

## CHAPTER IV.

## OF THE WAGES OF LABOUR.

## SECTION I.

*Of the Dependence of the Wages of Labour upon Supply and Demand.*

THE wages of labour are the remuneration to the labourer for his personal exertions.

They may be divided, like the prices of commodities, into real and nominal.

The real wages of labour consist of their value, estimated in the necessities, conveniences, and luxuries of life.

The nominal wages of labour consist in their value, estimated in money.

As the value of labour, as well as of commodities, is most frequently compared with money, it will be advisable in general to adopt this mode of comparison, with a frequent reference, however, where it is necessary, to the money's worth, or the real wages of labour.

The money wages of labour are determined by the demand and supply of money, compared with the demand and supply of labour: and, during periods when money may be supposed to maintain nearly the same value, the variations in the wages

of labour, may be said to be regulated by the variations in the demand compared with the supply of labour.

The principle of demand and supply is the paramount regulator of the prices of labour as well as of commodities, not only temporarily but permanently; and the costs of production affect these prices only as they are the necessary condition of the permanent supply of labour, or of commodities.

It is as the condition of the supply, that the prices of the necessities of life have so important an influence on the price of labour. A certain portion of these necessities is required to enable the labourer to maintain a stationary population, a greater portion to maintain an increasing one; and consequently, whatever may be the prices of the necessities of life, the money wages of the labourer must be such as to enable him to purchase these portions, or the supply cannot possibly take place in the quantity required.

To shew that what may be called the cost of producing labour only influences wages as it regulates the supply of labour, it is sufficient to turn our attention to those cases, where, under temporary circumstances, the cost of production does not regulate the supply; and here we shall always find that this cost immediately ceases to regulate prices.

When, from a course of abundant seasons, or any cause which does not impair the capitals of the farmers, the price of corn falls for some time to

gether, the cost of producing labour may be said to be diminished, but it is not found that the wages of labour fall;\* and for this obvious reason, that the reduced cost of production cannot, under sixteen or eighteen years, materially influence the *supply* of labour in the market. On the other hand, when the prices of corn rise from a succession of indifferent seasons, or any cause which leaves the demand for labour nearly the same as before, wages will not rise: because the same number of labourers remain in the market; and though the price of production has risen, the supply is not for some time affected by it. So entirely, indeed, does the effect of the cost of production on price depend upon the manner in which it regulates supply, that if in this, or any other country during the last twenty years, the production of labour had cost absolutely nothing, but had still been supplied in exactly the same proportion to the demand, the wages of labour would have been in no respect different. Of the truth of this position, we may be quite assured, by the instance alluded to in a former chapter, of a paper currency so limited in quantity as not to exceed the metallic money, which would otherwise have circulated, in which case, though the cost of the paper is comparatively nothing, yet, as it performs the same function, and is supplied

\* The fall in the price of labour which took place in 1815 and 1816 was occasioned solely by the diminution of demand, arising from the losses of the farmers, and in no respect by the diminished cost of production.

only in the same quantity as the money, it acquires the same value in exchange.

Adam Smith is practically quite correct, when he says, that, "the money price of labour is necessarily regulated by two circumstances; the demand for labour; and the price of the necessaries and conveniences of life."\* But it is of great importance to a thorough understanding of the subject, to keep constantly under our view the precise mode in which the costs of production operate on the price of labour, and to see clearly and distinctly the constant and predominant action of the principle of supply and demand.

In all those cases which Adam Smith has so happily explained and illustrated, where an apparent irregularity takes place in the pay of different kinds of labour, it will be found, universally, that the causes to which he justly attributes them, are causes of a nature to influence the supply of labour in the particular departments in question. The five principal circumstances, which, according to him, make up for a small pecuniary gain in some employments, and counterbalance a great one in others, namely; 1. The agreeableness or disagreeableness of the employments themselves. 2. The easiness and cheapness, or the difficulty and expense of learning them. 3. The constancy or inconstancy of employment in them; 4. the small or great trust which must be reposed in those who exercise them; and 5. the probability or improba-

\* Wealth of Nations, Book, i. ch. viii. p. 130. 6th edit.

bility of success in them,\* are all obviously of this description; and in many of the instances, it would not be easy to account for their effects on the price of the different kinds of labour, upon any other principle. One hardly sees, for instance, why the cost of producing a poacher should be less than that of a common labourer, or the cost of producing a coal-heaver much greater; yet they are paid very differently. It is not easier to resolve the effects on wages of the small or great trust which must be reposed in a workman, or, the probability or improbability of success in his trade, into the quantity of labour which has been employed to bring him into the market. Adam Smith satisfactorily shews, that the whole body of lawyers is not remunerated sufficiently to pay the expenses which the education of the whole body has cost;† and it is obvious that particular skill, both in trades and professions, is paid high, with but little reference to the labour employed in acquiring it, which, owing to superior talent, is often less than that which is frequently applied to the acquisition of inferior proficiency. But all these cases are accounted for in the easiest and most natural manner, upon the principle of supply and demand. Superior artists are paid high on account of the scanty supply of such skill, whether occasioned by unusual labour or uncommon genius, or both. Lawyers as a body, are not well remunerated, because the prevalence

\* Wealth of Nations, B. i. ch. x. part i. p. 152. 6th edit.

† Id. p. 161.

of other motives, besides mere gain, crowds the profession with candidates, and the supply is not regulated by the cost of the education; and in all those instances, where disadvantages or difficulties of any kind accompany particular employments, it is obvious that they must be paid comparatively high, because if the additional remuneration were not sufficient to balance such disadvantages, the supply of labour in these departments would be deficient, as, *ceteris paribus*, every person would choose to engage in the most agreeable, the least difficult, and the least uncertain occupations. The deficiency so occasioned, whenever it occurs, will naturally raise the price of labour; and the advance of price, after some little oscillation, will rest at the point where it is just sufficient to effect the supply required.

Adam Smith has in general referred to the principle of supply and demand in cases of this kind, but he has occasionally forgotten it:—"If one species of labour," he says, "requires an uncommon degree of dexterity and ingenuity, the *esteem* which men have for such talents will give a value to their produce, superior to what would be due to the time employed about it."\* And in another place, speaking of China, he remarks, "That if in such a country, (that is, a country with stationary resources,) wages had ever been more than sufficient to maintain the labourer, and enable him to bring up a family; the competition of the labourers

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

and the interest of the masters, would soon reduce them to the lowest rate which is consistent with *common humanity*.\* The reader will be aware, from what has been already said, that in the first case here noticed, it is not the esteem for the dexterity and ingenuity referred to, which raises the price of the commodity, but their scarcity, and the consequent scarcity of the articles produced by them, compared with the demand. And in the latter case, it is not common humanity which interferes to prevent the price of labour from falling still lower. If humanity could have successfully interfered, it ought to have interfered long before, and prevented any premature mortality from being occasioned by bad or insufficient food. But unfortunately, common humanity cannot alter the resources of a country. While these are stationary, and the habits of the lower classes prompt them to supply a stationary population cheaply, the wages of labour will be scanty; but still they cannot fall below what is necessary, under the actual habits of the people, to keep up a stationary population; because, by the supposition, the resources of the country are stationary, not increasing or declining, and consequently the principle of demand and supply would always interfere to prevent such wages as would either occasion an increase or diminution of people.

\* Wealth of Nations, Book I. chap. vii. p. 108.

## SECTION II.

*Of the Causes which principally affect the Habits of the Labouring Classes.*

Mr. Ricardo has defined the natural price of labour to be "that price which is necessary to enable the labourers one with another to subsist, and to perpetuate their race, without either increase or diminution."\* This price I should really be disposed to call a most unnatural price; because in a natural state of things, that is, without great impediments to the progress of wealth and population, such a price could not generally occur for hundreds of years. But if this price be really rare, and, in an ordinary state of things, at so great a distance in point of time, it must evidently lead to great errors to consider the market-prices of labour as only temporary deviations above and below that fixed price to which they will very soon return.

The natural or necessary price of labour in any country I should define to be, "that price which, in the actual circumstances of the society, is necessary to occasion an average supply of labourers, sufficient to meet the average demand." And the market price I should define to be, the actual price in the market, which from temporary causes is sometimes

\* Polit. Econ. c. v. p. 85. 2d edit.

above, and sometimes below, what is necessary to supply this average demand.

The condition of the labouring classes of society must evidently depend, partly upon the rate at which the resources of the country and the demand for labour are increasing; and partly, on the habits of the people in respect to their food, clothing and lodging.

If the habits of the people were to remain fixed, the power of marrying early, and of supporting a large family, would depend upon the rate at which the resources of the country and the demand for labour were increasing. And if the resources of the country were to remain fixed, the comforts of the lower classes of society would depend upon their habits, or the amount of those necessities and conveniences, without which they would not consent to keep up their numbers.

It rarely happens, however, that either of them remain fixed for any great length of time together. The rate at which the resources of a country increase is, we well know, liable, under varying circumstances, to great variation; and the habits of a people though not so liable, or so necessarily subject to change, can scarcely ever be considered as permanent. In general, their tendency is to change together. When the resources of a country are rapidly increasing, and the labourer commands a large portion of necessities, it is to be expected that if he has the opportunity of exchanging his superfluous food for conveniences and comforts, he will acquire a taste for these conveniences, and

his habits will be formed accordingly. On the other hand, it generally happens that, when the resources of a country become nearly stationary, such habits, if they ever have existed, are found to give way; and, before the population comes to a stop, the standard of comfort is essentially lowered.

Still, however, partly from physical, and partly from moral causes, the standard of comfort differs essentially in different countries, under the same rate of increase in their resources. Adam Smith, in speaking of the inferior food of the people of Scotland, compared with their neighbours of the same rank in England, observes, "This difference in the mode of their subsistence is not the cause, but the effect, of the difference in their wages, though, by a strange misapprehension, I have frequently heard it represented as the cause."\* It must be allowed, however, that this correction of a common opinion is only partially just. The effect, in this case as in many others, certainly becomes in its turn a cause; and there is no doubt, that if the continuance of low wages for some time, should produce among the labourers of any country habits of marrying with the prospect only of a mere subsistence, such habits, by supplying the quantity of labour required at a low rate, would become a constantly operating cause of low wages.

It would be very desirable to ascertain what are the principal causes which determine the different

\* Book I. chap. viii. p. 114. 6th edit.

modes of subsistence among the lower classes of people of different countries ; but the question involves so many considerations, that a satisfactory solution of it is hardly to be expected. Much must certainly depend upon the physical causes of climate and soil ; but still more perhaps on moral causes, the formation and action of which are owing to a variety of circumstances.

From high wages, or the power of commanding a large portion of the necessities of life, two very different results may follow ; one, that of a rapid increase of population, in which case the high wages are chiefly spent in the maintenance of large and frequent families : and the other, that of a decided improvement in the modes of subsistence, and the conveniences and comforts enjoyed, without a proportionate acceleration in the rate of increase.

In looking to these different results, the causes of them will evidently appear to be the different habits existing among the people of different countries, and at different times. In an inquiry into the causes of these different habits, we shall generally be able to trace those which produce the first result to all the circumstances which contribute to depress the lower classes of the people, which make them unable or unwilling to reason from the past to the future and ready to acquiesce, for the sake of present gratification, in a very low standard of comfort and respectability ; and those which produce the second result, to all the circumstances which tend to elevate the character of the lower classes of society, which make them approach

the nearest to beings who "look before and after," and who consequently cannot acquiesce patiently in the thought of depriving themselves and their children of the means of being respectable, virtuous and happy.

Among the circumstances which contribute to the character first described, the most efficient will be found to be despotism, oppression, and ignorance : among those which contribute to the latter character, civil and political liberty, and education.

Of all the causes which tend to generate prudential habits among the lower classes of society, the most essential is unquestionably civil liberty. No people can be much accustomed to form plans for the future, who do not feel assured that their industrious exertions, while fair and honourable, will be allowed to have free scope ; and that the property which they either possess, or may acquire, will be secured to them by a known code of just laws impartially administered. But it has been found by experience, that civil liberty cannot be permanently secured without political liberty. Consequently, political liberty becomes almost equally essential ; and in addition to its being necessary in this point of view, its obvious tendency to teach the lower classes of society to respect themselves by obliging the higher classes to respect them, must contribute greatly to aid all the good effects of civil liberty.

With regard to education, it might certainly be made general under a bad form of government, and might be very deficient under one in other

respects good: but it must be allowed, that the chances, both with regard to its quality and its prevalence, are greatly in favour of the latter. Education alone could do little against insecurity of property; but it would powerfully assist all the favourable consequences to be expected from civil and political liberty, which could not indeed be considered as complete without it.

According as the habits of the people had been determined by such unfavourable or favourable circumstances, high wages, or a rapid increase of the funds for the maintenance of labour, would be attended with the first or second results before described; or at least by results which would approach to the one or the other, according to the proportions in which all the causes which influence habits of improvidence or prudence had been efficient.

Ireland, during the course of the last century, may be produced perhaps as the most marked instance of the first result. On the introduction of the potatoe into that country, the lower classes of society were in such a state of oppression and ignorance, were so little respected by others, and had consequently so little respect for themselves, that as long as they could get food, and that of the cheapest kind, they were content to marry under the prospect of every other privation. The abundant funds for the support of labour, occasioned by the cultivation of the potatoe in a favourable soil, which often gave the labourer the command of a quantity of subsistence quite un-

usual in the other parts of Europe, were spent almost exclusively in the maintenance of large and frequent families; and the result was, a most rapid increase of population, with little or no melioration in the general condition and modes of subsistence of the labouring poor.

An instance somewhat approaching to the second may be found in England, in the first half of the last century. It is well known, that during this period the price of corn fell considerably, while the wages of labour are stated to have risen. During the last forty years of the 17th century, and the first twenty of the 18th, the average price of corn was such as, compared with the wages of labour, would enable the labourer to purchase, with a day's earnings, two-thirds of a peck of wheat. From 1720 to 1750 the price of wheat had so fallen, while wages had risen, that instead of two thirds the labourer could purchase the whole of a peck of wheat with a day's labour.\*

This great increase of command over the necessities of life did not, however, produce a proportionate increase of population. It found the people of this country living under an excellent government, and enjoying all the advantages of civil and political liberty in an unusual degree. The lower classes of people had been in the habit of being respected, both by the laws and the higher orders of their fellow citizens, and had learned in consequence to respect themselves. And the result was,

\* See Sect. IV. of this chapter.

that, instead of an increase of population exclusively, a considerable portion of their increased real wages was expended in a marked improvement of the quality of the food consumed, and a decided elevation in the standard of their comforts and conveniences.

During the same period, the resources of Scotland do not appear to have increased so fast as those of England; but since the middle of the century, the former country has perhaps made a more rapid progress than the latter; and the consequence has been, that, from the same causes, these increased resources have not produced, exclusively, increase of population, but a great alteration for the better in the food, dress, and houses of the lower classes of society.

The general change from bread of a very inferior quality to the best wheaten bread, seems to have been peculiar to the southern and midland counties of England, and may perhaps have been aided by adventitious circumstances.

The state of the foreign markets as opened by the bounty, together with the improving cultivation of the country, appears to have diminished, in some districts, the usual difference in the prices of the different kinds of grain. Though barley was largely grown and largely exported, it did not fall in price so much as wheat. On an average of the twenty years ending with 1705, compared with an average of twenty years ending with 1745, the quarter of wheat fell from 1*l.* 16*s.* 3*d.* to 1*l.* 9*s.* 10*d.* but malt during the same period remained at the

same price, or, if any thing, rather rose,\* and as barley is supposed to be not a cheaper food than wheat, unless it can be purchased at  $\frac{2}{3}$  of the price,† such a relative difference would have a strong tendency to promote the change.

From the small quantity of rye exported, compared with wheat and barley, it may be inferred that it did not find a ready vent in foreign markets; and this circumstance, together with the improving state of the land, diminished its cultivation and use.

With regard to oats, the prohibitory laws and the bounty were not so favourable to them as to the other grains, and more were imported than exported. This would naturally tend to check their cultivation in the districts which were capable of growing the sort of grain most certain of a market; while the Act of Charles II. respecting the buying up of corn to sell again, threw greater obstacles in the way of the distribution of oats than of any other grain.

By this Act, wheat might be bought up and stored for future sale when the price did not exceed 48*s.*; barley, when the price did not exceed 28*s.*; and oats, when the price did not exceed 13*s.* 4*d.* The limited rates of wheat and barley were considerably above their ordinary and average rates at that period, and therefore did not often in-

\* Eden's State of the Poor. Table, Vol. III. p. 79. In this table, a deduction is made of  $\frac{2}{3}$  for the quarter of middling wheat of eight bushels, which is too much.

† Tracts on the Corn Trade, Supp. p. 199.



terfere with their proper distribution; but the ordinary price of oats was supposed to be about 12s. the quarter, and consequently the limit of 13s. 4d. would be very frequently exceeded,\* and obstacles would be continually thrown in the way of their transport from the districts of their growth to the districts where they might be wanted. But if, from the causes here described, the labouring classes of the South of England were partly induced, and partly obliged, to adopt wheat as their main food, instead of the cheaper kinds of grain, the rise of wages would at once be accounted for, consistently with the fall in the price of wheat; an event which, under an apparently slack demand for labour at the time, has been considered as so improbable by some writers, that the accuracy of the accounts has been doubted. It is evidently, however, possible, either on supposition of a voluntary determination on the part of the labouring classes to adopt a superior description of food, or a sort of obligation to do it, on account of the introduction of a new system of cultivation adapted to a more improved soil: and, in either case, the effects observable from 1720 to 1750 would appear; namely, an increased power of commanding the necessaries of life, without a proportionate increase of population. It is probable that both causes contributed their share to the change in question. When once the fashion of eating wheaten bread had become general in some countries, it would be likely to

\* Tracts on the Corn Trade, p. 50.

spread into others, even at the expense of comforts of a different description; and in all cases where particular modes of subsistence, from whatever causes arising, have been for any time established, though such modes always remain susceptible of change, the change must be a work of time and difficulty. A country, which for many years had principally supported its peasantry on one sort of grain, must alter its whole system of agriculture before it can produce another sort in sufficient abundance; and the obstinacy with which habits are adhered to by all classes of people, as in some countries it would prevent high wages from improving the quality of the food, so in others it would prevent low wages from suddenly deteriorating it; and such high or low wages would be felt almost exclusively in the great stimulus or the great check which they would give to population.

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### SECTION III.

*Of the Causes which principally influence the Demand for Labour, and the Increase of the Population.*

There is another cause, besides a change in the habits of the people, which prevents the population of a country from keeping pace with the apparent command of the labourer over the means of subsistence. It sometimes happens that wages are for

a time rather higher than they ought to be, in proportion to the demand for labour. This is the most likely to take place when the price of raw produce has fallen in value, so as to diminish the power of the cultivators to employ the same or an increasing number of labourers at the same price. If the fall be considerable, and not made up in value by increase of quantity, so many labourers will be thrown out of work that wages, after a period of great distress, will generally be lowered in proportion. But if the fall be gradual, and partly made up in exchangeable value by increase of quantity, the money wages of labour will not necessarily sink; and the result will be merely a slack demand for labour, not sufficient perhaps to throw the actual labourers out of work, but such as to prevent or diminish task-work, to check the employment of women and children, and to give but little encouragement to the rising generation of labourers. In this case the quantity of the necessaries of life actually earned by the labourer and his family, may be really less than when, owing to a rise of prices, the daily pay of the labourer will command a smaller quantity of corn. The command of the labouring classes over the necessaries of life, though apparently greater, is really less in the former than in the latter case, and, upon all general principles, ought to produce less effect on the increase of population.

This disagreement between apparent wages and the progress of population will be further aggravated in those countries where poor laws are estab-

lished, and it has become customary to pay a portion of the labourers' wages out of the parish rates. If, when corn rises, the farmers and landholders of a parish keep the wages of labour down, and make a regular allowance for children, it is obvious that there is no longer any necessary connexion between the apparent wages of day labour and the real means which the labouring classes possess of maintaining a family. When once the people are reconciled to such a system, the progress of population might be very rapid, at a time when the wages of labour, independently of parish assistance, were only sufficient to support a wife and one child, or even a single man without either wife or child, because there might still be both encouragement to marriage, and the means of supporting children.\*

When the population of a country increases faster than usual, the labouring classes must have the command of a greater quantity of food than they had before possessed, or at least applied to the maintenance of their families. This may be obtained in various ways—by higher real wages,

\* It is most fortunate for the country and the labouring classes of society, that the bill which passed the House of Commons last session, for taking from their parents the children of those who asked for relief, and supporting them on public funds, did not pass the House of Lords. Such a law would have been the commencement of a new system of poor laws beyond all comparison worse than the old: and it is difficult to conceive how it could have been recommended by persons who agreed to publish the opinions which appear in the greater part of the Report on the Poor Laws.

by saving in conveniences, by adopting a cheaper kind of food, by more task-work and the more general employment of the women and children, or by parish allowances. But the actual application of the greater quantity of food is, I conceive, necessary to the increase of population; and wherever such increase has taken place, some of these causes, by which a greater quantity of food is procured, will always be in action, and may generally be traced.

The high wages, both real and nominal of America, occasioned by the rapid accumulation of capital, and the power of selling produce, obtained by a comparative small quantity of labour, at European prices, are unquestionably the cause of the very rapid progress of the American population.

The peculiar increase of the population of Ireland, compared with other European countries, has obviously been owing to the adoption of a cheaper food, which might be produced in large quantities, and which, aided by the Cottar system of cultivation, has allowed the increase of people to precede the demand for labour.

And the great increase of population of late years in England and Scotland has been owing to the power of the labouring classes to obtain a greater quantity of food, partly by temporary high wages in manufactures, partly by the increased use of potatoes, partly by increased task-work and the increased employment of women and children, partly by increased parish allowances to families, and partly perhaps, (though I think but little taking the coun-

try throughout) by a saving in conveniences and luxuries.

In general, perhaps, more of these causes will be called into action by a rise of prices, which sometimes lowers the command of a day's labour over the necessaries of life, than by a fall of prices which sometimes raises it.

What is mainly necessary to a rapid increase of population, is a great and continued demand for labour; and this is occasioned by, and proportioned to, the rate at which the whole value of the capital and revenue of the country increases annually; because, the faster the value of the annual produce increases, the greater will be the power of purchasing fresh labour, and the more will be wanted every year.

It has been sometimes thought, that the demand for labour can only be in proportion to the increase of the circulating, not the fixed capital; and this is no doubt true in individual cases;\* but it is not necessary to make the distinction in reference to a whole nation; because where the substitution of fixed capital saves a great quantity of labour, which cannot be employed elsewhere, it diminishes the value of the annual produce, and retards the increase of the capital and revenue taken together.

If, for instance, a capitalist who had employed £20,000 in productive labour, and had been in the habit of selling his goods for £22,000, making a

\* See an ingenious pamphlet on the condition of the labouring classes by Mr. Barton.

a profit of 10 per cent., were to employ the same quantity of labour in the construction of a machine worth £20,000, which would enable him to carry on his business without labour in future, except as his machine might require repair, it is obvious that, during the first year, the same value of the annual produce and the same demand for labour would exist; but in the next year, as it would only be necessary for the capitalist, in order to obtain the same rate of profits as before, to sell his goods for a little more than £2,000 instead of £22,000, the value of the annual produce would fall, the capital would not be increased, and the revenue would be decidedly diminished; and upon the principle that the demand for labour depends upon the rate at which the value of the general produce, or of the capital and revenue taken together, increases, the slackness of the demand for labour under such circumstances would be adequately accounted for.

In general, however, the use of fixed capital is extremely favourable to the abundance of circulating capital; and if the market for the products can be proportionally extended, the whole value of the capital and revenue of a state is greatly increased by it, and a great demand for labour created.

The increase in the whole value of cotton products, since the introduction of the improved machinery, is known to be prodigious; and it cannot for a moment be doubted that the demand for labour in the cotton business has very greatly increased during the last forty years. This is indeed

sufficiently proved by the greatly increased population of Manchester, Glasgow, and the other towns where the cotton manufactures have most flourished.

A similar increase of value, though not to the same extent, has taken place in our hardware, woollen, and other manufactures, and has been accompanied by an increasing demand for labour, notwithstanding the increasing use of fixed capital.

Even in our agriculture, if the fixed capital of horses, which, from the quantity of produce they consume, is the most disadvantageous description of fixed capital, were disused, it is probable, that a great part of the land which now bears corn would be thrown out of cultivation. Land of a poor quality would never yield sufficient to pay the labour of cultivating with the spade, of bringing manure to distant fields in barrows, and of carrying the products of the earth to distant markets by the same sort of conveyance. Under these circumstances, as there would be a great diminution in the quantity of corn produced, there would be a great diminution in the whole value of the produce; and the demand for labour and the amount of the population would be greatly diminished.\*

\* It has lately been stated, that spade cultivation will yield both a greater gross produce and a greater neat produce. I am always ready to bow to well established experience; but if such experience applies in the present case, one cannot sufficiently wonder at the continued use of plough and horses in agriculture. Even

On the other hand, if, by the gradual introduction of a greater quantity of fixed capital, we could cultivate and dress our soil and carry the produce to market at a much less expense, we might increase our produce very greatly by the cultivation and improvement of all our waste lands; and if the substitution of this fixed capital were to take place in the only way in which we can suppose it practically to take place, that is, gradually, there is no reason to doubt that the value of raw produce would keep up nearly to its former level; and its greatly increased quantity, combined with the greater proportion of the people which might be employed in manufactures and commerce, would unquestionably occasion a very great increase in the exchangeable value of the general produce, and thus cause a great demand for labour and a great addition to the population.

In general, therefore, there is little to fear that the introduction of fixed capital, as it is likely to take place in practice, will diminish the effective demand for labour; indeed it is to this source that we are to look for the main cause of its future in-

supposing however that the use of the spade might, on some soils, so improve the land, as to make the crop more than pay the additional expense of the labour, taken separately; yet, as horses must be kept to carry out dressing to a distance and to convey the produce of the soil to market, it could hardly answer to the cultivator to employ men in digging his fields, while his horses were standing idle in his stables. As far as experience has yet gone, I should certainly say, that it is commerce, price and skill, which will cultivate the wastes of large and poor territories—not the spade.

crease. At the same time, it is certainly true, as will be more fully stated in a subsequent part of this volume, that if the substitution of fixed capital were to take place very rapidly, and before an adequate market could be found for the more abundant supplies derived from it and for the new products of the labour that had been thrown out of employment, a slack demand for labour and great distress among the labouring classes of society would be universally felt. But in this case, the general produce, or the capital and revenue of the country taken together, would certainly fall in value, owing to a temporary excess of supply compared with the demand, and would shew that the variations in this value, compared with the previous value paid in wages, are the main regulators of the power and will to employ labour.

In the formation of the value of the whole produce of a country; a part depends upon price, and a part upon quantity. That part which depends merely upon price is in its nature less durable and less effective than that which depends upon quantity. An increase of price, with little or no increase of quantity, must be followed very soon by a nearly proportionate increase of wages; while the command of these increased money wages over the necessaries of life going on diminishing, the population must come to a stop, and no further rise of prices can occasion an effective demand for labour.

On the other hand, if the quantity of produce be increased so fast that the value of the whole

diminishes from excessive supply, it may not command so much labour this year as it did in the last, and for a time there will be no demand for workmen.

These are the two extremes, one arising from increased value without increased quantity; and the other from increased quantity without increased value.

It is obvious that the object which it is most desirable to attain is the union of the two. There is somewhere a happy medium, where, under the actual resources of a country, the increase of wealth and the demand for labour are a maximum; but this point cannot be ascertained. An increase of quantity with steady prices, or even slightly falling, is consistent with a considerable increase of the general value of produce, and may occasion a considerable demand for labour; but in the actual state of things, and in the way in which the precious metals are actually distributed, some increase of prices generally accompanies the most effective demand for produce and population. It is this increase both of quantity and price which most surely creates the greatest demand for labour, excites the greatest quantity of industry, and generally occasions the greatest increase of population.

## SECTION IV.

*Of the Effect of a Fall in the Value of Money on the Demand for Labour and the Condition of the Labourer.*

Some writers of great ability have been of opinion that rising prices, or a falling value of money, are very unfavourable to the lower classes of society; and certainly there are some periods of our history which seem strongly to countenance this opinion: but I am inclined to think, that if these periods, and the circumstances connected with them, be examined with more attention, the conclusion which has been drawn from them will not appear so certain as has been generally imagined. It will be found that, in the instances in question, other causes were in operation to which the effect referred to might more justly be attributed; and we shall hardly have good reason to conclude, that where an effective demand for labour accompanies a fall in the value of money and no positive obstacles are thrown in the way of its rising, it will not, in a moderately short time, follow the price of the main food of the labourer.

The period of our history universally noticed is the 16th century, from the end of the reign of Henry VII. to the end of the reign of Elizabeth. During this period it is an unquestionable fact that the real wages of labour fell in an extraordinary manner,

and towards the latter end of the century they would not command much above one-third of the quantity of wheat which they did at the beginning of it.

Sir F. M. Eden has noticed the price of wheat in nineteen out of the twenty-four years of Henry VII.'s reign, and in some of the years two or three times.\* Reducing the several notices in the same year first to an average, and then taking the average of the nineteen prices, it comes to 6s. 3½d. the quarter, rather less than 9½d. the bushel, and 2¾d. the peck.

By a statute passed in 1495 to regulate wages, the price of common day labour seems to have been 4d. or 4½d. without diet. All labourers and artificers, not specifically mentioned, are put down at 4d.; but in another part of the statute, even a woman labourer (I suppose in hay time) is set down at 4½d. and a carter at 5d.†

At the price of wheat just stated, if the wages of the labourer were 4d. he would be able to purchase, by a day's labour, a peck and three quarters of wheat, within half a farthing; if his wages were 4½d. he would be able to purchase half a bushel, within a farthing.

The notices of the price of day labour in the subsequent years are extremely scanty. There are none in the reigns of Henry VIII., Edward, and Mary. The first that occurs is in 1575, and the price is mentioned at 8d.‡ Taking an average

\* State of the Poor, vol. iii. p. xli.

† Id. vol. iii. p. lxxxix.

‡ Id. vol. iii. p. lx.

of the five preceding years in which the prices of wheat are noticed, including 1575, having previously averaged the several prices in the same year, as before, it appears that the price of the quarter of wheat was 1l. 2s. 2d. which is 2s. 9½d. the bushel, and 8¼d. the peck. At this price, a day's labour would purchase a peck of corn, within a farthing, or  $\frac{1}{17}$  of a peck.

This is a diminution of nearly a half in the corn wages of labour; but at the end of the century, the diminution was still greater.

The next notice of the price of labour, with the exception of the regulations of the justices in some of the more northern counties, which can hardly be taken as a fair criterion for the south, is in 1601, when it is mentioned as 10d. Taking an average from the Windsor table of five years, which includes, however, one excessively dear year, and subtracting  $\frac{1}{5}$  to reduce it to Winchester measure, it appears that the price of the quarter was 2l. 2s. 0d. which is 5s. 3d. the bushel, and 1s. 3½d. the peck. A day's labour would at this price purchase less than  $\frac{2}{3}$  of a peck.\*

This is unquestionably a prodigious fall in the

\* The year 1597 seems to have been an extraordinary dear one, and ought not to be included in so short an average. If an average was taken of the five years beginning with 1598, the labourer would appear to earn about  $\frac{5}{8}$  of a peck; and, on an average of ten years, from the same period, he would earn about  $\frac{4}{5}$  of a peck. During the five years from 1594 to 1598 inclusive, the price of wheat seems to have been unusually high from unfavourable seasons.

real wages of labour. But it is of great importance to inquire whether the prices from which they fell are not as extraordinary as the prices to which they sunk; and here I think we shall find that the prices the most difficult to be accounted for are the high prices of the 15th century, rather than the low prices of the 16th.

If we revert to the middle of the 14th century, at the time when the first general statute was passed to regulate wages, the condition of the labourer will appear to be very inferior to what it was during the greatest part of the 15th century. This fact may be established on unexceptionable evidence. Statutes or regulations to fix the price of labour, though they do not always succeed in their immediate object, (which is generally the unjust one, of preventing labour from rising,) may be considered as undeniable testimonies of what the prices of labour had been not long previous to the time of their passing. No legislature in the most ignorant age could ever be so rash as arbitrarily to fix the prices of labour without reference to some past experience. Consequently, though the prices in such statutes cannot be depended upon with regard to the future, they appear to be quite conclusive with regard to the past. In the present case, indeed, it is expressly observed, that servants should be contented with such liveries and wages as they received in the 20th year of the King's reign, and two or three years before.\*

\* Eden's State of the Poor, vol. i. p. 32.

From this statute, which was enacted in 1350, the 25th of the King, for the most unjust and impolitic purpose of preventing the price of labour from rising after the great pestilence, we may infer that the price of day labour had been about  $1\frac{1}{2}d.$  or  $2d.$  Common agricultural labour, indeed, is not specifically mentioned; but the servants of artificers are appointed to take  $1\frac{1}{2}d.$ , common carpenters  $2d.$ , and a reaper, the first week in August, also  $2d.$ , all without diet; from which we may conclude that the wages of common day labour must have been as often  $1\frac{1}{2}d.$  as  $2d.$ .\*

Sir F. M. Eden has collected notices of the prices of wheat in sixteen out of the twenty-five years of Edward III. previous to the time of the passing of the statute. Taking an average as before, the price of wheat appears to have been about  $5s. 4d.$  the quarter, which is  $8d.$  the bushel, and  $2d.$  the peck.

At this price of wheat, if the labourer earned  $1\frac{1}{2}d.$  a day, he could only purchase by a day's labour  $\frac{3}{4}$  of a peck of wheat; if he earned  $2d.$  he could purchase just a peck. In the former case, he would earn less than half of the corn earned by the labourer of Henry VII.; and in the latter case, very little more than half.

But in the subsequent period of Edward III.'s reign, the labourer appears to have been much worse off. The statute of labourers was renewed, and, it is said, enforced very rigidly, not-

\* Eden's State of the Poor, vol. i. p. 33.



withstanding a considerable rise in the price of corn.\* On an average of the thirteen years out of twenty-six, in which the prices of wheat are noticed, the quarter is about 11s. 9d. which is about 1s. 5½d. the bushel, and 4¼d. the peck.

At this price, if the wages of labour had not risen, the condition of the labourer would be very miserable. He would not be able to purchase so much as half-a-peck of wheat by a day's labour, about a fourth part of what he could subsequently command in the reign of Henry VII. It is scarcely possible, however, to conceive that the wages of labour should not have risen in some degree, notwithstanding the statute and its renewal; but even if they rose one half, they would not have nearly kept pace with the price of corn, which more than doubled; and during the last twenty-five years of the reign of Edward III. the earnings of the labourer in corn were probably quite as low as during the last twenty-five years of Elizabeth.

In the reigns of Richard II. and Henry IV. the price of wheat seems to have fallen nearly to what it was in the first half of the reign of Edward III. From 1377 to 1398 inclusive, it was about 5s. 7d. the quarter; and from 1399 to 1411, about 6s. 1d.† It is difficult to ascertain how much the wages of labour had advanced; but if they had risen so as to enable the labourer to support him-

\* Eden's State of the Poor, vol. i. p. 36. 42.

† Id. vol. iii. p. xxv. et seq.

self, through the last twenty-six years of the reign of Edward III. and had not sunk again, in consequence of the subsequent fall, which is probable, the labourer, during these reigns, must have been well paid.

During the reign of Henry V. and the first part of Henry VI. to the passing of the statutes in 1444, the price of the quarter of wheat was about 8s. 8d.\* This would be 1s. 1d. the bushel, and 3¼d. the peck. For the greater part of these thirty-two years, the wages of day labour seem to have been about 3d. They did not probably rise to what they were appointed to be in 1444, that is 4d. or 4½d., till the ten dear years preceding the statute, during which, the average price of the quarter was 10s. 8d. On an average of the whole period of thirty-two years, the wages of day labour appear to have purchased about a peck of corn, rather less perhaps, than more, in reference to the greater portion of the period.

From 1444 to the end of the century, the average money price of wheat was about 6s. while the wages of day labour continued at 4d. or 4½d.† At the latter of these prices of labour, wages would purchase exactly two pecks of wheat, or half a bushel, and at the former price ⅔ of half a bushel.

From the passing of the first statute of labourers

\* Eden's State of the Poor, Table of Prices, vol. iii.

† Mr. Hallam, in his valuable Work on the Middle Ages, has overlooked the distinction between the reigns of Edward III. and Henry IV. with regard to the state of the labouring classes. The two periods appear to have been essentially different in this respect.

in 1350 to the end of the 15th century, a period of 150 years, successive changes had been taking place in the quantity of metal contained in the same nominal sum; so that the pound of silver, which in the middle of the reign of Edward III. was coined into 1*l.* 2*s.* 6*d.* was, in the reign of Hen. VII., coined into 1*l.* 17*s.* 6*d.*

One should naturally have expected, that this depreciation of the coin would have shewn itself first, and most conspicuously, in some exportable commodity, such as corn, rather than labour; and so it probably would, as it did afterwards in the reign of Elizabeth, if wheat had not at the same time been cheap in the rest of Europe, particularly in France. In fact, however, this great fall in the intrinsic value of the coin was in no respect made up by the slight rise of nominal price which occurred in the course of that period. This rise was only from about 5*s.* 4*d.* to 6*s.* or 6*s.* 3*d.* Consequently a very considerable fall had really taken place in the bullion price of wheat.

But the nominal price of labour, instead of rising in the same slight degree as wheat, rose from 1½*d.* or 2*d.* to 4*d.* or 4½*d.*, a rise much more than sufficient to cover the deterioration of the coin; so that the bullion price of labour rose considerably, during the time that the bullion price of wheat fell. It is singular, that Adam Smith, in his Digression concerning the value of silver during the four last centuries, should not have noticed this circumstance. If he had been aware of this rise in the bullion price of labour, his principles, which led

him to consider corn as a good measure of value merely because it is the best measure of labour, should have led him to a very different conclusion from that which he has stated. If we were to take a mean between corn and labour, the value of silver during these 150 years, instead of rising to double what it was, would appear to have continued nearly stationary.

It was during the favourable part of this period that Sir John Fortescue wrote his work on *Absolute and Limited Monarchy*, and contrasted the prosperous and happy condition of the peasantry of England with the miserable state of the peasantry of France.

But it is not sufficient to shew that the condition of the lower classes of people in England during the last half of the 15th century, was much superior to what it was either in the preceding century, or subsequently during the depreciation of money occasioned by the discovery of the American mines. To prove that it was peculiar, we must compare it with the condition of the people after the depreciation had ceased.

According to Adam Smith, the effects of the discovery of the American mines seemed to be at an end about 1638 or 40. In 1651 the wages of day-labour, as established by the justices in Essex at the Chelmsford quarter-sessions, were for the summer half year, harvest excepted, 1*s.* 2*d.* This is a considerable rise in the money price of labour from the time of Elizabeth; but we shall find that it is hardly proportionate to the rise of the price of

wheat. If we take an average of the five years preceding 1651,\* the period to which the regulation would probably for the most part refer; it appears that the price of the quarter of wheat in the Windsor market, deducting  $\frac{1}{2}$  to reduce it to Winchester measure, was 3*l.* 4*s.* 7*d.*† the quarter, which would be about 8*s.* the bushel, and 2*s.* the peck. At this price of wheat, with wages at 14*d.* the labourer would only earn  $\frac{7}{12}$  of a peck, half a peck, and  $\frac{1}{12}$ .

In 1661, soon after the accession of Charles II., wages were again regulated by the justices in Essex, at the Easter Sessions, and the price of common day-labour during the summer half year, with the exception of harvest time, was continued at 14*d.*

If we take an average of the price of wheat for the five years preceding 1661, as before, it appears that the quarter was 2*l.* 9*s.* 3*d.* This is 6*s.* 2*d.* the bushel and 18½*d.* the peck. At this rate the labourer would earn about  $\frac{3}{4}$  of a peck. It is true that the averages of the prices of corn here taken refer to dear times; but the wages were appointed just at these times: and in the regulations of 1651 it is expressly stated, that they are appointed, "having a special regard and consideration to the prices at this time of all kinds of victuals and apparel, both linen and woollen, and all other neces-

\* As the regulation passed in April, the year 1651 is not included in the average.

† Encyclopædia Brit. Supp. Artic. Corn Laws, where a table is given with the  $\frac{1}{2}$  deducted.

sary charges wherewith artificers, labourers and servants have been more grievously charged with than in times past."\*

If we take an average of the twenty years from 1646 to 1665 inclusive, we shall find that the price of wheat was rather above than below that of the five years preceding 1661. The average price of the quarter of wheat during these twenty years was 2*l.* 10*s.* 0¾*d.*† which is 6*s.* 3*d.* the bushel, and nearly 19*d.* the peck. At this price, with wages at 14*d.* the labourer for these twenty years would hardly be able to earn so much as  $\frac{3}{4}$  of a peck.

After 1665 the price of corn fell, but wages seem to have fallen at the same time.

In 1682 wages at Bury in Suffolk were appointed to be 6*d.* in summer, and 5*d.* in winter with diet, and double without. This makes the summer wages 1*s.*; and according to the price of wheat in the preceding five years, the labourer who earned a shilling a day, could hardly command so much as  $\frac{3}{4}$  of a peck of wheat.

The average price of the quarter of wheat from 1665 to 1700 was about 2*l.* 2*s.* 6*d.* If we suppose the wages of labour during this period to have been about 1*s.* the earnings of the labourer would be about  $\frac{3}{4}$  of a peck of wheat. But there is reason to think that the average wages were not so high as 1*s.*

In the regulations of the justices at Warwick in

\* Eden's State of the Poor, vol. iii. p. 98.

† Windsor Table, deducting  $\frac{1}{2}$ .

1685,\* common labourers were allowed to take only 8*d.* a day for the summer half year. Sir George Shuckburgh puts down only 7½*d.* for the period from 1675 to 1720;† and Arthur Young estimates the average price of labour during the whole of the 17th century at 10¼*d.*‡ If on these grounds we were to estimate the wages of labour from 1665 to the end of the century at 10½*d.* it would appear that the earnings of the labourer, in the 17th century, after the depreciation of money had ceased, were only sufficient to purchase ⅔ of a peck of wheat. Taking however the more favourable supposition of 1*s.* a day as the earnings of the labourer, they would purchase, as before stated, about ¾ of a peck.

During the first twenty years of the 18th century, the price of corn fell, but not much; and it may be doubted whether the price of labour rose.

In 1725, a few years later than the period alluded to, the wages of labour were settled by the justices at Manchester. The best husbandry labourer, from the middle of March till the middle of September, was not to take more than 1*s.* a day without meat and drink; but common labourers, and hedgers, ditchers, palers, thrashers, or other task-work, only 10*d.* Mr. Howlett, as quoted by Sir F. Eden,§ states the price of day-labour, so late as 1737, at only 10*d.* a day; and Sir F. Eden, writing in 1796,

\* Eden's State of the Poor, vol. iii. p. 104.

† Philosoph. Trans. for 1798. Part i. p. 176.

‡ Annals of Agriculture, No. 270. p. 88.

§ Vol. I. p. 385.

observes, that from various information he had collected in different parts of England, he had reason to think that the wages of labour had doubled\* during the last sixty years, which could hardly be true, unless wages in the early part of the century had been lower than 1*s.*

The average price of wheat for the first twenty years of the century was rather less than 2*l.*; and if the wages of labour were only 10*d.* or 10½*d.*, the labourer would earn considerably less than ⅓ of a peck. If the wages were 1*s.* he would earn ⅔ of a peck.

From 1720 to 1755 corn fell and continued low, while the wages of labour seem to have been about 1*s.* During these thirty-five years the price of wheat was about 33*s.* the quarter, or a little above 1*s.* the peck, and the labourer therefore, on an average of thirty-five years together, would be able to earn about a peck of wheat.

From this time corn began gradually to rise, while wages do not appear to have risen in the same proportion. The first authentic accounts that we have of the price of labour, after corn had begun to rise, is in the extensive Agricultural Tours of Arthur Young, which took place in 1767, 1768 and 1770. The general result of the price of labour from these tours, on the mean rate of the whole year, was 7*s.* 4¼*d.* a week.† Taking an average of the five years, from 1766 to 1770 inclusive, the

\* Vol. I. p. 385.

† Annals of Agriculture, No. 271. p. 215.

price of the quarter of wheat was 2*l.* 7*s.* 8*d.* or nearly 48*s.*\* which would be 6*s.* the bushel, and 1*s.* 6*d.* the peck. At these prices of labour and wheat, the labourer would earn very nearly  $\frac{5}{6}$  of a peck.

In 1810 and 1811, accounts from thirty-seven counties, which, according to Arthur Young, were quite satisfactory, make the wages of day-labour for the mean rate of the year 14*s.* 6*d.*† a week, or nearly 2*s.* 6*d.* a day. The price of wheat for five years ending with 1810 was 92*s.*—ending with 1811, 96*s.*‡ The prices both of labour and wheat appear to have doubled; and the labourer, in 1810 and 1811, could earn just about the same quantity of wheat as he could about forty years before, that is  $\frac{5}{6}$  of a peck. The intermediate periods must necessarily have been subject to slight variations, owing to the uncertainty of the seasons, and an occasional advance in the price of corn, not immediately followed by an increased price of labour; but, in general, the average must have been nearly the same, and seldom probably for many years together differed much from  $\frac{5}{6}$  of a peck.

\* Deducting  $\frac{1}{3}$  from the prices in the Windsor Table. Arthur Young deducts another 9th for the quality; but this is certainly too much, in reference to the general average of the kingdom to which the latest tables apply. I have therefore preferred adhering all along to the Windsor prices; and the reader will make what allowances he thinks fit for the quality, which, according to Mr. Rose, is not much above the average.

† Annals of Agriculture, No. 271. p. 215 and 216.

‡ Windsor Table, Supp. to Encyclopædia Brit. Art. Corn Laws.

## SECTION V.

*On the Conclusions to be drawn from the preceding Review.  
—Of the Prices of Corn and Labour during the five last Centuries.*

From this review of the prices of corn and labour, during nearly the five last centuries, we may draw some important inferences.

In the first place, I think it appears that the great fall in the real wages of labour which took place in the 16th century, must have been occasioned mainly by the great and unusual elevation which they had previously attained, and not by the discovery of the American mines and the consequent fall in the value of money. When we compare the wages of labour during the last half of the 15th century, with what they were both before and subsequently, it appears that whatever may have been the cause of these high wages, they were evidently peculiar, and could not therefore be permanent. This indeed is evident, not only by comparing them with previous and subsequent periods, but by considering their positive amount. Earnings of the value of nearly two pecks or half a bushel of wheat a day would allow of the earliest marriages, and the maintenance of the largest families. They are nearly the same as the earnings of the American labourer. In such a country as England was, even at that time, such wages could only be occasioned by temporary causes. Among these we must reckon, a general improvement in

the system of cultivation after the abolition of villanage, which increased the plenty of corn; and the comparatively rapid progress of commerce and manufactures, which occasioned a great demand for labour; while, owing to the wars in France, the civil wars between the Houses of York and Lancaster, and above all perhaps the slow change of habits among a people lately emancipated, this increase of produce and demand had not yet been followed by a proportionate effect on the population.

Certain it is that corn was very cheap both in France\* and England; and labour in this country could not possibly have risen and kept high for so long a period as between sixty and seventy years, unless some peculiar cause or causes had restrained the supply of population, compared with the supply of corn and the demand for labour.

It is with the fact however of the very high wages of labour in the 15th century rather than

\* It is a very curious fact, that the bullion price of corn continued unusually low in France from 1444 to 1510. (*Garnier's Richesse des Nations*, vol. ii. p. 184.) just during the same period that it was low in England. Adam Smith is inclined to attribute this fall and low price to a deficiency in the supply of the mines, compared with the demand; (B. i. ch. xi.) but this solution in no respect accounts for the rise of the bullion price of labour in England, at the time that the bullion price of corn was falling. Nothing can account for this fact, but a relative plenty of corn compared with labour—a state of things which has little to do with the mines. The low prices in France were probably connected with the abolition of villanage, and an extended cultivation in the reign of Charles VII. and his immediate successors, after the ravages of the English were at an end.

with the causes of it, that we are mainly concerned at present, and of the fact there can be no doubt; but if the fact be allowed, it follows, that such wages must have very greatly fallen during the course of the following century, if the mines of America had not been discovered.

What effect the depreciation of money might have had in aggravating that increasing poverty of the lower classes of society, which, with or without such a depreciation, would inevitably have fallen upon them, it is not easy to say. But from the still lower wages which prevailed in the 17th century after the depreciation had ceased, and from what has happened of late years (which shall be more fully noticed presently) I should not be disposed to consider a general rise in the price of corn, occasioned by an alteration in the value of money, and not by bad seasons, as likely to affect the labouring classes prejudicially for more than a very few years. Still, however, it is quite certain that the condition of the labouring classes of society was growing much worse during the time that the depreciation of money from the discovery of the American mines was taking place; and whatever may have been the cause, as the people would always be comparing their situation with what it had been, in their own recollection and that of their fathers, it would inevitably excite great complaints; and, after it had grown comparatively very bad, as in the latter end of the reign of Elizabeth, it was likely to lead to those measures relating to the poor, which marked this period of our history.

Another inference which we may draw from the review is, that during the course of nearly 500 years, the earnings of a day's labour in this country have probably been more frequently below than above a peck of wheat; that a peck of wheat may be considered as something like a middle point, or rather above the middle point, about which the market wages of labour, varying according to the demand and supply, have oscillated; and that the population of a country may increase with some rapidity, while the wages of labour are even under this point.

The wages of day labour in France during the two last centuries, are said to have been pretty uniformly about the 20th part of a *septier* of wheat,\* which would be a little above  $\frac{4}{5}$  of a peck; but just before the revolution, at the time of Arthur Young's tour in France, they were only about  $\frac{3}{4}$  of a peck. Since the revolution, they appear to have risen so as to command more than a peck.

A third inference which we may draw from this review is, that the seasons have a very considerable influence on the price of corn, not only for two or three years occasionally, but for fifteen or twenty years together. These periods of unfavourable seasons seem to supersede all the other causes which may be supposed to have the greatest influence upon prices. An instance of this occurs after the great pestilence in the time of Edward III. One should naturally have thought that the

\* Wealth of Nations, b. i. c. xi. p. 315.

quantity of good land being abundant, compared with the population, corn would have been very cheap. It was however, on the contrary, dear during the twenty-five subsequent years,—a fact which cannot be accounted for but from unfavourable seasons.

Another instance of the same kind had occurred in the reign of Edward II., during the whole of which, the average price of wheat was more than double what it had been during the greatest part of the reign of Edward I., and the first half of the reign of Edward III.—evidently owing to unfavourable seasons.

A third instance occurs during the civil wars of the 17th century. So far from thinking that civil wars have a necessary tendency to make corn dear, I am disposed to agree with Sir F. Eden, in attributing a part of the high price of labour and the cheapness of corn in the 15th century, to the circumstance of a greater destruction of men than of cultivation having been occasioned in the civil wars of the Houses of York and Lancaster. But in the civil wars of the 17th century no such cheapness of corn took place. On the contrary, in the period from 1646 to 1665 the price of corn was higher both in France and England than it had ever been known for twenty years together, either before or since, exclusive of the prices of the last twenty-five years in this country. For shorter periods, these unfavourable seasons are of frequent recurrence, and must essentially affect the condition of the labourer during ten or five years. It de-

pend upon their continuance and other concomitant circumstances, whether they raise the money wages, or leave them as they were.

The periods of the lowest wages, or of the greatest falls in real wages have been, when a considerable rise in the price of corn has taken place under circumstances not favourable to a proportionate rise in the price of labour. This is the most likely to happen in unfavourable seasons, when the power of commanding labour at the old price would by no means be increased in proportion to the price of corn. It may also happen when a fall is taking place in the value of money, if any previous causes have given an extraordinary stimulus to the progress of population. In this case, though the resources of the country may be increasing fast, the population may be increasing faster, and the wages of labour will not rise in proportion to the fall in the value of money. To this cause I am strongly disposed to attribute the inadequate rise of the money wages of labour during the reigns of Henry VIII., Mary, Edward VI., and Elizabeth. The state of things in the early part of the 16th century must have given a powerful stimulus to population; and considering the extraordinary high corn wages at this period, and that they could only fall very gradually, the stimulus must have continued to operate with considerable force during the greatest part of the century. In fact, depopulation was loudly complained of at the end of the 15th and beginning of the 16th centuries, and a redundancy of population was acknowledged at the end

of the 16th. And it was this change in the state of the population, and not the discovery of the American mines, which occasioned so marked a fall in the corn wages of labour.

If the discovery of the American mines had found the labouring classes of the people earning only the same wages which they appear to have earned in the latter half of the reign of Edward III., and if the same increase of capital and resources had taken place during the 16th century, as really did take place, I feel not the slightest doubt, that the money wages of labour would have increased as fast as the money price of corn. Indeed when a fall in the value of money is accompanied, as it frequently is, by a rapid increase of capital, there is one reason, why, in the natural state of things, the price of labour should feel it more than other commodities. The encouragement given to population by such increase of resources, could not appear with any effect in the market under sixteen or eighteen years; and in the mean time the demand compared with the supply of labour would be greater than the demand compared with the supply of most other commodities.

It is on this account, that in the fall in the value of money which took place from 1793 to 1814, and which was unquestionably accompanied by a great increase of capital, and a great demand for labour, I am strongly of opinion, that if the price of labour had not been kept down by artificial means, it would have risen higher in proportion than the average price of corn; and this opinion



is, I think, fairly borne out by facts. If according to the last authentic accounts which had been obtained of the price of labour, previous to 1814, it appears that on an average of the returns of thirty-seven counties in 1810 and 1811, the weekly wages of day labour were 14s. 6d.,—a price, which, compared with the wages of 1767, 1768 and 1770,\* is equal to the rise in the price of wheat during the same period, while it is known that in many counties and districts in the southern parts of England, wages in 1810 and 1811 were unnaturally kept down to 12s., 10s., 9s. and even 7s. 6d. by the baneful system of regularly maintaining the children of the poor out of the rates, it may fairly be concluded that if this system had not prevailed over a large part of England, the wages of labour would have risen higher than in proportion to the price of wheat.

And this conclusion is still further confirmed by what has happened in Scotland and some parts of the north of England. In these districts, all accounts agree that the rise of wages was in fact greater than the rise of corn, and that the condition of the labourer till 1814 was decidedly improved, even in spite of the taxes, many of which certainly bore heavily on the conveniences and comforts of the labourer, though they affected but little his command over strict necessities.

In considering the corn wages of labour in the course of this review, it has not been possible to

\* Annals of Agriculture, No. 271. pp. 215 and 216.

make any distinction between the effects of a fall in the price of corn and a rise in the price of labour. In merely comparing the two objects with each other, the result is precisely similar; but their effects in the encouragement of population are sometimes very dissimilar, as I have before intimated. There is no doubt that a great encouragement to an increase of population is consistent with a fall in the price of raw produce, because, notwithstanding this fall, the exchangeable value of the whole produce of the country may still be increasing compared with labour; but it may sometimes happen that a fall in the price of raw produce is accompanied by a diminished power and will to employ labour; and in this case the demand for labour and the encouragement to population will not be in proportion to the apparent corn wages of labour.

If a labourer commands a peck instead of  $\frac{3}{4}$  of a peck of wheat a day in consequence of a rise of wages occasioned by a demand for labour, it is certain that all labourers may be employed who are willing and able to work, and probably also their wives and children; but if he is able to command this additional quantity of wheat on account of a fall in the price of corn which diminishes the capital of the farmer, the advantage may be more apparent than real, and though labour for some time may not nominally fall, yet as the demand for labour may be stationary, if not retrograde, its current price will not be a certain criterion of what might be earned by the united labours of a large

family, or the increased exertions of the head of it in task-work.

It is obvious, therefore, that the same current corn wages will, under different circumstances, have a different effect in the encouragement of population.

It should also be observed, that in estimating the corn wages of labour I have uniformly taken wheat, the dearest grain. I have taken one grain to the exclusion of other necessaries, because I wish to avoid complicating the subject; and have chosen wheat because it is the main food of the greatest part of the population in England. But it is evident that at those periods, or in those countries, in which the main food of the people does not consist of wheat, the wheat wages that can be earned by a family will not form a just criterion of the encouragement given to population. Although the wheat wages might be very unequal at two different periods or in two different countries, yet if in one case an inferior grain were habitually consumed, the encouragement to the population might be the same. The Irish labourer cannot command the support of so large a family upon wheat as the English, but he can command in general the support of a much larger family upon the food on which he is accustomed to live; and consequently, population has increased much faster during the last century in Ireland than in England.

It appears then that, making a proper allowance for the varying value of other parts of the wages

of labour besides food, the quantity of the customary grain which a labouring family can actually earn, is at once a measure of the encouragement to population and of the condition of the labourer; while the money price of such wages is the best measure of the value of money as far as one commodity can go. But it is of the utmost importance always to bear in mind that a great command over the necessaries of life may be effected in two ways, either by rapidly increasing resources, or by the prudential habits of the labouring classes; and that as rapidly increasing resources are neither in the power of the poor to effect, nor can in the nature of things be permanent, the great resource of the labouring classes for their happiness must be in those prudential habits which, if properly exercised, are capable of securing to the labourer a fair proportion of the necessaries and conveniences of life, from the earliest stage of society to the latest.

I have said nothing of the value of labour as measured by the criterion assumed by Mr. Ricardo, that is, by the labour which has been expended in procuring the earnings of the labourer, or the cost in labour of the labourer's wages; because it appears to me, that what I have called the real and nominal wages of labour include every thing which relates to the condition of the labourer, the encouragement to population, and the value of money, the three great points which chiefly demand our attention. According to Mr. Ricardo's view of the subject, nothing can be inferred on these points either from high or from low

wages. Such high or low wages serve only to determine the rate of profits, and their influence in this respect will be fully considered in the next chapter.

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## CHAPTER V.

### OF THE PROFITS OF CAPITAL.

#### SECTION I.

*Of Profits as affected by the increasing Difficulty of procuring the Means of Subsistence.*

It has been usual, in speaking of that portion of the national revenue which goes to the capitalist in return for the employment of his capital, to call it by the name of the profits of stock. But stock is not so appropriate an expression in this case, as capital. Stock is a general term, and may be defined to be all the material possessions of a country, or all its actual wealth, whatever may be its destination; while capital is that particular portion of these possessions, or of this accumulated wealth, which is destined to be employed with a view to profit. They are often, however, used indiscriminately; and perhaps no great error may arise from it; but it may be useful to recollect that all stock is not properly speaking capital, though all capital is stock.

The profits of capital consist of the difference between the value of the advances necessary to produce a commodity, and the value of the commodity when produced; and these advances are generally

composed of accumulations which have previously cost in their production a certain quantity of wages, profit and rent, exclusive of the rent which, in the case of landed products, is paid directly.

The *rate* of profits is the proportion which the difference between the value of the advances and the value of the commodity produced bears to the value of the advances, and it varies with the variations of the value of the advances compared with the value of the product. When the value of the advances is great compared with the value of the product, the remainder being small, the rate of profits will be low. When the value of the advances is inconsiderable the remainder being great, the rate of profits will be high.

The varying rate of profits, therefore, obviously depends upon the causes which alter the proportion between the value of the advances and the value of the produce; and this proportion may be altered either by circumstances which affect the value of the advances, or the value of the product.

Of the advances necessary to production, the means of supporting labour are generally the greatest and most important. These means, therefore, will have the greatest influence on the value of the advances.

The two main causes which influence the means of supporting labour, are

1st. The difficulty or facility of production on the land, by which a greater or less proportion of the value of the whole produce is capable of supporting the labourers employed.

And 2dly, The varying relation of the quantity of capital to the quantity of labour employed by it, by which more or less of the necessaries of life may go to each individual labourer.

Each of these causes is alone sufficient to occasion all the variations of which profits are susceptible. If one of them only acted, its operation would be simple. It is the combination of the two, and of others in addition to them, sometimes acting in conjunction and sometimes in opposition, which occasions in the progress of society those varied phenomena which it is not always easy to explain.

If the first cause operated singly, and the wages of the individual labourer were always the same, then supposing that the skill in agriculture were to remain unchanged, and that there were no means of obtaining corn from foreign countries, the rate of profits must regularly and without any interruption fall, as the society advanced, and as it became necessary to resort to inferior machines which required more labour to put in action.

It would signify little, in this case, whether the last land taken into cultivation for food had yielded a rent in its uncultivated state. It is certain that the landlord would not allow it to be cultivated, unless he could, at the least, obtain the same rent for it as before. This must be considered as an absolute condition on the worst lands taken into cultivation in an improved country. After this payment was made, the remainder of

the produce would be divided chiefly\* between the capitalist and the labourers, and it is evident that if the number of labourers necessary to obtain a given produce were continually increasing, and the wages of each labourer remained the same, the portion destined to the payment of labour would be continually encroaching upon the portion destined to the payment of profits; and the rate of profits would of course continue regularly diminishing till, from the want of power or will to save, the progress of accumulation had ceased.

In this case, and supposing an equal demand for all the parts of the same produce,† it is obvious that the profits of capital in agriculture would be in proportion to the fertility of the last land taken into cultivation, or to the amount of the produce obtained by a given quantity of labour. And as profits in the same country tend to an equality, the general rate of profits would follow the same course.

\* I say *chiefly*, because, in fact, some rent, though it may be trifling, is almost always paid in the materials of the farmer's capital.

† It is necessary to qualify the position in this way, because, with regard to the main products of agriculture, it might easily happen that all the parts were not of the same value. If a farmer cultivated his lands by means of domestics living in his house whom he found in food and clothing, his advances might always be nearly the same in quantity and of the same high value in use; but in the case of a glut from the shutting up of an accustomed market, or a season of unusual abundance, a part of the crop might be of no value either in use or exchange, and his profits could by no means be determined, by the excess of the *quantity* produced, above the advances necessary to produce it.

But a moment's consideration will shew us, that the supposition here made of a constant uniformity in the real wages of labour is not only contrary to the actual state of things, but involves a contradiction.

The progress of population is almost exclusively regulated by the quantity of the necessities of life actually awarded to the labourer; and if from the first he had no more than sufficient to keep up the actual population, the labouring classes could not increase, nor would there be any occasion for the progressive cultivation of poorer land. On the other hand, if the real wages of labour were such as to admit of and encourage an increase of population, and yet were always to remain the same, it would involve the contradiction of a continued increase of population after the accumulation of capital, and the means of supporting such an increase had entirely ceased.

We cannot then make the supposition of a *natural* and *constant* price of labour, at least if we mean by such a price, an unvarying quantity of the necessities of life. And if we cannot fix the real price of labour, it must evidently vary with the progress of capital and revenue, and the demand for labour compared with the supply.

We may however, if we please, suppose a uniform progress of capital and population, by which is not meant in the present case the same *rate* of progress permanently, which is impossible; but a uniform progress towards the greatest practicable amount, without temporary accelerations or retardations.

And before we proceed to the actual state of things, it may be curious to consider in what manner profits would be affected under these circumstances.

At the commencement of the cultivation of a fertile country by civilized colonists, and while rich land was in great plenty, a small portion only of the value of the produce would be paid in the form of rent. Nearly the whole would be divided between profits and wages; and the proportion which each would take, as far as it was influenced by the share of each individual labourer, must be determined by the demand and supply of capital compared with the demand and supply of labour.

As the society continued to proceed, if the territory were limited, or the soil of different qualities, it is quite obvious that the productive powers of labour as applied to the cultivation of land must gradually diminish; and as a given quantity of capital and of labour would yield a smaller and smaller return, there would evidently be a less and less produce to be divided between labour and profits.

If, as the powers of labour diminished, the physical wants of the labourer were also to diminish in the same proportion, then the same share of the whole produce might be left to the capitalist, and the *rate* of profits would not necessarily fall. But the physical wants of the labourer remain always the same; and though in the progress of society, from the increasing scarcity of provisions compared with labour, these wants are in general less fully supplied, and the real wages of labour

gradually fall; yet it is clear that there is a limit, and probably at no great distance, which cannot be passed. The command of a certain quantity of food is absolutely necessary to the labourer in order to support himself, and such a family as will maintain merely a stationary population. Consequently, if poorer lands which required more labour were successively taken into cultivation, it would not be possible for the corn wages of each individual labourer to be diminished in proportion to the diminished produce; a greater proportion of the whole would necessarily go to labour; and the rate of profits would continue regularly falling till the accumulation of capital had ceased.

Such would be the necessary course of profits and wages in the progressive accumulation of capital, as applied to the progressive cultivation of new and less fertile land, or the further improvement of what had before been cultivated; and on the supposition here made, the rates both of profits and of real wages would be highest at first, and would regularly and gradually diminish together, till they both came to a stand at the same period, and the demand for an increase of produce ceased to be effective.

In the mean time, it will be asked, what becomes of the profits of capital employed in manufactures and commerce, a species of industry not like that employed upon the land, where the productive powers of labour necessarily diminish; but where these powers not only do not necessarily diminish, but very often greatly increase?

In the cultivation of land, the immediate and main cause of the necessary diminution of profits appeared to be the increased quantity of labour necessary to obtain the same produce. In manufactures and commerce, it is the fall in the exchangeable value of the products of industry in these departments, compared with corn and labour.

The cost of producing corn and labour continually increases from inevitable physical causes, while the cost of producing manufactures and articles of commerce sometimes diminishes, sometimes remains stationary, and at all events increases much slower than the cost of producing corn and labour. Upon every principle therefore of demand and supply, the exchangeable value of these latter objects must fall, compared with the value of labour. But if the exchangeable value of labour continues to rise, while the exchangeable value of manufactures either falls, remains the same, or rises in a much less degree, profits must continue to fall; and thus it appears that in the progress of improvement, as poorer and poorer land is taken into cultivation, the rate of profits must be limited by the powers of the soil last cultivated. If the last land taken into cultivation can only be made to yield a certain excess of value above the value of the labour necessary to produce it, it is obvious that, upon the principles of competition, profits, generally, cannot possibly be higher than this excess will allow. In the ascending scale, this is a barrier which cannot be passed. But limitation is essentially different from regulation. In the de

scending scale, profits may be lower in any degree. There is here no controlling necessity which determines the rate of profits; and below the highest limit which the actual state of the land will allow, ample scope is left for the operation of other causes.

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## SECTION II.

*Of Profits as affected by the Proportion which Capital bears to Labour.*

The second main cause which, by increasing the amount of advances, influences profits, is the proportion which capital bears to labour.\*

This is obviously a cause which alone is capable of producing the very greatest effects; and on the supposition of adequate variations taking place between the supplies of capital and the supplies of labour, all the same effects might be produced on profits as by the operation of the first cause, and in a much shorter time.

When capital is really abundant compared with labour, nothing can prevent low profits; and the

\* I have stated in a former chapter, that the demand for labour does not depend upon capital alone, but upon capital and revenue together, or the value of the whole produce; but to illustrate the present *supposition*, it is only necessary to consider capital and labour. We may allow that no difficulty will occur with respect to demand.

greatest facility of production is incapable of producing high profits, unless capital is scarce compared with labour.

But in order to see more clearly the powerful effects of the second cause on profits, let us consider it for a moment as operating alone; and suppose, that while the capital of a country continued increasing, its population were checked and kept short of the demand for it, by some miraculous influence. Under these circumstances, every sort of gradation might take place in the proportion which capital would bear to labour, and we should see in consequence every sort of gradation take place in the rate of profits.

If, in an early period of improvement, capital were scarce compared with labour, the wages of labour being on this account low, while the productive powers of labour, from the fertility of the land, were great, the proportion left for profits would necessarily be very considerable, and the rate of profits would be very high.

In general, however, though capital may be said to be scarce in the early periods of cultivation, yet that particular portion of capital, which resolves itself into food, is often plentiful compared with the population, and high profits and high real wages are found together. In the most natural state of things this is generally the case, though it is not so when capital is prematurely checked by extravagance, or other causes. But whether we set out from low or high corn wages, the diminution in the rates of profits, from the gradual in-

crease of capital compared with labour, will remain undisturbed.

As capital at any time increases faster than labour, the profits of capital will fall, and if a progressive increase of capital were to take place, while the population, by some hidden cause, were prevented from keeping pace with it, notwithstanding the fertility of the soil and the plenty of food, then profits would be gradually reduced, until, by successive reductions, the power and will to accumulate had ceased to operate.

Profits in this case would experience exactly the same kind of progressive diminution as they would by the progressive accumulation of capital in the present state of things; but rent and wages would be very differently affected. From what has before been stated on the subject of rent, the amount of it in such a country could not be great. According to the supposition, the progress of the population is retarded, and the number of labourers is limited, while land of considerable fertility remains uncultivated. The demand for fertile land therefore, compared with the supply, would be comparatively inconsiderable; and in reference to the whole of the national produce, the portion which would consist of rent would depend mainly upon the gradations of more fertile land that had been cultivated before the population had come to a stop, and upon the value of the produce to be derived from the land that was not cultivated.

With regard to wages they would continue progressively to rise, and would give the labourer a



greater command not only of manufactures and of the products of foreign commerce (as is generally the case in the present state of things) but of corn and all other necessities, so as to place him in a condition continually and in all respects improving, as long as capital continued to increase.

In short, of the three great portions into which the mass of produce is divided, rent, profits, and wages, the two first would be low, because both the supply of land and the supply of capital would be abundant compared with the demand; while the wages of labour would be very high, because the supply of labourers would be comparatively scanty; and thus the value of each would be regulated by the great principle of demand and supply.

If, instead of supposing the population to be checked by some peculiar influence, we make the more natural supposition of a limited territory, with all the land of nearly equal quality, and of such great fertility as to admit of very little capital being laid out upon it, the effects upon the profits of capital would be just the same as in the last instance, though they would be very different on rents and wages. After all the land had been cultivated, and no more capital could be employed on it, there cannot be a doubt that rents would be extremely high and profits and wages very low. The competition of increasing capital in manufactures and commerce would reduce the rate of profits, while the principle of population would continue to augment the number of the

labouring classes; till their corn wages were so low as to check their further increase. It is probable that, owing to the facility of production on the land and the great proportion of persons employed in manufactures and commerce, the exports would be great and the value of money very low. The money price of corn and money wages would perhaps be as high as when their cost in labour had been double or treble; rents would rise to an extraordinary pitch without any assistance from poor lands, and the gradations of soil; and profits might fall to the point only just sufficient to keep up the actual capital without any additional labour being necessary to procure the food of the labourer.

The effects which would obviously result from the two suppositions just made, clearly shew that the increasing quantity of labour required for the successive cultivation of poorer land is not theoretically necessary to a fall of profits from the highest rate to the lowest.

The former of these two suppositions further shews the extraordinary power possessed by the labouring classes of society, if they chose to exercise it. The comparative check to population, which was considered as occasioned by some miraculous influence, might in reality be effected by the prudence of the poor; and it would unquestionably be followed by the result described. It may naturally appear hard to the labouring classes that, of the vast mass of productions obtained from the land, the capital, and the labour of the

country, so small a portion should individually fall to their share. But the division is at present determined, and must always in future be determined, by the inevitable laws of supply and demand. If the market were comparatively understocked with labour, the landlords and capitalists would be obliged to give a larger share of the produce to each workman. But with an abundant supply of labour, such a share, for a permanence, is an absolute impossibility. The rich have neither the power, nor can it be expected that they should all have the will, to keep the market understocked with labour. Yet every effort to ameliorate the lot of the poor generally, that has not this tendency, is perfectly futile and childish. It is quite obvious therefore, that the knowledge and prudence of the poor themselves, are absolutely the *only* means by which any general improvement in their condition can be effected. They are really the arbiters of their own destiny; and what others can do for them, is like the dust of the balance compared with what they can do for themselves. These truths are so important to the happiness of the great mass of society, that every opportunity should be taken of repeating them.

But, independently of any particular efforts of prudence on the part of the poor, it is certain that the supplies of labour and the supplies of capital do not always keep pace with each other. They are often separated at some distance, and for a considerable period; and sometimes population in-

creases faster than capital, and at other times capital increases faster than population.

It is obvious, for instance, that from the very nature of population, and the time required to bring full-grown labourers into the market, a sudden increase of capital cannot effect a proportionate supply of labour in less than sixteen or eighteen years; and, on the other hand, when capital is stationary from the want of will to accumulate, it is well known that population in general continues to increase faster than capital, till the wages of labour are reduced to that standard which, with the actual habits of the country, are no more than sufficient to maintain a stationary population.

These periods, in which capital and population do not keep pace with each other, are evidently of sufficient extent to produce the most important results on the rate of profits, and to affect in the most essential manner the progress of national wealth.

The value of the government long annuities has a natural and inevitable tendency to diminish as they approach nearer and nearer to the end of the term for which they were granted. This is a proposition which I conceive no person is inclined to doubt; but under the fullest acknowledgment of its truth, it would be a most erroneous calculation to estimate the value of this kind of stock solely by the number of years which it would have to run. It is well known that out of the comparatively short term of ninety years, so large a propor-

tion as twenty has sometimes elapsed, not only without any diminution, but with an actual increase of value.

In the same manner, the natural and necessary tendency of profits to fall in the progress of society, owing to the increasing difficulty of procuring food, is a proposition which few will be disposed to controvert; but to attempt to estimate the rate of profits in any country by a reference to this cause alone, for ten, twenty, or even fifty years together, that is for periods of sufficient length to produce the most important effects on national prosperity, would inevitably lead to the greatest practical errors.

Yet notwithstanding the utter inadequacy of this single cause to account for existing phenomena, Mr. Ricardo, in his very ingenious chapter on profits, has dwelt on no other.

If the premises were all such as he has supposed them to be, that is, if no other cause operated on profits than the increasing difficulty of procuring the food of the labourer, and no other cause affected the exchangeable and money value of commodities than the quantity of labour which they had cost in production, the conclusions which he has drawn would be just, and the rate of profits would certainly be regulated in the way which he has described. But, since in the actual state of things the premises are most essentially different from those which he has supposed; since another most powerful cause operates upon profits, as I have endeavoured to shew in the present section; and since

the exchangeable value of commodities is not determined by the labour they have cost, as I endeavoured to shew in a former chapter, the conclusion drawn by Mr. Ricardo must necessarily contradict experience; not slightly, and for short periods, as the market prices of some articles occasionally differ from the natural or necessary price, properly explained; but obviously and broadly, and for periods of such extent, that to overlook them, would not be merely like overlooking the resistance of the air in a falling body, but like overlooking the change of direction given to a ball by a second impulse acting at a different angle from the first.

It is impossible then to agree in the conclusion at which Mr. Ricardo arrives in his chapter on profits, "that in all countries, and at all times, profits depend upon the quantity of labour required to provide necessaries for the labourer on that land, or with that capital which yields no rent."\*

If by the necessaries of the labourer be meant, such wages as will just keep up the population, or what Mr. Ricardo calls the natural wages of labour, it is the same as saying that land of equal fertility will always yield the same profits—a proposition which must necessarily be untrue.

If, for instance, in one country, with the last land taken into cultivation of a given fertility, capital were stationary, not from want of demand,

\* *Princ. of Polit. Econ.* c. vi. p. 133. 2d edit.

but from great expenditure and the want of saving habits, it is certain that labour, after a time, would be paid very low, and profits would be very high.

If, in another country with similar land in cultivation, such a spirit of saving should prevail as to occasion the accumulation of capital to be more rapid than the progress of population, it is as certain that profits would be very low.

So understood therefore, the proposition cannot for a moment be maintained.

If, on the other hand, by necessities be meant the actual earnings of the labourer, whatever they may be, the proposition is essentially incomplete. Even allowing that the exchangeable value of commodities is regulated by the quantity of labour that has been employed in their production, (which it has been shewn is not so,) little is done towards determining the rate of profits. It is merely a truism to say that if the value of commodities be divided between labour and profits, the greater is the share taken by one, the less will be left for the other; or in other words, that profits fall as labour rises, or rise as labour falls. We can know little of the laws which determine profits, unless, in addition to the causes which increase the price of necessities, we explain the causes which award a larger or a smaller share of these necessities to each labourer. And here it is obvious that we must have recourse to the great principles of demand and supply, or to that very principle of competition brought for-

ward by Adam Smith, which Mr. Ricardo expressly rejects, or at least considers as of so temporary a nature as not to require attention in a general theory of profits.\*

And yet in fact there is no other cause of permanently high profits than a deficiency in the supply of capital; and under such a deficiency, occasioned by extravagant expenditure, the profits of a particular country might for hundreds of years together continue very high, compared with others, owing solely to the different proportions of capital to labour.

In Poland, and some other parts of Europe, profits are said to be higher than in America; yet it is probable that the last land taken into cultivation in America is richer than the last land taken into cultivation in Poland. But in America the labourer earns perhaps the value of sixteen or eighteen quarters of wheat in the year; in Poland only the value of eight or nine quarters of rye. This difference in the division of the same or nearly the same produce, must make an extraordinary difference in the rate of profits; yet the causes which determine this division can hardly be said to form any part of Mr. Ricardo's theory of profits, although, far from being of so temporary a nature that they may be safely overlooked, they might contribute to operate most powerfully for almost any length of time. Such is the extent of America, that the price of its labour may not essentially fall for hundreds of years; and

\* Princ. of Polit. Econ. chap. vi. p. 132. and ch. xxi. 2d edit.

the effects of a scanty but stationary capital on an overflowing but stationary population might last for ever.

In dwelling thus upon the powerful effects which must inevitably be produced by the proportion which capital bears to labour, and upon the necessity of giving adequate weight to the principle of demand and supply or competition in every explanation of the circumstances which determine profits, it is not meant to underrate the importance of that cause which has been almost exclusively considered by Mr. Ricardo. It is indeed of such a nature as finally to overwhelm every other. To recur to the illustration already used—as the Long Annuities approach nearer and nearer to the term at which they expire, their value must necessarily so diminish, on this account alone, that no demand arising from plenty of money could possibly keep up their value. In the same manner, when cultivation is pushed to its extreme practical limits, that is, when the labour of a man upon the last land taken into cultivation will scarcely do more than support such a family as is necessary to maintain a stationary population, it is evident that no other cause or causes can prevent profits from sinking to the lowest rate required to maintain the actual capital.

But though the principle here considered is finally of the very greatest power, yet its progress is extremely slow and gradual; and while it is proceeding with scarcely perceptible steps to its final destination, the second cause, particularly when combined with others which will be noticed

in the next section, is producing effects which entirely overcome it, and often for twenty or thirty, or even 100 years together, make the rate of profits take a course absolutely different from what it ought to be according to the first cause.

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### SECTION III.

#### *Of Profits as affected by the Causes practically in operation.*

We come now to the consideration of the causes which influence profits in the actual state of things. And here it is evident that we shall have in operation not only both the causes already stated, but others which will variously modify them.

In the progressive cultivation of poorer land for instance, as capital and population increase, profits, according to the first cause, will regularly fall; but if at the same time improvements in agriculture are taking place, they may certainly be such as, for a considerable period, not only to prevent profits from falling, but to allow of a considerable rise. To what extent, and for what length of time, this circumstance might interrupt the progress of profits arising from the first cause, it is not easy to say; but, as it is certain that in an extensive territory, consisting of soils not very different in their natural powers of production, the fall of profits arising

from this cause would be extremely slow, it is probable that for a considerable extent of time agricultural improvements, including of course the improved implements and machinery used in cultivation, as well as an improved system of cropping and managing the land, might more than balance it.

A second circumstance which would contribute to the same effect is, an increase of personal exertion among the labouring classes. This exertion is extremely different in different countries, and at different times in the same country. A day's labour of a Hindoo, or a South-American Indian, will not admit of a comparison with that of an Englishman; and it has even been said, that though the money price of day-labour in Ireland is little more than the half of what it is in England, yet that Irish labour is not really cheaper than English, although it is well known that Irish labourers when in this country, with good examples and adequate wages to stimulate them, will work as hard as their English companions.

This latter circumstance alone clearly shews how different may be the personal exertions of the labouring classes in the same country at different times; and how different therefore may be the products of a given number of days labour, as the society proceeds from the indolence of the savage to the activity of the civilized state. This activity indeed, within certain limits, appears almost always to come forward when it is most called for, that is, when there is much work to be done without

a full supply of persons to do it. The personal exertions of the South American Indian, the Hindoo, the Polish boor, and the Irish agricultural labourer, may be very different indeed 500 years hence.

The two preceding circumstances tend to diminish the expenses of production, or to reduce the relative amount of the advances necessary to obtain a certain value of produce. But it was stated at the beginning of this chapter, that profits depend upon the prices of products compared with the expenses of production, and must vary therefore with any causes which affect prices without proportionally affecting costs, as well as with any causes which affect costs without proportionally affecting prices.

A considerable effect on profits may therefore be occasioned by a third circumstance which not unfrequently occurs, namely, the unequal rise of some parts of capital, when the price of corn is raised by an increased demand. I was obliged to allude to this cause, and indeed to the two preceding ones, in the chapter on rents. I will only therefore add here, that when the prices of corn and labour rise and terminate in an altered value of money, the prices of many home commodities will be very considerably modified for some time, by the unequal pressure of taxation, and by the different quantities of fixed capital employed in their production; and the prices of foreign commodities and of the commodities worked up at home from foreign

materials, will permanently remain comparatively low. The rise of corn and labour at home will not proportionally raise the price of such products; and as far as these products form any portion of the farmer's capital this capital will be rendered more productive; but leather, iron, timber, soap, candles, cottons, woollens, &c. &c. all enter more or less into the capitals of the farmer, or the wages of the labourer, and are all influenced in their prices more or less by importation. While the value of the farmer's produce rises, these articles will not rise in proportion, and consequently a given value of capital will yield a greater value of produce.

All these three circumstances, it is obvious, have a very strong tendency to counteract the effects arising from the necessity of taking poorer land into cultivation; and it will be observed that, as they are of a nature to increase in efficiency with the natural progress of population and improvement, it is not easy to say how long and to what extent they may balance or overcome them.

The reader will be aware that the reason why, in treating of profits, I dwell so much on agricultural profits is, that the whole stress of the question rests upon this point. The argument against the usual view which has been taken of profits, as depending principally upon the competition of capital, is founded upon the physical necessity of a fall of profits in agriculture, arising from the in-

creasing quantity of labour required to procure the same food; and it is certain that if the profits on land permanently fall from this or any other cause, profits in manufactures and commerce must fall too, as it is an acknowledged truth that in an improved and civilized country the profits of stock, with few and temporary exceptions which may be easily accounted for, must be nearly on a level in all the different branches of industry to which capital is applied.

Now I am fully disposed to allow the truth of this argument, as applied to agricultural profits, and also its natural consequences on all profits. This truth is indeed necessarily involved both in the *Principle of Population* and in the theory of rent which I published separately in 1815. But I wish to shew, theoretically as well as practically, that powerful and certain as this cause is, in its final operation, so much so as to overwhelm every other; yet in the actual state of the world, its natural progress is not only extremely slow, but is so frequently counteracted and overcome by other causes as to leave very great play to the principle of the competition of capital; so that at any one period of some length in the last or following hundred years, it might most safely be asserted that profits had depended or would depend very much more upon the causes which had occasioned a comparatively scanty or abundant supply of capital than upon the natural fertility of the land last taken into cultivation.

The facts which support this position are obvious

and incontrovertible. Some of them have been stated in the preceding section, and their number might easily be increased. I will only add however one more, which is so strong an instance as to be alone almost decisive of the question, and having happened in our own country, it is completely open to the most minute examination.

From the accession of George II. in 1727 to the commencement of the war in 1739, the interest of money was little more than 3 per cent. The public securities which had been reduced to 4 per cent. rose considerably after the reduction. According to Chalmers, the *natural* rate of interest ran steadily at 3 per cent. \* and it appears by a speech of Sir John Barnard's that the 3 per cent. stocks sold at a premium upon Change. In 1750, after the termination of the war, the 4 per cent. stocks were reduced to  $3\frac{1}{2}$ , for seven years, and from that time to 3 per cent. permanently. †

Excluding then the interval of war, we have here a period of twenty-two years, during which the general rate of interest was between  $3\frac{1}{2}$  and 3 per cent.

The temporary variations in the value of government securities will not certainly at all times be a correct criterion of the rate of profits or even of the rate of interest; but when they remain nearly steady for some time together, they must be considered as a fair approximation to a correct mea-

\* Estimate of the Strength of Great Britain, c. vii. p. 115.

† Id. ch. vii. p. 120.

sure of interest; and when the public creditors of a government consent to a great fall in the interest which they had before received, rather than be paid off, it is a most decisive proof of a great difficulty in the means of employing capital profitably, and consequently a most decisive proof of a low rate of profits.

After an interval of nearly seventy years from the commencement of the period here noticed, and forty years from the end of it, during which a great accumulation of capital had taken place, and an unusual quantity of new land had been brought into cultivation, we find a period of twenty years succeed in which the average market rate of interest was rather above than below 5 per cent.; and we have certainly every reason to think, from the extraordinary rapidity with which capital was recovered, after it had been destroyed, that the rate of profits in general was quite in proportion to this high rate of interest.

The difficulty of borrowing on mortgage during a considerable part of the time is perfectly well known; and though the pressure of the public debt might naturally be supposed to create some alarm and incline the owners of disposable funds to give a preference to landed security; yet it appears from the surveys of Arthur Young, that the number of years purchase given for land was in 1811,  $29\frac{1}{2}$ , and forty years before, 32 or  $32\frac{1}{2}$ ,\*—the

\* Annals of Agriculture, No. 270. pp. 96. and 97. and No. 271. p. 215. Mr. Young expresses considerable surprize at these results, and does not seem sufficiently aware, that the number of



most decisive proof that can well be imagined of an increase in the profits of capital employed upon land.

The different rates of interest and profits in the two periods here noticed are diametrically opposed to the theory of profits founded on the natural quality of the last land taken into cultivation. The facts, which are incontrovertible, not only cannot be accounted for upon this theory, but in reference to it, either exclusively or mainly, they ought to be directly the reverse of what they are found to be in reality.

The nature of these facts, and the state of things under which they took place, (in the one case, in a state of peace with a slack demand for agricultural products, and in the other, a state of war with an unusual demand for these products,) obviously and clearly point to the *relative* redundancy or deficiency of capital, as, according to every probability, connected with them. And the question which now remains to be considered, is, whether the circumstances which have been stated in this section are sufficient to account theoretically for such a free operation of this principle, notwithstanding the progressive accumulation of capital, and the progressive cultivation of fresh land, as to allow of low profits at an earlier period of this progress and high profits at a later period. At all events, the facts must be accounted for, as they are

years purchase given for land has nothing to do with prices, but mainly expresses the abundance or scarcity of movable capital compared with the means of employing it.

so broad and glaring, and others of the same kind are in reality of such frequent recurrence, that I cannot but consider them as at once decisive against any theory of profits which is inconsistent with them.

In the first period of the two which have been noticed, it is known that the price of corn had fallen, but that the wages of labour had not only not fallen in proportion, but had been considered by some authorities as having risen. Adam Smith states the fall of corn and the rise of labour during the first sixty-four years of the last century as a sort of established fact;\* but Arthur Young, in his very useful inquiries into the prices of corn and labour published in his *Annals of Agriculture*, seems to think with some reason, that the fact is not well authenticated, and is besides a little inconsistent with the apparently slack demand for labour and produce and comparatively slow progress of population, which took place during the period in question.† Allowing, however, even a stationary price of labour, with a falling price of corn, and the fall of agricultural profits is at once accounted for. Such a state of prices might alone be much more than sufficient to counteract the effects arising from the circumstance of pretty good land being yet uncultivated. When we add, that the other outgoings belonging to the farmers' capital, such as leather, iron, timber, &c. &c., are

\* *Wealth of Nations*, Book I. ch. xi. p. 309. 313. 6th edit.

† *Annals of Agriculture*, No. 270. p. 89.

supposed to have risen while his main produce was falling, we can be at no loss to account for a low rate of agricultural profits, notwithstanding the unexhausted state of the country. And as to the low rate of mercantile and manufacturing profits, that would be accounted for at once by the proportion of capital to labour.

In the subsequent period, from 1793 to 1813, it is probable that all the circumstances noticed in this section concurred to give room for the operation of that principle which depends upon the proportion of capital to labour.

In the first place, there can be no doubt of the improvements in agriculture which were going forwards during these twenty years, both in reference to the general management of the land and the instruments which are connected with cultivation, or which in any way tend to facilitate the bringing of raw produce to market. 2dly, the increasing practice of task-work during these twenty years, together with the increasing employment of women and children, unquestionably occasioned a great increase of personal exertion; and more work was done by the same number of persons and families than before.

These two causes of productiveness in the powers of labour were evidently encouraged and in a manner called into action by the circumstances of the times; that is, by the high price of corn, which encouraged the employment of more capital upon the land with the most effective modes of applying it, and by the increasing demand for labour,

owing to the number of men wanted in the army and navy at the same time that more than ever were wanted in agriculture and manufactures.

The third cause, which had a very considerable effect, much more indeed than is generally attributed to it, was a rise in the money price of corn without a proportionate rise in mercantile and manufacturing produce. This state of things always allows of some diminution in the corn wages of labour without a proportionate diminution of the comforts of the labourer; and if the money price of the farmer's produce increases without a proportionate increase in the price of labour and of the materials of which his capital consists, this capital becomes more productive and his profits must necessarily rise.

In a country in which labour had been well paid, it is obvious that an alteration in the proportion between labour and capital might occasion a rise in the rate of profits without supposing any increase in the productive powers of labour. But all the causes just noticed are of a nature to increase the productive powers both of labour and capital; and if in any case they are of sufficient force to overcome the effect of taking poorer land into cultivation, the rate of profits may rise consistently even with an increase in the real wages of labour.

In the case in question, though it is generally supposed that the money wages of labour did not rise in proportion to the rise in the price of provisions; yet I cannot help thinking, both from the acknowledged demand for labour and the rapid in-

crease of population, that, partly owing to parish assistance and the more extended use of potatoes, and partly to task-work and the increased employment of women and children, the labouring classes had on an average an increased command over the necessaries of life. I am inclined to think, therefore, that the increased rate of profits from 1793 to 1813 did not arise so much from the diminished quantity of agricultural produce given to the labourer's family, as from the increase in the amount of agricultural produce obtained by the same number of families. As a matter of fact, I have no doubt that, as I stated in the chapter on rent, the capital employed upon the last land taken into cultivation in 1813 was more productive than the capital employed upon the last land taken into cultivation in 1727; and it appears to me that the causes which have been mentioned are sufficient to account for it theoretically, and to make such an event appear not only possible, but probable, and likely to be of frequent recurrence.

It will be said, perhaps, that some of the causes which have been noticed are in part accidental; and that in contemplating a future period, we cannot lay our account to improvements in agriculture, and an increase of personal exertions in the labouring classes. This is in some degree true. At the same time it must be allowed that a great demand for corn of home growth must tend greatly to encourage improvements in agriculture, and a great demand for labour must stimulate the actual population to do more work; and when to these two

circumstances we add the necessary effect of a rising price of corn owing to an increase of wealth, without a proportionate rise of other commodities, the probabilities of an increase in the productive powers of labour sufficient to counterbalance the effect of taking additional land into cultivation are so strong, that, in the actual state of most countries in the world, or in their probable state for some centuries to come, we may fairly lay our account to their operation when the occasion calls for them.

I should feel no doubt, for instance, of an increase in the rate of profits in this country for twenty years together, at the beginning of the twentieth century, compared with the twenty years which are now coming on; provided this near period were a period of profound tranquillity and peace and abundant capital, and the future period were a period in which capital was scanty in proportion to the demand for it owing to a war, attended by the circumstances of an increasing trade and an increasing demand for agricultural produce similar to those which were experienced from 1793 to 1813.

But if this be so, it follows, that in the actual state of things in most countries of the world, and within limited periods of moderate extent, the rate of profits will practically depend more upon the causes which affect the relative abundance or scarcity of capital, than on the natural powers of the last land taken into cultivation. And consequently, to dwell on this latter point as the sole, or even the main cause which determines profits,

must lead to the most erroneous conclusions. Adam Smith, in stating the cause of the fall of profits, has omitted this point, and in so doing has omitted a most important consideration; but in dwelling solely upon the abundance and competition of capital, he is practically much nearer the truth,\* than those who dwell almost exclusively on the quality of the last land taken into cultivation.

#### SECTION IV.

##### *Remarks on Mr. Ricardo's Theory of Profits.*

According to Mr. Ricardo, profits are regulated by wages, and wages by the quality of the last land taken into cultivation. This theory of profits depends entirely upon the circumstance of the mass of commodities remaining at the same price, while money continues of the same value, whatever may be the variations in the price of labour. This uniformity in the value of wages and profits taken together is indeed assumed by Mr. Ricardo in all his calculations, from one end of his work to the other; and if it were true,

\* Perhaps it ought to be allowed that Adam Smith, in speaking of the effects of accumulation and competition on profits, naturally means to refer to a limited territory, a limited population, and a limited demand; but accumulation of capital under these circumstances involves every cause that can affect profits.

we should certainly have an accurate rule which would determine the rate of profits upon any given rise or fall of money wages. But if it be not true, the whole theory falls to the ground. We can infer nothing respecting the rate of profits from a rise of money wages, if commodities, instead of remaining of the same price, are very variously affected, some rising, some falling, and a very small number indeed remaining stationary. But it was shewn in a former chapter\* that this must necessarily take place upon a rise in the price of labour. Consequently the money wages of labour cannot regulate the rate of profits.

This conclusion will appear still more strikingly true, if we adopt that supposition respecting the mode of procuring the precious metals which would certainly maintain them most strictly of the same value, that is, if we suppose them to be procured by a uniform quantity of unassisted labour without any advances in the shape of capital beyond the necessities of a single day. That the precious metals would in this case retain, more completely than in any other, the same value, cannot be denied, as they would both cost and command the same quantity of labour. But in this case, as was before stated, the money price of labour could never permanently rise. We cannot however for a moment imagine that this impossibility of a rise or fall in the money price of labour could in any respect impede or interrupt the

\* Chap. ii. sects. 4 and 5.

natural career of profits. The continued accumulation of capital and increasing difficulty of procuring subsistence would unquestionably lower profits. All commodities, in the production of which the same quantity of labour continued to be employed, but with the assistance of capitals of various kinds and amount, would fall in price, and just in proportion to the degree in which the price of the commodity had before been affected by profits; and with regard to corn, in the production of which more labour would be necessary, this article would rise in money price, notwithstanding the capital used to produce it, just to that point which would so reduce corn wages as to render the population stationary; and thus all the effects upon profits, attributed by Mr. Ricardo to a rise of money wages, would take place while money wages and the value of money remained precisely the same. This supposition serves further to shew how very erroneous it must be to consider the fall of profits as synonymous with a rise of money wages, or to make the money price of labour the great regulator of the rate of profits. It is obvious that, in this case, profits can only be regulated by the principle of competition, or of demand and supply, which would determine the degree in which the prices of commodities would fall; and their prices, compared with the uniform price of labour, would mainly regulate the rate of profits.

But Mr. Ricardo never contemplates the fall of prices as occasioning a fall of profits, although prac-

tically in many cases, as well as on the preceding supposition, a fall of profits must be produced in this way.

Let us suppose a prosperous commercial city, greatly excelling in some manufactures, and purchasing all its corn abroad. At first, and perhaps for a considerable time, the prices of its manufactures in foreign markets might be such as, compared with the price of its imported corn, to yield high profits; but, as capital continued to be accumulated and employed in larger quantities on the exportable manufactures, such manufactures, upon the principles of demand and supply, would in all probability fall in price. A larger portion of them must then be exchanged for a given portion of corn, and profits would necessarily fall. It is true that, under these circumstances, the labouring manufacturer must do more work for his support, and Mr. Ricardo would say that this is the legitimate cause of the fall of profits. In this I am quite willing to agree with him; but surely the specific cause, in this case, of more work being necessary to earn the same quantity of corn is the fall in the prices of the exportable manufactures with which it is purchased, and not a rise in the price of corn, which may remain exactly the same. The fall in these manufactures is the natural consequence of an increase of supply arising from an accumulation of capital more rapid than the extension of demand for its products; and that the fall of profits so occasioned depends entirely upon the principles of demand and supply will be acknowledged, if we

acknowledge, as we certainly must do, that the opening a new market for the manufactures in question would at once put an end to the fall of profits.

Upon the same principle, of considering the prices of commodities as constant, Mr. Ricardo is of opinion, that if the prices of our corn and labour were to fall, the profits of our foreign trade would rise in proportion. But what is it, I would ask, that is to fix the prices of commodities in foreign markets?—not merely the quantity of labour which has been employed upon them, because, as was noticed in a former chapter, commodities will be found selling at the same price in foreign markets, which have cost very different quantities of labour. But if they are determined, as they certainly are, both on an average and at the moment, by supply and demand, what is to prevent a much larger supply, occasioned by the competition of capital thrown out of employment, from rapidly lowering prices, and with them reducing the rate of profits?

If the price of corn during the last twenty-five years could have been kept at about fifty shillings the quarter, and the increasing capital of the country had chiefly been applied to the working up of exportable commodities for the purchase of foreign corn, I am strongly disposed to believe that the profits of stock would have been lower instead of higher. The millions which have been employed in permanent agricultural improvements\* have had

\* The millions of capital which have been expended in drainings, and in the roads and canals for the conveyance of agricul-

no tendency whatever to lower profits; but if, in conjunction with a large portion of the common capital employed in domestic agriculture, they had been added to the already large capitals applied to the working up of exportable commodities, I can scarcely feel a doubt that the foreign markets would have been more than fully supplied; that the prices of commodities would have been such as to make the profits of stock quite low;\* and that there would have been both a greater mass of moveable capitals at a loss for employment, and a greater disposition in those capitals to emigrate than has actually taken place.

Mr. Ricardo has never laid any *stress* upon the influence of permanent improvements in agriculture on the profits of stock, although it is one of the most important considerations in the whole compass of Political Economy, as such improvements unquestionably open the largest *arena* for the employment of capital without a diminution of profits. He observes, that “however extensive a country may be, where the land is of a poor quality, and where the importation of food is prohibited, the most moderate accumulations of capital

tural products, have tended rather to raise than lower profits; and millions and millions may yet be employed with the same advantageous effect.

\* Our present body of manufacturers, when they call for imported corn, think chiefly of the additional demand for their goods occasioned by the increased imports, and seem quite to forget the prodigious increase of supply which must be occasioned by the competition of so many more capitals and workmen in the same line of business.

will be attended with great reductions in the rate of profits, and a rapid rise in rent; and on the contrary, a small but fertile country, particularly if it freely permits the importation of food, may accumulate a large stock of capital, without any great diminution in the rate of profits, or any great increase in the rent of land.”\*

Adverting to the known effects of permanent improvements on the land, I should have drawn an inference from these two cases precisely the reverse of that which Mr. Ricardo has drawn. A very extensive territory, with the soil of a poor quality, yet all, or nearly all capable of cultivation, might, by continued improvements in agriculture, admit of the employment of a vast mass of capital for hundreds of years, with little or with no fall of profits; while the small but fertile territory, being very soon filled with all the capital it could employ on the land, would be obliged to employ its further accumulations in the purchase of corn with falling manufactures; a state of things which might easily reduce profits to their lowest rate before one-third of the capital had been accumulated that had been accumulated in the former case.

A country, which accumulates faster than its neighbours, might for hundreds of years still keep up its rate of profits, if it were successful in making permanent improvements on the land; but, if with the same rapidity of accumulation it were to depend chiefly on imported corn, its profits could

\* Princ. of Pol. Econ. ch. vi. p. 133. 2d edit.

scarcely fail to fall; and the fall would probably be occasioned, not by a rise in the bullion price of corn in the ports of Europe, but by a fall in the bullion price of the exports with which the corn was purchased by the country in question.

These statements appear to me to accord with the most correct theory of profits, and they certainly seem to be confirmed by experience. I have already adverted to the unquestionable fact of the profits on land being higher in 1813 than they were above eighty years before, although in the interval millions and millions of accumulated capital had been employed on the soil. And the effect of falling prices in reducing profits is but too evident at the present moment. In the largest article of our exports, the wages of labour are now lower than they probably would be in an ordinary state of things if corn were at fifty shillings a quarter. If, according to the new theory of profits, the prices of our exports had remained the same, the master manufacturers would have been in a state of the most extraordinary prosperity, and the rapid accumulation of their capitals would soon have employed all the workmen that could have been found. But, instead of this, we hear of glutted markets, falling prices, and cotton goods selling at Kam-schatka lower than the costs of production.

It may be said, perhaps, that the cotton trade happens to be glutted; and it is a tenet of the new doctrine on profits and demand, that if one trade be overstocked with capital, it is a certain sign that some other trade is understocked. But where,

I would ask, is there any considerable trade that is confessedly understocked, and where high profits have been long pleading in vain for additional capital? The war has now been at an end above four years; and though the removal of capital generally occasions some partial loss, yet it is seldom long in taking place, if it be tempted to remove by great demand and high profits; but if it be only discouraged from proceeding in its accustomed course by falling profits, while the profits in all other trades, owing to general low prices, are falling at the same time, though not perhaps precisely in the same degree, it is highly probable that its motions will be slow and hesitating.

It must be allowed then, that in contemplating the altered relation between labour and the produce obtained by it which occasions a fall of profits, we only take a view of half the question if we advert exclusively to a rise in the wages of labour without referring to a fall in the prices of commodities. Their effects on profits may be precisely the same; but the latter case, where there is no question respecting the state of the land, shews at once how much profits depend upon the prices of commodities, and upon the cause which determines these prices, namely the supply compared with the demand.

At all times indeed, and on every supposition, the great limiting principle which depends upon the increasing difficulty of procuring food from the soil, or on the still more general cause, a limitation of the population, in whatever way it may

be occasioned, is ready to act; and, if not overcome by countervailing facilities, will necessarily lower the rate of profits on the land, and from the land this fall will extend to all other departments of industry. But even this great principle operates according to the laws of demand and supply and competition.

The specific reason why profits must fall as the land becomes more and more exhausted is, that from the intrinsic nature of necessities, and of the soil from which they are procured, the demand for them and the price of them cannot possibly go on increasing in proportion to the expense of producing them. The cost in labour of producing capital increases faster than the value of such capital when produced, or its efficiency in setting fresh labourers to work. The boundary to the further value of and demand for corn, lies clear and distinct before us. Putting importation out of the question, it is precisely when the produce of the last land taken into cultivation will but just replace the capital and support the population employed in cultivating it. Profits must then be at their lowest theoretical limit. In their progress towards this point, the continued accumulation of capital will always have a *tendency* to lower them; and at no one period can they ever be higher than the state of the land, under all the circumstances, will admit.

They may be lower, however, as was before stated, in any degree, from an abundant supply of capital compared with the demand for produce;



and practically they are very rarely so high as the actual state of the land combined with the smallest possible quantity of food awarded to the labourer would admit of. But what would be the effects upon the profits of stock of any given increase of capital, or even of any given increase of the labour necessary to produce a certain quantity of corn, it would be quite impossible to say before hand.

In the case of a mere increase of capital, however large, it has appeared that circumstances might occur to prevent any fall of profits for a great length of time. And, even in the case of an increase in the quantity of labour necessary to produce corn, it would depend entirely upon the principles of demand and supply and competition, whether the increase in the price of corn would be such as to throw almost the whole of the increased difficulty of production upon labour, or such as to throw almost the whole of it upon profits, or finally such as to divide the loss more equally in various proportions between them.

No theory of profits therefore can approach towards correctness, which attempts to get rid of the principle of demand and supply and competition.

## CHAPTER VI.

OF THE DISTINCTION BETWEEN WEALTH AND  
VALUE.

It has been justly stated by Adam Smith that a man is rich or poor according to the degree in which he can afford to enjoy the necessities, conveniences, and amusements of human life. And it follows from this definition that, if the bounty of nature furnished all the necessities, conveniences and amusements of life to every inhabitant of a country in the fullest measure of proportion to his wishes, such a country would be in the highest degree wealthy, without possessing any thing which would have exchangeable value, or could command a single hour's labour.

In this state of things, undoubtedly, wealth has nothing to do with exchangeable value. But as this is not the actual state of things, nor likely to be so at any future time; as the bounty of nature furnishes but few of the necessities, conveniences and amusements of life to man without the aid of his own exertions; and as the great stimulus to exertion is the desire to possess what can only be possessed by means of some labour or sacrifice, it will be found that, in the real state in which man is placed on earth, wealth and exchangeable value,

though still by no means the same, are much more nearly connected than they have sometimes been supposed to be.

In considering the different quantities of the same commodity which, under different circumstances, have the same exchangeable value, the distinction is indeed perfectly obvious. Stockings do not lose half their power of contributing to the comfort and convenience of the wearer, because by improved machinery they can be made at half the price, or their exchangeable value be reduced one half. It will be readily allowed that the man who has two pairs of stockings of the same quality instead of one pair, possesses, as far as stockings are concerned, a double portion of the conveniences of life.

Yet even in this case he is not in all respects doubly rich. If, indeed, he means to use them himself, he really has twice as much wealth, but if he means to exchange them for other commodities, he has not; as one pair of stockings, under certain circumstances, may command more labour and other commodities than even two or even three pairs after very great improvements have been made in the machinery used in producing them. In all cases however of this description, the nature of the difference between wealth and value is sufficiently marked.

But when we come to compare objects of different kinds, there is no other way of estimating the degree of wealth which the possession and enjoyment of them confer on the owner, than by the

relative estimation in which they are respectively held, evinced by their relative exchangeable values. If one man has a certain quantity of tobacco, and another a certain quantity of muslin, we can only determine which of the two is the richer by ascertaining their relative command of wealth in the market. And even if one country exports corn, and imports lace and cambrics, notwithstanding that corn has a more marked and definite value in use than any other commodity, the estimate must be formed exactly in the same way. Luxuries are a part of wealth as well as necessities. The country would not have received lace and cambrics in exchange for its corn unless its wealth, or its necessities, conveniences and luxuries taken together, had been increased by such exchange; and this increase of wealth cannot possibly be measured in any other way than by the increase of value so occasioned, founded upon the circumstance that the commodities received are more wanted and held in higher estimation than those which were sent away.

Wealth, however, it will be allowed, does not always increase in proportion to the increase of value; because an increase of value may sometimes take place under an actual diminution of the necessities, conveniences and luxuries of life; but neither does it increase in proportion to the mere quantity of what comes under the denomination of wealth, because the various articles of which this quantity is composed may not be so propor-

tioned to the wants and powers of the society as to give them their proper value. The most useful commodity, in respect of its qualities, if it be absolutely in excess, not only loses its exchangeable value, but its power of supplying the wants of the society to the extent of its quantity, and part of it therefore loses its quality of wealth. If the roads and canals of England were suddenly broken up and destroyed, so as to prevent all passage and interchange of goods, there would at first be no diminution of commodities, but there would be immediately a most alarming diminution both of value and wealth. A great quantity of goods would at once lose their value by becoming utterly useless; and though others would rise in particular places, yet from the general want of power to purchase, the rise would by no means compensate for the fall. The whole exchangeable value of the produce estimated in labour, corn, or money, would be greatly diminished; and it is quite obvious that the wealth of the society would be most essentially impaired; that is, its wants would not be in any degree so well supplied as before.

It appears then that the wealth of a country depends partly upon the quantity of produce obtained by its labour, and partly upon such an adaptation of it to the wants and powers of the existing population as is calculated to give it value.

But where wealth and value are perhaps the most nearly connected, is in the constant necessity of the latter to the production of the former. In

the actual state of things, no considerable quantity of wealth can be obtained except by considerable exertions; and unless the value which an individual or the society places on the object when obtained fully compensates the sacrifice which has been made to obtain it, such wealth will not be produced in future. If labour alone be concerned in its production, as in shrimping, in the collection of hirts and wild strawberries, and some other exertions of mere manual labour, it is obvious that this wealth will not be collected, will not be used to supply any of the wants of the society, unless its value when collected will, at the least, command as much labour as the collection of it cost.

If the nature of the object to be obtained requires advances in the shape of capital, as in the vast majority of instances, then by whomsoever this capital is furnished, whether by the labourers themselves or by others, the commodity will not be produced, unless the estimation in which it is held by the society or its value in exchange be such, as not only to replace all the advances of labour and other articles which have been made for its attainment, but to pay the usual profits of capital.

It is obviously therefore the value of commodities, or the sacrifice of labour and of other articles which people are willing to make in order to obtain them, that in the actual state of things may be said to be the sole cause of the existence of wealth; and this value is founded on the wants of

mankind, and the adaptation of particular commodities to supply these wants, independently of the actual quantity of labour which these commodities may cost in their collection or production. It is this value which is not only the great stimulus to the production of all kinds of wealth, but the great regulator of the forms and relative quantities in which it shall exist. No species of wealth can be brought to market for a continuance, unless some part of the society sets a value upon it equal to its natural or necessary price, and is both able and willing to make a sacrifice to this extent in order to obtain it. A tax will entirely put an end to the production of a commodity, if no one of the society is disposed to value it at a price equal to the new conditions of its supply. And on the other hand, commodities will be continually increased in quantity so long as the numbers of those, who are able and willing to give a value for them equal to this price, continue to increase.

In short, the market prices of commodities are the immediate causes of all the great movements of society in the production of wealth, and these market prices always express clearly and unequivocally the exchangeable value of commodities at the time and place in which they are exchanged, and differ only from natural and necessary prices as the actual state of the demand and supply, with regard to any particular article, may differ from the ordinary and average state.

The reader of course will observe that in using

the term value, or value in exchange, I always mean it to be understood in that enlarged and, as I conceive, accustomed and correct sense, according to which I endeavoured to explain and define it in the Second Chapter of this work, and never in the confined sense in which it has been lately applied by Mr. Ricardo, as depending exclusively upon the actual quantity of labour employed in production.\* Understood in this latter sense, value, certainly, has not so intimate a connection with wealth. In comparing two countries together of different degrees of fertility, or in comparing an agricultural with a manufacturing and commercial country, their relative wealth would be very different from the proportion of labour employed by each in production; and certainly the increasing quantity of labour necessary to produce any commodity would be very far indeed from being a stimulus to its increase. In this sense therefore wealth and value are very different.

But if value be understood in the sense in which it is most generally used, and according to which

\* Mr. Ricardo says, (ch. xx. p. 343.) "That commodity is alone invariable, which at all times requires the same sacrifice of toil and labour to produce it." What does the term "invariable" mean here? It cannot mean *invariable* in its exchangeable value; because Mr. Ricardo has himself allowed that commodities which have cost the same sacrifice of toil and labour will very frequently not exchange for each other. As a measure of value in exchange this standard is much more variable than those which he has rejected; and in what other sense it is to be understood, it is not easy to say.

I have defined it, wealth and value, though certainly not always the same, will appear to be very nearly connected; and in making an estimate of wealth, it must be allowed to be as grave an error to consider quantity without reference to value, as to consider value without reference to quantity.

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## CHAPTER VII.

ON THE IMMEDIATE CAUSES OF THE PROGRESS  
OF WEALTH.

### SECTION I.

*Statement of the particular Object of Inquiry.*

THERE is scarcely any inquiry more curious, or, from its importance, more worthy of attention, than that which traces the causes which practically check the progress of wealth in different countries, and stop it, or make it proceed very slowly, while the power of production remains comparatively undiminished, or at least would furnish the means of a great and abundant increase of produce and population.

In a former work \* I endeavoured to trace the causes which practically keep down the population of a country to the level of its actual supplies. It is now my object to shew what are the causes which chiefly influence these supplies, or call the powers of production forth into the shape of increasing wealth.

Among the primary and most important causes which influence the wealth of nations, must un-

\* Essay on the Principle of Population.