in price.

On the other hand, there is a large class of commodities, where, from the absence of fixed capital and the rapidity of the returns of the circulating capital from a day to a year, the proportion which the value of the capital bears to the quantity of labour which it employs is very small. A capital of a hundred pounds, which was returned every week, could employ as much labour annually as 2,600*l.* the returns of which came in only at the end of the year; and if the capital were returned nearly every day, as it is practically, in some few cases, the advance of little more than the wages of a man for a single day might pay above 300 days' labour in the course of a year. Now it is quite evident, that out of the profits of these trifling capitals it would not only be absolutely impossible to take a rise in the price of labour of seven per cent., but it would be as impossible to take a rise of ½ per cent. On the first supposition, a rise of only ½ per cent. would, if the price of the produce continued the same, absorb more than all the profits of the 100*l.*; and in the other case much more than all the capital advanced. If, therefore, the prices of commodities, where the proportion of labour is very great compared with the capital which employs it, do not rise upon an advance in the price of labour, the production of such commodities must at once be given up. But they certainly will not be given up. Consequently upon a rise in the price of labour and fall of profits, there will be a large class of commodities which will rise in price; and it cannot be correct to say, "that no commodities whatever are raised in exchangeable value merely because wages rise; they are only so raised when more labour is bestowed on their production, when wages fall, or when the medium in which they are estimated falls in value."*. It is quite certain that merely because wages rise and profits fall, all that class of commodities (and it will be a large class) will rise in price, where, from the smallness of the capital employed, the fall of profits is in various degrees more than overbalanced by the rise of wages.

There will, however, undoubtedly be a class of commodities which, from the effects of these opposite causes, will remain stationary in price. But from the very nature of the proposition, this class must theoretically form little more than a line; and where, I would ask, is this line to be placed? Mr. Ricardo, in order to illustrate his proposition, has placed it, at a venture, among those commodities where the advances consist solely in the payment of labour, and the returns come in exactly in the year.† But the cases are extremely rare where the returns of a capital are delayed for a year, and yet no part of this capital is employed either in the purchase of materials or machinery; and in fact there seems to be no justifiable ground for pitching upon this peculiar case as precisely the one where, under any variation in the price of labour, the price of the commodity remains the

* Ricardo's Political Economy, p. 41. 2d edit.

† Polit. Econ. p. 33. 2d edit.

same, and a rise or fall of wages is exactly compensated by a fall or rise of profits. At all events it must be allowed, that wherever the line may be placed, it can embrace but a very small class of objects; and upon a rise in the price of labour, all the rest will either fall or rise in price, although exactly the same quantity of labour continues to be employed upon them.

What then becomes of the doctrine, that the exchangeable value of commodities is proportioned to the labour which has been employed upon them? Instead of their remaining of the same value while the same quantity of labour is employed upon them, it appears that, from well known causes of constant and universal operation, the prices of all commodities vary when the *price* of labour varies, with very few exceptions; and of what description of commodities these few exceptions consist, it is scarcely possible to say beforehand.

But the different proportions of fixed capital, and the varying quickness of the returns of circulating capital, are not the only causes which, in improved countries, prevent the exchangeable value of commodities from being proportioned to the quantity of labour which has been employed upon them. Where commerce prevails to any extent, foreign commodities, not regulated, it is acknowledged, by the quantity of labour and capital employed upon them, form the materials of many manufactures. In civilized states taxation is every where making considerable changes in prices without any reference to labour. And further, where all the land is appropriated, the payment of rent is another condition of the supply of most of the commodities of home growth and manufacture.

It is unquestionably true, and it is a truth which involves very important consequences, that the cost of the main vegetable food of civilized and improved countries, which requires in its production a considerable quantity of labour and capital, is resolvable almost entirely into wages and profits, as will be more fully explained in the next chapter. But though it follows that the price of corn is thus nearly independent of rent, yet as this price, so determined, does actually pay rent on the great mass of the lands of the country, it is evident that the payment of rent, or, what comes to the same thing, of such a price as will pay rent, is a necessary condition of the supply of the great mass of commodities.

Adam Smith himself states, that rent "enters into the composition of the price of commodities in a different way from wages and profit." "High or low wages or profit (he says) are the causes of high or low price; high or low rent is the effect of it. It is because high or low wages and profit must be paid, in order to bring a particular commodity to market, that its price is high or low. But it is because its price is high or low, a great deal more, or very little more, or no more, than what is sufficient to pay those wages and profits, that it affords a high rent, or a low rent, or no rent at all."* In this passage Adam Smith distinctly

* Wealth of Nations, Book I. c. xi. p. 226. 6th edit.

allows that rent is a consequence, not a cause of price; but he evidently does not consider this admission as invalidating his general doctrine respecting the component parts of price. Nor in reality is it invalidated by this admission. It is still true that the cost of the great mass of commodities is resolvable into wages, profits, and rent. Some of them may cost a considerable quantity of rent, and a small quantity of labour and capital; others a great quantity of labour and capital, and a small quantity of rent; and a very few may be nearly resolvable into wages and profits, or even wages alone. But, as it is known that the latter class is confined to a very small proportion of a country's products, it follows that the payment of rent is an absolutely necessary condition of the supply of the great mass of commodities, and may properly be considered as a component part of price.

Allowing then that the price of the main vegetable food of an improving country is determined by the quantity of labour and capital employed to produce it under the most unfavourable circumstances, yet if we allow, at the same time, that an equal value of produce is raised on rich land with little labour and capital, we can hardly maintain, with any propriety of language, the general proposition that the quantity of labour realized in different commodities regulates their exchangeable value.* On account of the varieties of soil alone constant exchanges are taking place, which directly

* Ricardo's Polit. Econ. c. i. p. 5.

contradict the terms in which the proposition is expressed; and in whatever way rent may be regulated, it is obviously necessary to retain it as an ingredient in the costs of production in reference to the great mass of commodities; nor will the propriety of thus retaining it be affected by the circumstance, that the rent paid on commodities of the same description is variable, and in some few cases little or none.

Under the full admission, therefore, just made, that the price of the main vegetable food of an improving agricultural country is, in reference to the whole quantity produced, a necessary price, and coincides with what is required to repay the labour and capital which is employed under the most unfavourable circumstances, and pays little or no rent, we still do not seem justified in altering the old language respecting the component parts of price, or what I should be more disposed to call the necessary conditions of supply.

But there are some parts of the land and of its products which have much more the character of a monopoly than the main food of an improving country; and it is universally acknowledged that the exchangeable value of commodities which are subjected either to strict or partial monopolies cannot be determined by the labour employed upon them. The exchangeable value of that vast mass of property in this country which consists of the houses in all its towns, is greatly affected by the strict monopoly of ground rents; and the necessity of paying these rents must affect the prices of al

most all the goods fabricated in towns. And though with regard to the main food of the people it is true that, if rents were given up, an equal quantity of corn could not be produced at a less price; yet the same cannot be said of the cattle of the country. Of no portion of this species of food is the price resolvable into labour and capital alone.

All cattle pay rent, and in proportion to their value not very far from an equal rent. In this respect they are essentially different from corn. By means of labour and dressing, a good crop of corn may be obtained from a poor soil, and the rent paid may be quite trifling compared with the value of the crop; but in uncultivated land the rent must be proportioned to the value of the crop, and, whether great or small per acre, must be a main ingredient in the price of the commodity produced. It may require more than an hundred acres in the highlands of Scotland to rear the same weight of mutton as might have been reared on five acres of good pasture; and something no doubt must be allowed for the greater labour of attendance and the greater risk on a poor soil and in an exposed situation; but independently of this deduction, which would probably be inconsiderable, the rent paid for the same quantity of mutton would be nearly the same. If this rent were greatly diminished, there cannot be a doubt that the same quantity of cattle might be produced in the market at much lower prices without any diminution of the profits or wages of any of the persons concerned; and consequently it is impossible to estimate the value of cattle by the quantity of labour and capital, and still less by the mere quantity of labour which has been expended upon them.

It may possibly be said that although rent is unquestionably paid on all and every part of the cattle produced in this country; yet that the rent of uncultivated land is determined by the price of cattle; that the price of cattle is determined by the cost of production on such good natural pastures or improved land as would yield a considerable rent if employed in raising corn, because the poor uncultivated lands of a populous country are never sufficient to produce all the animal food required; that the rents of the different qualities of land which must thus be devoted to the rearing of cattle depend upon the price of the main food of the country; and that the price of the main food of the country depends upon the labour and capital necessary to produce it on the worst land actually so employed. This is to be sure rather a circuitous method of proving the intimate connection between cattle and labour, and certainly will not justify us in saying that the relative value of sheep and shirts is proportioned to the comparative quantity of labour expended upon each.

But in fact one of the links in this chain of dependance will not hold, and the connexion between cattle and labour is thus at once broken off. Though the price of the main food of a country depends upon the labour and capital necessary to produce it on the worst land in use; yet the rent of land, as will be shewn more fully in the next

chapter, is not regulated by the price of produce. Among the events of the most common occurrence in all nations, is an improvement in agriculture which leads to increased produce and increased population, and after a time to the cultivation of naturally poorer land, with the same price of produce, the same price of labour, and the same rate of profits. But in this case the rents of all the old lands in tillage must rise, and with them of course the rents of natural pastures and the price of cattle, without any change in the price of labour or any increased difficulty in producing the means of subsistence.

The statement just made applies to many other important commodities, besides animal food. In the first place, it includes wool and raw hides, the materials of two most important manufactures; and applies directly to timber and copse wood, both articles of great consequence. And secondly, there are some products, such as hops, for instance, which cannot be grown upon poor soils. Such products it is impossible to obtain without paying a rent; and if this rent varies, while the quantity of labour employed in the production of a given quantity of corn remains the same, there can be no ground whatever for asserting that the value of such products is regulated by labour.

If it be said that the doctrine which entirely rejects rent, and resolves the prices of all commodities into wages and profits, never refers to articles which have any connexion with monopoly, it may be answered, that this exception includes the great mass of the articles with which we are acquainted. The lands which afford the main supply of corn are evidently as pecies of monopoly, though subject to different laws and limits from common monopolies; and even the last land taken into cultivation for corn, if it has an owner, must pay the small rent which it would yield in natural pasture. It has just been shewn that monopoly must in the most direct manner affect the price of cattle, the other great branch of human food; and with regard to the materials of clothing and lodging, there are very few that do not actually pay a rent, not only on the great mass of each kind, but on those which are grown on the poorest land actually employed for their production. To say that the prices of wool, leather, flax, and timber are determined by the cost of their production on the land which pays no rent, is to refer to a criterion which it is impossible to find. I believe it may be safely asserted that there is no portion of wool, leather, flax, and timber produced in this country which comes from land that can be so described.

We cannot, therefore, get rid of rent in reference to the great mass of commodities. In the case where we come the nearest to it, namely, in the production of the main food of the country, the attempt to resolve the exchangeable value of all the different portions of this food into labour and profits alone, involves a contradiction in terms; and as no error seems to arise from considering rent as a component part of price, after we have properly explained its origin and progress, it appears

to me essential, both to correctness of language and correctness of meaning, to say that the cost of producing any commodity is made up of all the wages, all the profits, and all the rent which in the actual circumstances of the society are necessary to bring that particular commodity to market in the quantity required; or, in other words, that the payment of these expenses is the necessary condition of its supply.

If we were determined to use only one term, it would certainly be more correct to refer to capital rather than to labour; because the advances which are called capital generally include the other two. The natural or necessary prices of commodities depend upon the amount of capital which has been employed upon them, together with the profits of such capital at the ordinary rate during the time that it has been employed. But as the amount of capital advanced consists of the amount of wages paid from the first to the last, together with the amount of rent paid either directly to the landlord or in the price of raw materials, the use of the three terms seems to be decidedly preferable, both as more correct, (rent being, in many cases, not an advance of capital,) and also as conveying more of the information that is wanted.

But if rent enters into the raw materials of almost all manufactures, and of almost all capital, both fixed and circulating, the advance necessary to pay it will greatly affect the amount of capital employed, and combined with the almost infinite variety that must take place in the duration of these advances, will most essentially affect that part of price which resolves itself into profits.

Supposing, what is probably not true, that there is land in an improved and populous country which pays no rent whatever directly; yet rent will be paid even by the cultivator of such land in the timber which he uses for his ploughs, carts, and buildings, in the leather which he requires for harness, in the meat which he consumes in his own family, and in the horses which he purchases for tillage. These advances, as far as rent alone is concerned, would at once prevent the price of the produce from being proportioned to the quantity of labour employed upon it; and when we add the profits of these advances according to their amount and the periods of their return, we must acknowledge that even in the production of corn, where no direct rent is paid, its price must be affected by the rent involved in the fixed and circulating capital employed in cultivation.

Under all the variations, therefore, which arise from the different proportions of fixed capital employed, the different quickness of the returns of the circulating capital, the quantity of foreign commodities used in manufactures, the acknowledged effects of taxation, and the almost universal prevalence of rent in the actual state of all improved countries, we must I think allow that, however curious and desirable it may be to know the exact quantity of labour which has been employed in the production of each particular commodity, it is certainly not this labour which determines

their relative values in exchange, at the same time and at the same place.

But if, at the same place and at the same time, the relative values of commodities are not determined by the labour which they have cost in production, it is clear that this measure cannot determine their relative values at different places and at different times. If, in London and at the present moment, other causes besides labour concur in regulating the average prices of the articles bought and sold, it is quite obvious, that because a commodity in India now, or in England 500 years ago, cost in its production double the quantity of labour which it does in London at present, we could not infer that it was doubly valuable in exchange; nor, if we found from a comparison of money prices, that its value in exchange were double compared with the mass of commodities, could we with any degree of safety infer that it had cost, in its production, just double the quantity of labour.

If, for instance, it were to appear that a yard of fine broad cloth in the time of Edward the Third cost in its fabrication twenty days' common labour, and in modern times only ten, it would follow of course that by improvements of different kinds, the facility of fabricating broad cloth had been doubled; but to what extent this circumstance would have affected its relative value in exchange, it would not be possible to determine without an appeal to facts. The alteration in its exchangeable value generally, or in reference to the mass of commodities, would of course depend upon the proportionate facility or difficulty with which other commodities were fabricated, and in reference to particular articles, the labour of fabricating which had remained the same, or was accurately known, it would still depend upon all those circumstances which have already been stated, as preventing the labour which a commodity has cost in its production, from being a correct measure of relative value, even at the same place and at the same time.

In order to shew that the quantity of labour which a commodity has cost is a better measure of value than the quantity which it will command, Mr. Ricardo makes the supposition, that a given quantity of corn might require only half the quantity of labour in its production at one time which it might require at another and subsequent period, and yet that the labourer might be paid in both periods with the same quantity of corn;* in which case, he says, we should have an instance of a commodity which had risen to double its former exchangeable value, according to what he conceives to be the just definition of value, although it would command no more labour in exchange than before.

This supposition, it must be allowed, is a most improbable one. But, supposing such an event to take place, it would strikingly exemplify the incorrectness of his definition, and shew at once the marked distinction which must always exist between cost and value. We have here a clear case

* Principles of Political Economy, chap. i. p. 8. 2d edit.

of increased cost in the quantity of labour to a double amount; yet it is a part of the supposition that the commodity, which has been thus greatly increased in the cost of its production, will not purchase more of that article, which is, beyond comparison, the most extensive and the most important of all the objects which are offered in exchange, namely, labour. This instance shews at once that the quantity of labour which a commodity has cost in its production, is not a measure of its value in exchange.

It will be most readily allowed that the labour employed in the production of a commodity, including the labour employed in the production of the necessary capital, is the principal ingredient among the component parts of price, and, *other things being equal,* will determine the relative value of all the commodities in the same country, or, more correctly speaking, in the same place. But, in looking back to any past period, we should ascertain the relative values of commodities at once, and with much more accuracy, by collecting their prices in the money of the time. For this purpose, therefore, an inquiry into the quantity of labour which each commodity had cost, would be of no use. And if we were to infer that, because a particular commodity 300 years ago had cost ten days' labour and now costs twenty, its exchangeable value had doubled, we should certainly run the risk of drawing a conclusion most extremely wide of the truth.

It appears then, that the quantity of labour which a commodity has cost in its production, is neither a correct measure of relative value at the same time and at the same place, nor a measure of real value in exchange, as before defined, in different countries and at different periods.

SECT. V.

Of Money, when uniform in its cost, considered as a Measure of Value.

Upon the principle, that the labour which a commodity has cost in its production, is at once a measure of real and relative value, it has been thought, that if there were any article to be found which would at all times cost the same quantity of labour in its production, it might be used as an accurate and standard measure of value.* It is acknowledged that the precious metals do not possess this quality. The world has been at different periods supplied from mines of different degrees of fertility. This difference of fertility necessarily implies that different quantities of labour are at different times required in the production of the same quantity of metal; and the different degrees of skill applied at different periods in the working of mines, must be an additional source of variableness in the quantity

* Ricardo on the Principles of Political Economy and Taxation, ch. i. p. 24. 2d edit.

of labour which a given weight of coin has cost to bring it to market.

It may be curious however to consider how far the precious metals would be an accurate measure of the quantities of labour employed upon each commodity, even if these sources of variableness were removed, and if it were really true that given quantities of the metals always required in their production the same quantity of labour.

It is an acknowledged truth that the precious metals, as they are at present procured and distributed, are an accurate measure of exchangeable value, at the same time and in the same place; and it is certain that the supposition here made would not destroy, or in any respect impair, this quality which they now possess. But it was shewn in the last section that the exchangeable value of commodities is scarcely ever proportioned to the quantity of labour employed upon them. It follows therefore necessarily that the money prices of commodities could not, even on the supposition here made, represent the quantity of labour employed upon them.

There is indeed no supposition which we can make respecting the mode of procuring the precious metals, which can ever render the prices of commodities a correct measure of the quantity of labour which they have severally cost. These prices will always be found to differ at least as much from the quantity of labour employed upon each commodity, as the quantity of labour does from their exchangeable values. To shew this, let us suppose; first, that the precious metals require for their production at the mines which yield no rent, a certain quantity of fixed and circulating capital employed for a certain time. In this case, it follows from the reasonings of the preceding section and even from the admissions of Mr. Ricardo, that none of the commodities which would exfor a given quantity of silver, would contain the same quantity of labour as that silver, except those which had been produced, not only by the same quantity of labour, but by the same quantities of the two kinds of capital employed for the same time and in the same proportions: and, in the case of a rise in the price of labour, all commodities which still contained the same quantity of labour would alter in price, except those very few which were circumstanced exactly in the same manner with regard to the capitals by which they were produced as the precious metals.

Let us suppose, secondly, that the production of the precious metals required no fixed capital, but merely advances in the payment of manual labour for a year. This case is so very unusual, that I should almost doubt whether any commodities could be found which would at once be of the same exchangeable value, and contain the same quantity of labour as a given portion of the precious metals; and of course upon a rise in the price of labour, almost all commodities would rise or fall in price.

Let us suppose, thirdly, that labour alone, without any advances above the food of a day, were suf-

ficient to obtain the precious metals, that is, that half an ounce of silver and $\frac{1}{15}$ of an ounce of gold could always, on an average, be found by a day's search on the sea-shore. In this case it is obvious that every commodity, which had required in its production any sort or quantity of capital beyond the advance of necessaries for a day, would differ in price from any portion of gold or silver which had cost the same quantity of labour. With regard to the effects of a rise in the price of labour, they cannot be the subject of our consideration, as it is evident that no rise in the price of labour could take place on the present supposition. A day's labour must always remain of the same money price, and corn could only rise as far as the diminution in the necessaries of the labourer would allow. Still, however, though the money price of the labourer could not rise, the rate of profits might fall; and on a fall in the rate of profits, every commodity would fall compared with money.

On either of the above suppositions, the operation of the causes mentioned in the last section would so modify the prices of commodities, that we should be as little able as we are at present, to infer from these relative prices the relative proportions of labour employed upon each commodity.

But independently of the causes here adverted to, the precious metals have other sources of variation peculiar to them. On account of their durability, they conform themselves slowly and with difficulty to the varieties in the qualities of other commodities, and the varying facilities which attend their production.

The market prices of gold and silver depend upon the quantity of them in the market compared with the demand; and this quantity has been in part produced by the accumulation of hundreds of years, and is but slowly affected by the annual supply from the mines.

It is justly stated by Mr. Ricardo* that the agreement of the market and natural prices of all commodities, depends at all times upon the facility with which the supply can be increased or diminished, and he particularly notices gold, or the precious metals, as among the commodities where this effect cannot be speedily produced. Consequently if by great and sudden improvements in machinery, both in manufactures and agriculture, the facility of production were generally increased, and the wants of the population were supplied with much less labour, the value of the precious metals compared with commodities ought greatly to rise; but, as they could not in a short time be adequately diminished in quantity, the prices of commodities would cease to represent the quantity of labour employed upon them.

Another source of variation peculiar to the precious metals would be the use that is made of them in foreign commerce; and unless this use were given up, and the exportation and importation of them were prohibited, it would unquestionably

* Principles of Political Economy and Taxation, ch. xiii. p. 255.

answer to some countries possessing peculiar advantages in their exportable commodities, to buy their gold and silver abroad rather than procure them at home. At this present moment, I believe it is unquestionably true that England purchases the precious metals with less labour than is applied to obtain them directly from the mines of Mexico. But if they could be imported by some countries from abroad with less labour than they could be obtained at home, it would answer to other countries to export them in exchange for commodities, which they either could not produce on their own soil, or could obtain cheaper elsewhere. And thus, in reference to the relative value of commodities both in different countries at the same period, and in the same country at different periods, it is obvious that the prices in money might be subject to considerable variations, without being accompanied by any proportionate variations in the quantities of labour which they had cost.

The objections hitherto considered in this and the preceding sections are some of those which present themselves upon the supposition that each nation possessed mines, or even could procure at home the precious metals at all times with the same quantity of labour without capital; but these, it must be allowed, are extravagant hypotheses. If however we were to assume the more natural one, of the mines, wherever they are, and in all ages, costing always the same quantity of labour and capital in the working, we should see immediately from the present distribution of the precious metals, how little comparatively they could be depended upon as measuring, in different countries and at different times, the quantities of labour which commodities have cost.

If indeed the fertility of the mines were always the same, we should certainly get rid of that source of variation which arises from the existing contrary quality, and of the effects of such a discovery as that of the American mines. But other great and obvious sources of variation would remain. The uniform fertility of the mines would not essentially alter the proportions in which the precious metals would be distributed to different countries; and the great differences, which are now known to take place in their value in different places, when compared with corn and labour, would probably continue nearly the same.

According to all the accounts we have received of prices in Bengal, a given quantity of silver will there represent or command six or eight times more labour and provisions than in England. In all parts of the world articles of equal money prices exchange for each other. It will consequently happen that, in the commerce carried on between the two countries, the product of a day's English labour must exchange for the product of five or six days of Indian labour, after making a sufficient allowance for the difference of profits.

Perhaps it will be said that the high comparative value of silver in India arises mainly from the effects of the discovery of the American mines not having yet been adequately communicated to this part of the world: but it must be recollected that the

discovery is now of long standing; and that the difference in the relative value of gold and silver, compared with their values in Europe, which most clearly indicated an incomplete communication, is now at an end. I am disposed to think therefore, that the high value of silver in India arises mainly from other causes. But at all events the difference is now so enormous as to allow of a great abatement, and yet to leave it very considerable.

It is not however necessary to go to India in order to find similar differences in the value of the precious metals, though not perhaps so great. Russia, Poland, Germany, France, Flanders, and indeed almost all the countries in Europe, present instances of great variations in the quantity of labour and provisions which can be purchased by a given quantity of silver. Yet the relative values of the precious metals in these countries must be very nearly the same as they would be, if the American mines had been at all times of a uniform fertility: and consequently, by their present relative values, we may judge how little dependence could be placed on a coincidence in different countries between the money prices of commodities and the quantities of labour which they had cost, even on the supposition that money was always obtained from the mines in America by the same quantity of labour and capital.

But if we are not fully satisfied with this kind of reference to experience, it is obvious that the same conclusion follows inevitably from theory. In those countries where the precious metals are necessarily purchased, no plausible reason can be assigned why the quantity of them should be in proportion to the difficulty of producing the articles with which they are purchased.

When the English and Indian muslins appear in the German markets, their relative prices will be determined solely by their relative qualities, without the slightest reference to the very different quantities of human labour which they may have cost; and the circumstance that in the fabrication of the Indian muslins five or six times more labour has been employed than in the English, will not enable them to command greater returns of money to India.

In the ports of Europe no merchants are to be found who would be disposed to give more money for Swedish wheat, than Russian, Polish, or American, of the same quality, merely because more labour had been employed in the cultivation of it, on account of its being grown on a more barren soil. If India and Sweden therefore had no other means of buying silver in Europe than by the export of muslins and corn, it would be absolutely impossible for them to circulate their commodities at a money price, compared with other countries, proportioned to the relative difficulty with which they were produced, or the quantity of labour which had been employed upon them. It is indeed universally allowed, that the power of purchasing foreign commodities of all kinds depends upon the relative cheapness, not the relative dearness, of the articles that can be exported; and therefore, although the actual currency of an individual country, other circumstances being nearly equal, may be distributed among the different commodities bought and sold, according to the quantity of labour which they have severally cost, the supposition that the same sort of distribution would take place in different countries, involves a contradiction of the first principles of commercial intercourse.*

It appears then that no sort of regularity in the production of the precious metals, not even if all countries possessed mines of their own, and still less if the great majority were obliged to purchase their money from others, can possibly render the money prices of commodities a correct measure of the quantity of labour which has been employed upon them, either in the same or different countries, or at the same or different periods.

How far the precious metals so circumstanced, may be a good measure of the *exchangeable* value of commodities, though not of the labour which has been employed upon them, is quite another question. It has been repeatedly stated that the precious metals, in whatever way they may be obtained, are a correct measure of exchangeable value at the same time and place. And certainly the less subject to variation are the modes of procuring them, the more they will approach to a measure of exchangeable value at different times and in different places.

* Mr. Ricardo very justly states that, even on the supposition which he has made respecting the precious metals, the foreign interchange of commodities is not determined by the quantity of labour which they have relatively cost.

If, indeed, they were procured according to one of the suppositions made in this section, that is, if each nation could at all times obtain them by the same quantity of labour without any advances of capital, then, with the exception of the temporary disturbances occasioned by foreign commerce and the sudden invention of machinery, the exchangeable value in money in reference to the labour which it would command, would be the same in all countries and at all times; and the specific reason why the precious metals would in this case approach near to a correct measure of real value in exchange is, that it is the only supposition in which their cost in labour can ever be the same as their exchangeable value in labour. In the case supposed, money would certainly be of a uniform value. It would at all times both cost the same quantity of labour and command the same quantity; but we have seen that, in reference to those commodities where any sort of capital was used, their values, compared either with the precious metals or each other, could never be proportioned to the labour which they had cost.

SECT. VI.

Of the Labour which a Commodity will command, considered as a Measure of real Value in Exchange.

When we consider labour as a measure of value in the sense in which it is most frequently applied

by Adam Smith, that is, when the value of an object is estimated by the quantity of labour of a given description (common day-labour, for instance) which it can command, it will appear to be unquestionably the best of any one commodity, and to unite, more nearly than any other, the qualities of a real and nominal measure of exchangeable value.

In the first place, in looking for any one object as a measure of exchangeable value, our attention would naturally be directed to that which was most extensively the subject of exchange. Now of all objects it cannot be disputed, that by far the greatest mass of value is given in exchange for labour either productive or unproductive.

Secondly, the value of commodities, in exchange for labour, can alone express the degree in which they are suited to the wants and tastes of society, and the degree of abundance in which they are supplied, compared with the desires and numbers of those who are to consume them. By improvements in machinery, cloth, silks, cottons, hats, shoes, money, and even corn, for some years might all be very greatly increased in quantity at the same time. Yet while this remarkable alteration had taken place in these commodities, the value of any one of them in exchange for any other, or even compared with the mass of the others collectively, might remain exactly the same. It is obvious therefore that, in order to express the important effects arising from facility of production, we must take into our consideration either the quantity of labour which commodities have cost, or the quantities of labour which they will command. But it was shewn in the last two sections, that the quantity of labour, which commodities have cost, never approaches to a correct measure of exchangeable value, even at the same time and place. Consequently, our attention is naturally directed to the labour which commodities will command.

Thirdly, the accumulation of capital, and its efficiency in the increase of wealth and population, depends almost entirely upon its power of setting labour to work; or, in other words, upon its power of commanding labour. No plenty of commodities can occasion a real and permanent increase of capital if they are of such a nature, or have fallen so much in value that they will not command more labour than they have cost. When this happens from permanent causes, a final stop is put to accumulation; when it happens for a time only, a temporary stop to accumulation takes place, and population is in both cases affected accordingly. As it appears then that the great stimulus to production depends mainly upon the power of commodities to command labour, and especially to command a greater quantity of labour than they have cost, we are naturally led to consider this power of commanding labour as of the utmost importance in an estimate of the exchangeable value of commodities.

These are some of the general considerations which, in a search for a measure of value, would direct our first attention to the labour which commodities will command; and a more particular con-

sideration of the qualities of this measure will convince us that no one other object is equally adapted to the purpose.

It is universally allowed that, in the same place, and within moderately short periods of time, the precious metals are an unexceptionable measure of value; but whatever is true of the precious metals with respect to nominal prices, is true of labour applied in the way proposed.

It is obvious, for instance, that, in the same place and at the same time, the different quantities of day-labour which different commodities can command, will be exactly in proportion to their relative values in exchange; and, if any two of them will purchase the same quantity of labour of the same description, they will invariably exchange for each other.

The merchant might safely regulate his dealings, and estimate his commercial profits by the excess of the quantity of labour which his imports would command, compared with his exports. Whether the value of a commodity had arisen from a strict or partial monopoly; whether it was occasioned principally by the scarcity of the raw material, the peculiar sort of labour required in its construction, or unusually high profits; whether its value had been increased by an increased cost of production, or diminished by the application of machinery; whether its value at the moment depended chiefly upon permanent, or upon temporary causes;—in all cases, and under all circumstances, the quantity of labour which it will command, or, what comes to the same thing, the quantity of labour or labour's worth, which people will give to obtain it, will be a very exact measure of its exchangeable value. In short, this measure will, in the same place, and at the same time, exactly accord with the nominal prices of commodities, with this great advantage in its favour, that it will serve to explain very accurately and usefully all variations of value, without reference to a circulating medium.

It may be said, perhaps, that in the same place and at the same time exactly, almost every commodity may be considered as an accurate measure of the relative value of others, and that what has just been said of labour may be said of cloth, cotton, iron, or any other article. Any two commodities which at the same time and in the same place would purchase or command the same quantity of cloth, cotton or iron, of a given quality, would have the same relative value, or would exchange for each other. This is no doubt true, if we take the same time precisely; but not, if a moderate latitude be allowed, such as may be allowed in the case of labour or of the precious metals. Cloth, cotton, iron and similar commodities, are much more exposed to sudden changes of value, both from the variations of demand, and the influence of machinery and other causes, than labour. Day-labour, taking the average of summer and winter, is the most steady of all exchangeable articles; and the merchant who, in a foreign venture, the returns of which were slow, was sure of gaining fifteen per cent. estimated in labour, would be much more secure

of finally gaining fifteen per cent. of real profits, than he, who could only be sure of gaining fifteen per cent. estimated in cloth, cotton, iron, or even money.

While labour thus constitutes an accurate measure of value in the same place, and within short periods of time, it approaches the nearest of any one commodity to such a measure, when applied to different places and distant periods of time.

Adam Smith has considered labour in the sense here understood as so good a measure of corn, or, what comes to the same thing, he has considered corn as so good a measure of labour, that in his Digression on the value of silver during the four last centuries, he has actually substituted corn for labour, and drawn the same conclusions from his inquiry as if the one were always an accurate measure of the other.

In doing this I think he has fallen into an important error, and drawn inferences inconsistent with his own general principles. At the same time, we must allow that, from century to century, and in different and distant countries where the precious metals greatly vary in value, corn, as being the principal necessary of life, may fairly be considered as the best measure of the real exchangeable value of labour; and consequently the power of a commodity to command labour will, at distant times and in different countries, be the best criterion of its power of commanding the first necessary of life—corn.

With regard to the other necessaries and conveniences of life, they must in general be allowed to depend still more upon labour than corn, because in general more labour is employed upon them after they come from the soil. And as, *all other things being equal,* the quantity of labour which a commodity will command will be in proportion to the quantity which it has cost; we may fairly presume that the influence of the different quantities of labour which a commodity may have cost in its production, will be sufficiently taken into consideration in this estimate of value, together with the further consideration of all those circumstances, besides the labour actually employed on them in which they are not equal. The great pre-eminence of that measure of value, which consists in the quantity of labour which a commodity will command, over that which consists in the quantity of labour which has been actually employed about it, is, that while the latter involves merely one cause of exchangeable value, though in general the most considerable one; the former, in addition to this cause, involves all the different circumstances which influence the rates at which commodities are actually exchanged for each other.

It is evident that no commodity can be a good measure of real value in exchange in different places and at distant periods, which is not at the same time a good measure of nominal value in these places and at these distant periods; and in this respect it must be allowed, that the quantity of common labour that an article will command, which necessarily takes into account every cause that in-

fluences exchangeable value, is an unexceptionable measure.

It should be further remarked, that although in different countries and at distant periods, the same quantity of labour will command very different quantities of corn—the first necessary of life; yet in the progress of improvement and civilization it generally happens, that when labour commands the smallest quantity of food, it commands the greatest quantity of other commodities, and when it commands the greatest quantity of food, it commands the smallest quantity of other necessaries and conveniences; so that when, in two countries, or in two periods differently advanced in improvement, two objects command the same quantity of labour, they will often command nearly the same quantity of the necessaries and conveniences of life, although they may command different quantities of corn.

It must be allowed then that, of any one commodity, the quantity of common day-labour which any article will command, appears to approach the nearest to a measure of real value in exchange.

But still, labour, like all other commodities, varies from its plenty or scarcity compared with the demand for it, and, at different times and in different countries, commands very different quantities of the first necessary of life; and further, from the different degrees of skill and of assistance from machinery with which labour is applied, the products of labour are not in proportion to the quantity exerted. Consequently, labour, in any sense in which the term can be applied, cannot be considered as an accurate and standard measure of real value in exchange. And if the labour which a commodity will command cannot be considered in this light, there is certainly no other quarter in which we can seek for such a measure with any prospect of success.

SECTION VII.

Of a Mean between Corn and Labour considered as a Measure of Real Value in Exchange.

No one commodity then, it appears, can justly be considered as a standard measure of real value in exchange; and such an estimate of the comparative prices of all commodities as would determine the command of any one in particular over the necessaries, conveniences, and amusements of life, including labour, would not only be too difficult and laborious for use, but generally quite impracticable. Two objects, however, might, in some cases, be a better measure of real value in exchange than one alone, and yet be sufficiently manageable for practical application.

A certain quantity of corn of a given quality, on account of its capacity of supporting a certain number of human beings, has always a definite and invariable value in use; but both its real and

nominal value in exchange is subject to considerable variations, not only from year to year, but from century to century. It is found by experience that population and cultivation, notwithstanding their mutual dependence on each other, do not always proceed with equal steps, but are subject to marked alternations in the velocity of their movements. Exclusive of annual variations, it appears that corn sometimes remains dear, compared with labour and other commodities, for many years together, and at other times remains cheap, compared with the same objects, for similar periods. At these different periods, a bushel of corn will command very different quantities of labour and other commodities. In the reign of Henry VII., at the end of the 15th and beginning of the 16th centuries, it appears, from the statute price of labour and the average price of wheat, that half a bushel of this grain would purchase but little more than a day's common labour; and, of course, but a small quantity of those commodities in the production of which much labour is necessary. A century afterwards, in the latter part of the reign of Elizabeth, half a bushel of wheat would purchase three days' common labour, and, of course, a considerable quantity comparatively of those commodities on which labour is employed. Consequently, from century to century as well as from year to year, a given quantity of corn appears to measure very imperfectly the quantity of the necessaries, conveniences, and amusements of life, which any particular commodity will command in exchange.

The same observation will hold good if we take day-labour, the measure proposed by Adam Smith; and the same period in our history will illustrate the variation from century to century of this measure. In the reign of Henry VII. a day's labour, according to the former statement, would purchase nearly half a bushel of wheat, the chief necessary of life, and consequently the chief article in the general estimate of real value in exchange. A century afterwards, a day's labour would only purchase one-sixth of a bushel,—a most prodigious difference in this main article. And though it may be presumed that a day's labour in both periods would purchase much more nearly the same quantity of those articles where labour enters as a principal ingredient, than of corn, yet the variations in its command over the first necessary of life, at different periods, must alone disqualify it from being an accurate measure of real value in exchange from century to century.

Though neither of these two objects, however, taken singly, can be considered as a satisfactory measure of value, yet by combining the two, we may perhaps approach to greater accuracy.

When corn compared with labour is dear, labour compared with corn must necessarily be cheap. At the period that a given quantity of corn will command the greatest quantity of the necessaries, conveniences, and amusements of life,

a given quantity of labour will always command the smallest quantity of such objects; and at the period when corn commands the smallest, labour will command the greatest quantity of them.

If, then, we take a mean between the two, we shall evidently have a measure corrected by the contemporary variations of each in opposite directions, and likely to represent more nearly than either the same quantity of the necessaries, conveniences, and amusements of life, at the most distant periods, and under all the varying circumstances to which the progress of population and cultivation is subject.

For this purpose, however, it is necessary that we should fix upon some measure of corn which may be considered, in respect of quantity, as an equivalent to a day's labour; and perhaps in this country, a peck of wheat, which is about the average daily earnings of a good labourer in good times, may be sufficiently accurate for the object proposed. Any commodity therefore which, at different periods, will purchase the same number of days' labour and of pecks of wheat, or parts of them, each taken in equal proportions, may be considered, upon this principle, as commanding pretty nearly the same quantity of the necessaries, conveniences, and amusements of life; and, consequently, as preserving pretty nearly its real value in exchange at different periods. And any commodity which at different periods is found to purchase different quantities of corn and labour thus taken, will evidently have varied compared with a measure subject to but little variation, and consequently may be presumed to have varied proportionably in its real value in exchange.

In estimating the real value in exchange of commodities in different countries, regard should be had to the kind of food consumed by the labouring classes; and the general rule should be to compare them in each country with a day's labour, and a quantity of the prevailing sort of grain, equal to the average daily earnings of a good labourer. Thus, if the money price of a commodity in England would purchase five days' labour and five pecks of corn, and the money price of a commodity in Bengal would purchase five days' labour, and five times the quantity of rice usually earned in a day by a good labourer, according to an average of a very considerable period, these commodities might be considered in each country as of equal real value in exchange; and the difference in their money values would express pretty nearly the different values of silver in England and Bengal.

The principal defect of the measure here proposed arises from the effect of capital, machinery and the division of labour in varying, in different countries and at different periods, the results of day-labour and the prices of manufactured commodities: but these varying results no approximation hitherto suggested has ever pretended to estimate; and, in fact, they relate rather to riches than to exchangeable value, which, though nearly connected, are not always the same; and on this account, in an estimate of value, the cheapness arising from

skill and machinery may without much error be neglected.

Mr. Ricardo asks "why should gold, or corn, or labour be the standard measure of value, more than coals or iron, more than cloth, soap, candles, and the other necessaries of the labourer? Why, in short, should any commodity, or all commodities together, be the standard, when such a standard is itself subject to fluctuations in value?"* I trust that the question here put has been satisfactorily answered in the course of this inquiry into the nature and measures of value. And I will only add here that some one, or more, or all commodities together, must of necessity be taken to express exchangeable value, because they include every thing that can be given in exchange. Yet a measure of exchangeable value thus formed, it is acknowledged, is imperfect; and we should certainly have been obliged to Mr. Ricardo if he had substituted a better. But what measure has he proposed to substitute? The sacrifice of toil and labour made in the production of a commodity; that is, its *cost*, or, more properly speaking, a portion of its cost, from which its value in exchange is practically found, under different circumstances, to vary in almost every degree. Cost and value are always essentially different. A commodity, the cost of which has doubled, may be worth in exchangeable value no more than before, if other commodities have likewise doubled. When the cost of commodities however is esti-

* Princ. of Polit. Econ. c. xx. p. 343. 2d edit.

mated upon the principles of Adam Smith, their money cost and average money value will generally meet. But when cost is estimated upon the principles of Mr. Ricardo, by the quantity of labour applied, the labour cost and labour value scarcely ever agree. Wherever there are profits, (and the cases are very rare indeed in which there are none,) the value of a commodity in exchange for labour is uniformly greater than the labour which has been employed upon it.

We have therefore to choose between an imperfect measure of exchangeable value, and one that is necessarily and fundamentally erroneous.

If Mr. Ricardo says that by value, when he uses it alone, he does not mean exchangeable value, then he has certainly led us into a great error in many parts of his work; and has finally left us without substituting any measure of exchangeable value for the one to which he objects. There never was any difficulty in finding a measure of cost, or indeed of value, if we define it to be cost. The difficulty is, to find a measure of real value in exchange, in contradistinction to nominal value or price. There is no question as to an accurate standard, which is justly considered as unattainable. But, of all the articles given in exchange, labour is, beyond comparison, the largest and most important; and next to it stands corn. The reason, why corn should be preferred to coals or iron, is surely very intelligible. The same reason combined with others holds for preferring labour to corn. And the reasons given in this section are, I trust, sufficient for preferring, in some cases, a mean between corn and labour to either of them taken separately. Where corn is not one of the articles to be measured, as in the case of an estimate of the value of the precious metals, or any particular commodity, a mean between corn and labour is certainly to be preferred to labour alone; but where corn is one of the main articles to be measured, as in an estimate of the exchangeable value of the whole produce of a country, the command of such produce over domestic and foreign labour is still the best criterion to which we can refer.