of commodities were permanently raised by high wages, the proposition would not be less true, which asserts that high wages invariably affect the employers of labour, by depriving them of a portion of their real profits. Supposing the hatter, the hosier, and the shoemaker, each paid 10*l.* more wages in the manufacture of a particular quantity of their commodities, and that the price of hats, stockings, and shoes, rose by a sum sufficient to repay the manufacturer the 10*l.*; their situation would be no better than if no such rise took place. If the hosier sold his stockings for 110*l.* instead of 100*l.*, his profits would be precisely the same money amount as before; but as he would obtain in exchange for this equal sum, one tenth less of hats, shoes, and every other commodity, and as he could with his former amount of savings employ fewer labourers at the increased wages, and purchase fewer raw materials at the increased prices, he would be in no better situation than if his money profits had been really diminished in amount, and every thing had remained at its former price. Thus then I have endeavoured to shew, first, that a rise of wages would not raise the price of commo-

dities, but would invariably lower profits; and secondly, that if the prices of commodities could be raised, still the effect on profits would be the same; and that in fact the value of the medium only in which prices and profits are estimated would be lowered.

CHAPTER VI.

ON FOREIGN TRADE.

No extension of foreign trade will immediately increase the amount of value in a country, although it will very powerfully contribute to increase the mass of commodities, and therefore the sum of enjoyments. As the value of all foreign goods is measured by the quantity of the produce of our land and labour, which is given in exchange for them, we should have no greater value, if by the discovery of new markets, we obtained double the quantity of foreign goods in exchange for a given quantity of our's. If by the purchase of English goods to the amount of 1000*l.* a merchant can obtain a quantity of foreign goods, which he can sell in the English market for 1,200*l.*, he will obtain 20 per

cent. profit by such an employment of his capital; but neither his gains, nor the value of the commodities imported, will be increased or diminished by the greater or smaller quantity of foreign goods obtained. Whether, for example, he imports twenty-five or fifty pipes of wine, his interest can be no way affected, if at one time the twenty-five pipes, and at another the fifty pipes, equally sell for 1,200*l.* In either case his profit will be limited to 200*l.*, or 20 per cent. on his capital; and in either case the same value will be imported into England. If the fifty pipes sold for more than 1,200*l.*, the profits of this individual merchant would exceed the general rate of profits, and capital would naturally flow into this advantageous trade, till the fall of the price of wine had brought every thing to the former level.

It has indeed been contended, that the great profits which are sometimes made by particular merchants in foreign trade, will elevate the general rate of profits in the country, and that the abstraction of capital from other employments, to partake of the new and beneficial foreign commerce, will raise prices generally, and thereby increase profits. It has been said, by high authority, that less capital being necessarily devoted to the growth of corn, to the manufacture of cloth, hats, shoes, &c. while the demand continues the same, the price of these commodities will be so increased, that the farmer, hatter, clothier, and shoe-maker, will have an increase of profits, as well as the foreign merchant.*

They who hold this argument agree with me, that the profits of different employments have a tendency to conform to one another; to advance and recede together. Our variance consists in this: They contend, that the equality of profits will be brought about by the general rise of profits; and I am of opinion, that the profits of the favoured trade will speedily subside to the general level.

For, first, I deny that less capital will necessarily be devoted to the growth of corn, to the manufacture of cloth, hats, shoes, &c., unless the demand for these commodities be

* See Adam Smith, book i. chap. 9.

diminished; and if so, their price will not rise. In the purchase of foreign commodities, either the same, a larger, or a less portion of the produce of the land and labour of England will be employed. If the same portion be so employed, then will the same demand exist for cloth, shoes, corn, and hats, as before, and the same portion of capital will be devoted to their production. If, in consequence of the price of foreign commodities being cheaper, a less portion of the annual produce of the land and labour of England is employed in the purchase of foreign commodities, more will remain for the purchase of other things. If there be a greater demand for hats, shoes, corn, &c. than before, which there may be, the consumers of foreign commodities having an additional portion of their revenue disposable, the capital is also disposable with which the greater value of foreign commodities was before purchased; so that with the increased demand for corn, shoes, &c. there exists also the means of procuring an increased supply, and therefore neither prices nor profits can permanently rise. If more of the produce of the land and labour of England be employed in the purchase of foreign commodities, less can be employed in the purchase of other things, and therefore fewer hats, shoes, &c. will be required. At the same time that capital is liberated from the production of shoes, hats, &c. more must be employed in manufacturing those commodities with which foreign commodities are purchased; and consequently in all cases the demand for foreign and home commodities together, as far as regards value, is limited by the revenue and capital of the country. If one increases, the other must diminish. If the importation of wine, given in exchange for the same quantity of English commodities be doubled, the people of England can either consume double the quantity of wine that they did before, or the same quantity of wine and a greater quantity of English commodities. If my revenue had been 1000*l.*, with which I purchased annually one pipe of wine for 100*l.* and a certain quantity of English commodities for 900*l.*; when wine fell to 50*l.* per pipe, I might lay out the 50*l.* saved, either in the purchase of an additional pipe of wine, or in the purchase of more English commodities. If I bought more wine, and every wine-drinker did the

same, the foreign trade would not be in the least disturbed; the same quantity of English commodities would be exported in exchange for wine, and we should receive double the quantity, though not double the value of wine. But if I, and others contented ourselves with the same quantity of wine as before, fewer English commodities would be exported, and the wine-drinkers might either consume the commodities which were before exported, or any others for which they had an inclination. The capital required for their production would be supplied by the capital liberated from the foreign trade.

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

If, by the introduction of machinery, the generality of the commodities on which revenue was expended fell 20 per cent. in value, I should be enabled to save as effectually as if my revenue had been raised 20 per cent.; but in one case the rate of profits is stationary, in the other it is raised 20 per cent. —If, by the introduction of cheap foreign

goods, I can save 20 per cent. from my expenditure, the effect will be precisely the same as if machinery had lowered the expense of their production, but profits would not be raised.

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

It has been my endeavour to shew throughout this work, that the rate of profits can never be increased but by a fall in wages, and that there can be no permanent fall of wages but in consequence of a fall of the necessaries on which wages are expended. If, therefore, by the extension of foreign trade, or by improvements in machinery, the food and necessaries of the labourer can be brought to market at a reduced price, profits will rise. If, instead of growing our own corn, or manufacturing the clothing and other necessaries of the labourer, we discover a new market from which we can supply ourselves with these commodities at a cheaper price, wages will fall and profits rise; but if the commodities obtained at a cheaper rate, by the extension of foreign commerce, or by the improvement of machinery, be exclusively the commodities consumed by the rich, no alteration will take place in the rate of profits. The rate of wages would not be affected, although wine, velvets, silks, and other expensive commodities, should fall 50 per cent., and consequently profits would continue unaltered.

Foreign trade, then, though highly beneficial to a country, as it increases the amount and variety of the objects on which revenue may be expended, and affords, by the abun-

dance and cheapness of commodities, incentives to saving, and to the accumulation of capital, has no tendency to raise the profits of stock, unless the commodities imported be of that description on which the wages of labour are expended.

The remarks which have been made respecting foreign trade, apply equally to home trade. The rate of profits is never increased by a better distribution of labour, by the invention of machinery, by the establishment of roads and canals, or by any means of abridging labour either in the manufacture or in the conveyance of goods. These are causes which operate on price, and never fail to be highly beneficial to consumers; since they enable them with the same labour, or with the value of the produce of the same labour, to obtain in exchange a greater quantity of the commodity to which the improvement is applied; but they have no effect whatever on profit. On the other hand, every diminution in the wages of labour raises profits, but produces no effect on the price of commodities. One is advantageous to all classes, for all classes are consumers; the other is beneficial only to producers; they gain more, but every thing remains at its former price. In the first case, they get the same as before; but every thing on which their gains are expended, is diminished in exchangeable value.

The same rule which regulates the relative value of commodities in one country, does not regulate the relative value of the commodities exchanged between two or more countries.

Under a system of perfectly free commerce, each country naturally devotes its capital and labour to such employments as are most beneficial to each. This pursuit of individual advantage is admirably connected with the universal good of the whole. By stimulating industry, by rewarding ingenuity, and by using most efficaciously the peculiar powers bestowed by nature, it distributes labour most effectively and most economically: while, by increasing the general mass of productions, it diffuses general benefit, and binds together by one common tie of interest and intercourse, the universal society of

nations throughout the civilized world. It is this principle which determines that wine shall be made in France and Portugal, that corn shall be grown in America and Poland, and that hardware and other goods shall be manufactured in England.

In one and the same country, profits are, generally speaking, always on the same level; or differ only as the employment of capital may be more or less secure and agreeable. It is not so between different countries. If the profits of capital employed in Yorkshire, should exceed those of capital employed in London, capital would speedily move from London to Yorkshire, and an equality of profits would be effected; but if in consequence of the diminished rate of production in the lands of England, from the increase of capital and population, wages should rise, and profits fall, it would not follow that capital and population would necessarily move from England to Holland, or Spain, or Russia, where profits might be higher.

If Portugal had no commercial connexion with other countries, instead of employing a great part of her capital and industry in the production of wines, with which she purchases for her own use the cloth and hardware of other countries, she would be obliged to devote a part of that capital to the manufacture of those commodities, which she would thus obtain probably inferior in quality as well as quantity.

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

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

To produce the wine in Portugal, might require only the labour of eighty men for one

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

Thus, England would give the produce of the labour of 100 men for the produce of the labour of 80. Such an exchange could not take place between the individuals of the same country. The labour of 100 Englishmen cannot be given for that of 80 Englishmen, but the produce of the labour of 100 Englishmen may be given for the produce of the labour of 80 Portuguese, 60 Russians, or 120 East Indians. The difference in this respect, between a single country and many, is easily accounted for, by considering the difficulty with which capital moves from one country to another, to seek a more profitable employment, and the activity with which it invariably passes from one province to another in the same country.*

It would undoubtedly be advantageous to the capitalists of England, and to the consumers in both countries, that under such circumstances, the wine and the cloth should

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

both be made in Portugal, and therefore that the capital and labour of England employed in making cloth, should be removed to Portugal for that purpose. In that case, the relative value of these commodities would be regulated by the same principle, as if one were the produce of Yorkshire, and the other of London; and in every other case, if capital freely flowed towards those countries where it could be most profitably employed, there could be no difference in the rate of profit, and no other difference in the real or labour price of commodities, than the additional quantity of labour required to convey them to the various markets where they were to be sold.

Experience however shews, that the fancied or real insecurity of capital, when not under the immediate control of its owner, together with the natural disinclination which every man has to quit the country of his birth and connexions, and intrust himself with all his habits fixed, to a strange government and new laws, check the emigration of capital. These feelings, which I should be sorry to see weakened, induce most men of property to be satisfied with a low rate of profits in their own country, rather than seek a more advantageous employment for their wealth in foreign nations.

Gold and silver having been chosen for the general medium of circulation, they are, by the competition of commerce, distributed in such proportions amongst the different countries of the world, as to accommodate themselves to the natural traffic which would take place if no such metals existed, and the trade between countries were purely a trade of barter.

Thus, cloth cannot be imported into Portugal, unless it sell there for more gold than it cost in the country from which it was imported; and wine cannot be imported into England, unless it will sell for more there than it cost in Portugal. If the trade were purely a trade of barter, it could only continue whilst England could make cloth so cheap as to obtain a greater quantity of wine with a given quantity of labour, by manufacturing cloth than by growing vines; and also whilst the industry of Portugal were attended by

the reverse effects. Now suppose England to discover a process for making wine, so that it should become her interest rather to grow it than import it: she would naturally divert a portion of her capital from the foreign trade to the home trade; she would cease to manufacture cloth for exportation, and would grow wine for herself. The money price of these commodities would be regulated accordingly; wine would fall here while cloth continued at its former price, and in Portugal no alteration would take place in the price of either commodity. Cloth would continue for some time to be exported from this country, because its price would continue to be higher in Portugal than here; but money instead of wine would be given in exchange for it, till the accumulation of money here, and its diminution abroad, should so operate on the relative value of cloth in the two countries, that it would cease to be profitable to export it. If the improvement in making wine were of a very important description, it might become profitable for the two countries to exchange employments; for England to make all the wine, and Portugal all the cloth, consumed by them: but this could be effected only by a new distribution of the precious metals, which should raise the price of cloth in England, and lower it in Portugal. The relative price of wine would fall in England in consequence of the real advantage from the improvement of its manufacture; that is to say, its natural price would fall: the relative price of cloth would rise there from the accumulation of money.

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

Suppose that, after the improvement, wine falls to 45*l.* in England, the cloth continuing at the same price. Every transaction in commerce is an independent transaction. Whilst a merchant can buy cloth in England for 45*l.*, and sell it with the usual profit in Portugal, he will continue to export it from

England. His business is simply to purchase English cloth, and to pay for it by a bill of exchange, which he purchases with Portuguese money. It is to him of no importance what becomes of this money; he has discharged his debt by the remittance of the bill. His transaction is undoubtedly regulated by the terms on which he can obtain this bill, but they are known to him at the time; and the causes which may influence the market price of bills, or the rate of exchange, is no consideration of his.

If the markets be favourable for the exportation of wine from Portugal to England, the exporter of the wine will be a seller of a bill, which will be purchased either by the importer of the cloth, or by the person who sold him his bill; and thus without the necessity of money passing from either country, the exporters in each country will be paid for their goods. Without having any direct transaction with each other, the money paid in Portugal by the importer of cloth will be paid to the Portuguese exporter of wine; and in England by the negociation of the same bill, the exporter of the cloth will be authorized to receive its value from the importer of wine.

But if the prices of wine were such that no wine could be exported to England, the importer of cloth would equally purchase a bill; but the price of that bill would be higher, from the knowledge which the seller of it would possess, that there was no counter bill in the market by which he could ultimately settle the transactions between the two countries: he might know that the gold or silver money which he received in exchange for his bill, must be actually exported to his correspondent in England, to enable him to pay the demand which he had authorized to be made upon him, and he might therefore charge in the price of his bill all the expenses to be incurred, together with his fair and usual profit.

If then this premium for a bill on England should be equal to the profit on importing cloth, the importation would of course cease; but if the premium on the bill were only 2 per cent., if to be enabled to pay a debt in England of 100*l.*, 102*l.* should be paid in

Portugal, whilst cloth which cost 45*l.* would sell for 50*l.*, cloth would be imported, bills would be bought, and money would be exported, till the diminution of money in Portugal, and its accumulation in England, had produced such a state of prices, as would make it no longer profitable to continue these transactions.

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

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

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

Both countries would probably find it their interest to make their own wine and their own cloth; but this singular result would

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

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

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

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

Beside the improvements in arts and machinery, there are various other causes which are constantly operating on the natural course of trade, and which interfere with the equilibrium, and the relative value of money.

Bounties on exportation or importation, new taxes on commodities, sometimes by their direct, and at other times by their indirect operation, disturb the natural trade of barter, and produce a consequent necessity of importing or exporting money, in order that prices may be accommodated to the natural course of commerce; and this effect is produced not only in the country where the disturbing cause takes place, but, in a greater or less degree, in every country of the commercial world.

This will in some measure account for the different value of money in different countries; it will explain to us why the prices of home commodities, and those of great bulk, are, independently of other causes, higher in those countries where manufactures flourish. Of two countries having precisely the same population, and the same quantity of land of equal fertility in cultivation, with the same knowledge too of agriculture, the prices of raw produce will be highest in that where the greater skill, and the better machinery is used in the manufacture of exportable commodities. The rate of profits will probably differ but little; for wages, or the real reward of the labourer, may be the same in both; but those wages, as well as raw produce, will be rated higher in money in that country, into which, from the advantages attending their skill and machinery, an abundance of money is imported in exchange for their goods.

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

In the former part of this work, we have assumed for the purpose of argument, that money always continued of the same value; we are now endeavouring to shew that besides the ordinary variations in the value of money, and those which are common to the whole commercial world, there are also partial variations to which money is subject in particular countries; and in fact, that the value of money is never the same in any two

countries, depending as it does on relative taxation, on manufacturing skill, on the advantages of climate, natural productions, and many other causes.

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

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

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

Suppose all nations to produce corn, cattle, and coarse clothing only, and that it was by the exportation of such commodities that gold could be obtained from the countries which

produced them, or from those who held them in subjection; gold would naturally be of greater exchangeable value in Poland than in England, on account of the greater expense of sending such a bulky commodity as corn the more distant voyage, and also the greater expense attending the conveying of gold to Poland.

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

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

These I believe to be the only two causes which regulate the comparative value of money in the different countries of the world; for although taxation occasions a disturbance of the equilibrium of money, it does so by depriving the country in which it is imposed of some of the advantages attending skill, industry, and climate.

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

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

This higher value of money will not be indicated by the exchange; bills may conti-

nue to be negociated at par, although the prices of corn and labour should be 10, 20, or 30 per cent. higher in one country than another. Under the circumstances supposed, such a difference of prices is the natural order of things, and the exchange can only be at par when a sufficient quantity of money is introduced into the country excelling in manufactures, so as to raise the price of its corn and labour. If foreign countries should prohibit the exportation of money, and could successfully enforce obedience to such a law, they might indeed prevent the rise in the prices of the corn and labour of the manufacturing country; for such rise can only take place after the influx of the precious metals, supposing paper money not to be used; but they could not prevent the exchange from being very unfavourable to them. If England were the manufacturing country, and it were possible to prevent the importation of money, the exchange with France, Holland, and Spain, might be 5, 10, or 20 per cent. against those countries.

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

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

will purchase a bill of 100*l.*, or an equal quantity of silver in France, Spain, or Holland.

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

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

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

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

By sending 130*l.* good English pounds sterling to Hamburgh, even at an expense of 5*l.*, I should be possessed there of 125*l.*; what then could make me consent to give

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

Some indeed more reasonably maintained, that 130*l.* in paper was not of equal value with 130*l.* in metallic money; but they said that it was the metallic money which had changed its value, and not the paper money. They wished to confine the meaning of the word depreciation to an actual fall of value, and not to a comparative difference between the value of money, and the standard by which by law it is regulated. One hundred pounds of English money was formerly of equal value with, and could purchase 100*l.* of Hamburgh money: in any other country a bill of 100*l.* on England, or on Hamburgh, could purchase precisely the same quantity of commodities. To obtain the same things, I was lately obliged to give 130*l.* English money, when Hamburgh could obtain them for 100*l.* Hamburgh money. If English money was of the same value then as before, Hamburgh money must have risen in value. But where is the proof of this? How is it to be ascertained whether English money has fallen, or Hamburgh money has risen? there is no standard by which this can be determined. It is a plea which admits of no proof, and can neither be positively affirmed, nor positively contradicted. The nations of the world must have been early convinced, that there was no standard of value in nature, to which we might unerringly refer, and therefore chose a medium, which, on the whole appeared to them less variable than any other commodity.

To this standard we must conform till the law is changed, and till some other commodity is discovered, by the use of which we shall obtain a more perfect standard, than that which we have established. While gold

is exclusively the standard in this country, money will be depreciated, when a pound sterling is not of equal value with 5 dwts. and 3 grs. of standard gold, and that, whether gold rises or falls in general value.

CHAPTER VII.

ON TAXES.

Taxes are a portion of the produce of the land and labour of a country, placed at the disposal of the government; and are always ultimately paid, either from the capital, or from the revenue of the country.

We have already shewn how the capital of a country is either fixed or circulating, according as it is of a more or of a less durable nature. It is difficult to define strictly, where the distinction between circulating and fixed capital begins; for there are almost infinite degrees in the durability of capital. The food of a country is consumed and reproduced, at least once in every year; the clothing of the labourer is probably not consumed and re-

produced in less than two years; whilst his house and furniture are calculated to endure for a period of ten or twenty years.

When the annual productions of a country exceed its annual consumption, it is said to increase its capital; when its annual consumption at least is not replaced by its annual production, it is said to diminish its capital. Capital may therefore be increased by an increased production, or by a diminished consumption.

If the consumption of the government, when increased by the levy of additional taxes, be met either by an increased production, or by a diminished consumption on the part of the people, the taxes will fall upon revenue, and the national capital will remain unimpaired; but if there be no increased production or diminished consumption on the part of the people, the taxes will necessarily fall on capital.

In proportion as the capital of a country is diminished, its productions will be necessarily diminished; and therefore, if the same expenditure on the part of the people and of the government continue, with a constantly diminishing annual reproduction, the resources of the people and the state will fall away with increasing rapidity, and distress and ruin will follow.

Notwithstanding the immense expenditure of the English government during the last twenty years, there can be little doubt but that the increased production on the part of the people has more than compensated for it. The national capital has not merely been unimpaired, it has been greatly increased, and the annual revenue of the people, even after the payment of their taxes, is probably greater at the present time than at any former period of our history.

For the proof of this we might refer to the increase of population—to the extension of agriculture—to the increase of shipping and manufactures—to the building of docks—to the opening of numerous canals, as well as to many other expensive undertakings; all denoting an increase both of capital and of annual production.

There are no taxes which have not a tendency to impede accumulation, because there are none which may not be considered as checking production, and as causing the same effects as a bad soil or climate, a diminution of skill or industry, a worse distribution of labour, or the loss of some useful machinery; and although some taxes will produce these effects in a much greater degree than others, it must be confessed that the great evil of taxation is to be found, not so much in any selection of its objects, as in the general amount of its effects taken collectively.

Taxes are not necessarily taxes on capital, because they are laid on capital; nor on income, because they are laid on income. If from my income of 1000*l.* per annum, I am required to pay 100*l.*, it will really be a tax on my income, should I be content with the expenditure of the remaining 900*l.*; but it will be a tax on capital, if I continue to spend 1000*l.*

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

The desire which every man has to keep his station in life, and to maintain his wealth at the height which it has once obtained, occasions most taxes, whether laid on capital or on income, to be paid from income; and therefore as taxation proceeds, or as government increases its expenditure, the annual expenditure of the people must be diminished, unless they are enabled proportionally to increase their capitals and income. It should be the policy of governments to encourage a disposition to do this in the people, and never to lay such taxes as will inevitably fall on capital; since by so doing, they impair the funds for the maintenance of labour, and thereby diminish the future production of the country.

In England this policy has been neglected, in taxing the probates of wills, in the legacy duty, and in all taxes affecting the transference of property from the dead to the

living. If a legacy of 1000*l.* be subject to a tax of 100*l.*, the legatee considers his legacy as only 900*l.*, and feels no particular motive to save the 100*l.* duty from his expenditure, and thus the capital of the country is diminished; but if he had really received 1000*l.* and had been required to pay 100*l.* as a tax on income, on wine, on horses, or on servants, he would probably have diminished, or rather not increased his expenditure by that sum, and the capital of the country would have been unimpaired.

"Taxes upon the transference of property from the dead to the living," says Adam Smith, "fall finally, as well as immediately, upon the persons to whom the property is transferred. Taxes on the sale of land fall altogether upon the seller. The seller is almost always under the necessity of selling, and must therefore take such a price as he can get. The buyer is scarce ever under the necessity of buying, and will therefore only give such a price as he likes. He considers what the land will cost him in tax and price together. The more he is obliged to pay in the way of tax, the less he will be disposed to give in the way of price. Such taxes, therefore, fall almost always upon a necessitous person, and must therefore be very cruel and oppressive." "Stamp duties, and duties upon the registration of bonds and contracts for borrowed money, fall altogether upon the borrower, and in fact are always paid by him. Duties of the same kind upon law proceedings fall upon the suitors. They reduce to both the capital value of the subject in dispute. The more it costs to acquire any property, the less must be the neat value of it when acquired. All taxes upon the transference of property of every kind, so far as they diminish the capital value of that property, tend to diminish the funds destined for the maintenance of labour. They are all more or less unthrifty taxes, that increase the revenue of the sovereign, which seldom maintains any but unproductive labourers, at the expense of the capital of the people, which maintains none but productive."

But this is not the only objection to taxes on the transference of property; they prevent the national capital from being distributed in the way most beneficial to the community.

For the general prosperity, there cannot be too much facility given to the conveyance and exchange of all kinds of property, as it is by such means that capital of every species is likely to find its way into the hands of those, who will best employ it in increasing the productions of the country. "Why," asks M. Say, "does an individual wish to sell his land? it is because he has another employment in view in which his funds will be more productive. Why does another wish to purchase this same land? it is to employ a capital which brings him in too little, which was unemployed, or the use of which he thinks susceptible of improvement. This exchange will increase the general income, since it increases the income of these parties. But if the charges are so exorbitant as to prevent the exchange, they are an obstacle to this increase of the general income." Those taxes however are easily collected; and this by many may be thought to afford some compensation for their injurious effects.

CHAPTER VIII.

TAXES ON RAW PRODUCE.

HAVING in a former part of this work established, I hope satisfactorily, the principle, that the price of corn is regulated by the cost of its production on that land exclusively, or rather with that capital exclusively, which pays no rent, it will follow that whatever may increase the cost of production will increase the price; whatever may reduce it, will lower the price. The necessity of cultivating poorer land, or of obtaining a less return with a given additional capital on land already in cultivation, will inevitably raise the exchangeable value of raw produce. The discovery of machinery, which will enable the cultivator to obtain his corn at a less cost of production, will necessarily lower its exchangeable value. Any tax which may be

imposed on the cultivator, whether in the shape of land-tax, tithes, or a tax on the produce when obtained, will increase the cost of production, and will therefore raise the price of raw produce.

If the price of raw produce did not rise so as to compensate the cultivator for the tax, he would naturally quit a trade where his profits were reduced below the general level of profits: this would occasion a diminution of supply, until the unabated demand should have produced such a rise in the price of raw produce, as to make the cultivation of it equally profitable with the investment of capital in any other trade.

A rise of price is the only means by which he could pay the tax, and continue to derive the usual and general profits from this employment of his capital. He could not deduct the tax from his rent, and oblige his landlord to pay it, for he pays no rent. He would not deduct it from his profits, for there is no reason why he should continue in an employment which yields small profits, when all other employments are yielding greater.

There can then be no question, but that he will have the power of raising the price of raw produce by a sum equal to the tax.

A tax on raw produce would not be paid by the landlord; it would not be paid by the farmer; but it would be paid, in an increased price, by the consumer.

Rent, it should be remembered, is the difference between the produce obtained by equal portions of labour and capital employed on land of the same or different qualities. It should be remembered too, that the money rent of land, and the corn rent of land, do not vary in the same proportion.

In the case of a tax on raw produce, of a land tax, or tithes, the corn rent of land will vary, while the money rent will remain as before.

If, as we have before supposed, the land in cultivation were of three qualities, and that with an equal amount of capital,

180 qrs. of corn were obtained from land No. 1.
170 . . . . . . from . . . . . . 2.
160 . . . . . . from . . . . . . 3.

the rent of No. 1 would be 20 quarters, the difference between that of No. 3 and No. 1; and of No. 2, 10 quarters, the difference between that of No. 3 and No. 2; while No. 3 would pay no rent whatever.

Now if the price of corn were 4*l.* per quarter, the money rent of No. 1 would be 80*l.*, and that of No. 2, 40*l.*

Suppose a tax of 8*s.* per quarter to be imposed on corn; then the price would rise to 4*l.* 8*s.*; and if the landlords obtained the same corn rent as before, the rent of No. 1 would be 88*l.*, and that of No. 2, 44*l.* But they would not obtain the same corn rent; the tax would fall heavier on No. 1 than on No. 2, and on No. 2 than on No. 3, because it would be levied on a greater quantity of corn. It is the difficulty of production on No. 3 which regulates price; and corn rises to 4*l.* 8*s.*, that the profits of the capital employed on No. 3 may be on a level with the general profits of stock.

The produce and tax on the three qualities of land will be as follows:

No. 1, yielding	180	qrs. at 4*l.* 8*s.* per qr. .	£792
Deduct the value of	16.3	or 8*s.* per qr. on 180 qrs.	72
Net corn produce	163.7	Net money produce	£720
No. 2, yielding	170	qrs. at 4*l.* 8*s.* per qr. . .	£748
Deduct the value of	15.4	qrs. at 4*l.* 8*s.* or 8*s.* per qr. on 170 qrs. . .	68
Net corn produce	154.6	Net money produce	£680
No. 3,	160	qrs. at 4*l.* 8*s.*	£704
Deduct the value of	14.5	qrs. at 4*l.* 8*s.* or 8*s.* per qr. on 160. . . .	64
Net corn produce	145.5	Net money produce	£640

The money rent of No. 1 would continue to be 80*l.*, or the difference between 640 and 720*l.*; and that of No. 2, 40*l.*, or the difference between 640*l.* and 680*l.*, precisely the same as before; but the corn rent will be reduced from 20 quarters on No. 1 to 18.2 quarters, and that on No. 2 from 10 to 9.1 quarters.

A tax on corn, then, would fall on the consumers of corn, and would raise its value as compared with all other commodities, in a degree proportioned to the tax. In proportion as raw produce entered into the composition of other commodities, would

their value also be raised, unless the tax were countervailed by other causes. They would in fact be indirectly taxed, and their value would rise in proportion to the tax.

A tax, however, on raw produce, and on the necessaries of the labourer, would have another effect—it would raise wages. From the effect of the principle of population on the increase of mankind, wages of the lowest kind never continue much above that rate which nature and habit demand for the support of the labourers. This class is never able to bear any considerable portion of taxation; and, consequently, if they had to pay 8*s.* per quarter in addition for wheat, and in some smaller proportion for other necessaries, they would not be able to subsist on the same wages as before, and to keep up the race of labourers. Wages would inevitably and necessarily rise; and in proportion as they rose, profits would fall. Government would receive a tax of 8*s.* per quarter on all the corn consumed in the country, a part of which would be paid directly by the consumers of corn; the other part would be paid indirectly by those who employed labour, and would affect profits in the same manner as if wages had been raised from the increased demand for labour compared with the supply, or from an increasing difficulty of obtaining the food and necessaries required by the labourer.

In as far as the tax might affect consumers, it would be an equal tax, but in as far as it would affect profits, it would be a partial tax; for it would neither operate on the landlord nor on the stock-holder, since they would continue to receive, the one the same money rent, the other the same money dividends as before. A tax on the produce of the land then would operate as follows:

1st. It would raise the price of raw produce by a sum equal to the tax, and would therefore fall on each consumer in proportion to his consumption.

2dly. It would raise the wages of labour, and lower profits.

It may then be objected against such a tax,

1st. That by raising the wages of labour, and lowering profits, it is an unequal tax, as

it affects the income of the farmer, trader, and manufacturer, and leaves untaxed the income of the landlord, stockholder, and others enjoying fixed incomes.

2dly. That there would be a considerable interval between the rise in the price of corn and the rise of wages, during which much distress would be experienced by the labourer.

3rdly. That raising wages and lowering profits is a discouragement to accumulation, and acts in the same way as a natural poverty of soil.

4thly. That by raising the price of raw produce, the prices of all commodities into which raw produce enters, would be raised, and that therefore we should not meet the foreign manufacture on equal terms in the general market.

With respect to the first objection, that by raising the wages of labour and lowering profits it acts unequally, as it affects the income of the farmer, trader, and manufacturer, and leaves untaxed the income of the landlord, stock-holder, and others enjoying fixed incomes,—it may be answered, that if the operation of the tax be unequal, it is for the legislature to make it equal, by taxing directly the rent of land, and the dividends from stock. By so doing, all the objects of an income tax would be obtained, without the inconvenience of having recourse to the obnoxious measure of prying into every man's concerns, and arming commissioners with powers repugnant to the habits and feelings of a free country.

With respect to the second objection, that there would be a considerable interval between the rise of the price of corn and the rise of wages, during which much distress would be experienced by the lower classes,—I answer, that under different circumstances, wages follow the price of raw produce with very different degrees of celerity; that in some cases no effect whatever is produced on wages by a rise of corn; in others, the rise of wages precedes the rise in the price of corn; again, in some the effect is slow, and in others the interval must be very short.

Those who maintain that it is the price of necessaries which regulates the price of la-

bour, always allowing for the particular state of progression in which the society, may be seem to have conceded too readily, that a rise or fall in the price of necessaries will be very slowly succeeded by a rise or fall of wages. A high price of provisions may arise from very different causes, and may accordingly produce very different effects. It may arise from

1st. A deficient supply.
2nd. From a gradually increasing demand, which may be ultimately attended with an increased cost of production.
3dly. From a fall in the value of money.
4thly. From taxes on necessaries.

These four causes have not been sufficiently distinguished and separated by those who have inquired into the influence of a high price of necessaries on wages. We will examine them severally.

A bad harvest will produce a high price of provisions, and the high price is the only means by which the consumption is compelled to conform to the state of the supply.

If all the purchasers of corn were rich, the price might rise to any degree, but the result would remain unaltered; the price would at last be so high, that the least rich would be obliged to forego the use of a part of the quantity which they usually consumed, as by diminished consumption alone, the demand could be brought down to the limits of the supply. Under such circumstances no policy can be more absurd, than that of forcibly regulating money wages by the price of food, as is frequently done, by misapplication of the poor laws. Such a measure affords no real relief to the labourer, because its effect is to raise still higher the price of corn, and at last he must be obliged to limit his consumption in proportion to the limited supply. In the natural course of affairs a deficient supply from bad seasons, without any pernicious and unwise interference, would not be followed by a rise of wages. The raising of wages is merely nominal to those who receive them; it increases the competition in the corn market, and its ultimate effect is to raise the profits of the growers and dealers in corn. The wages of labour are really regulated by the proportion between the sup-

ply and demand of necessaries, and the supply and demand of labour; and money is merely the medium, or measure, in which wages are expressed. In this case then the distress of the labourer is unavoidable, and no legislation can afford a remedy, except by the importation of additional food.

When a high price of corn is the effect of an increasing demand, it is always preceded by an increase of wages, for demand cannot increase, without an increase of means in the people to pay for that which they desire. An accumulation of capital naturally produces an increased competition among the employers of labour, and a consequent rise in its price. The increased wages are not immediately expended on food, but are first made to contribute to the other enjoyments of the labourer. His improved condition however induces, and enables him to marry, and then the demand for food for the support of his family naturally supersedes that of those other enjoyments on which his wages were temporarily expended. Corn rises then because the demand for it increases, because there are those in the society who have improved means of paying for it; and the profits of the farmer will be raised above the general level of profits, till the requisite quantity of capital has been employed on its production. Whether, after this has taken place, corn shall again fall to its former price, or shall continue permanently higher, will depend on the quality of the land from which the increased quantity of corn has been supplied. If it be obtained from land of the same fertility, as that which was last in cultivation, and with no greater cost of labour, the price will fall to its former state; if from poorer land, it will continue permanently higher. The high wages in the first instance proceeded from an increase in the demand for labour: inasmuch as it encouraged marriage, and supported children, it produced the effect of increasing the supply of labour. But when the supply is obtained, wages will again fall to their former price, if corn has fallen to its former price: to a higher than the former price, if the increased supply of corn has been produced from land of an inferior quality. A high price is by no means incompatible with an abundant supply: the price is permanently high, not because the quantity is

deficient, but because there has been an increased cost in producing it. It generally happens indeed, that when a stimulus has been given to population, an effect is produced beyond what the case requires; the population may be, and generally is so much increased as, notwithstanding the increased demand for labour, to bear a greater proportion to the funds for maintaining labourers than before the increase of capital. In this case a re-action will take place, wages will be below their natural level, and will continue so, till the usual proportion between the supply and demand has been restored. In this case then, the rise in the price of corn is preceded by a rise of wages, and therefore entails no distress on the labourer.

A fall in the value of money, in consequence of an influx of the precious metals from the mines, or from the abuse of the privileges of banking, is another cause for the rise of the price of food; but it will make no alteration in the quantity produced. It leaves undisturbed too the number of labourers, as well as the demand for them; for there will be neither an increase nor a diminution of capital. The quantity of necessaries to be allotted to the labourer, depends on the comparative demand and supply of necessaries, with the comparative demand and supply of labour; money being only the medium in which the quantity is expressed; and as neither of these is altered, the real reward of the labourer will not alter. Money wages will rise, but they will only enable him to furnish himself with the same quantity of necessaries as before. Those who dispute this principle, are bound to shew why an increase of money should not have the same effect in raising the price of labour, the quantity of which has not been increased, as they acknowledge it would have on the price of shoes, of hats, and of corn, if the quantity of those commodities were not increased. The relative market value of hats and shoes is regulated by the demand and supply of hats, compared with the demand and supply of shoes, and money is but the medium in which their value is expressed. If shoes be doubled in price, hats will also be doubled in price, and they will retain the same comparative value. So if corn and all the necessaries of the labourer be doubled in price, labour will be

doubled in price also, and while there is no interruption to the usual demand and supply of necessaries and of labour, there can be no reason why they should not preserve their relative value.

Neither a fall in the value of money, nor a tax on raw produce, though each will raise the price, will *necessarily* interfere with the quantity of raw produce; or with the number of people, who are both able to purchase, and willing to consume it. It is very easy to perceive why, when the capital of a country increases irregularly, wages should rise, whilst the price of corn remains stationary, or rises in a less proportion; and why, when the capital of a country diminishes, wages should fall whilst corn remains stationary, or falls in a much less proportion, and this too for a considerable time; the reason is, because labour is a commodity which cannot be increased and diminished at pleasure. If there are too few hats in the market for the demand, the price will rise, but only for a short time; for in the course of one year, by employing more capital in that trade, any reasonable addition may be made to the quantity of hats, and therefore their market price cannot long very much exceed their natural price; but it is not so with men; you cannot increase their number in one or two years when there is an increase of capital, nor can you rapidly diminish their number when capital is in a retrograde state; and therefore, the number of hands increasing or diminishing slowly, whilst the funds for the maintenance of labour increase or diminish rapidly, there must be a considerable interval before the price of labour is exactly regulated by the price of corn and necessaries; but in the case of a fall in the value of money, or of a tax on corn, there is not necessarily any excess in the supply of labour, nor any abatement of demand, and therefore there can be no reason why the labourer should sustain a real diminution of wages.

"A tax on corn does not necessarily diminish the quantity of corn, it only raises its money price; it does not necessarily diminish the demand compared with the supply of labour; why then should it diminish the portion paid to the labourer? Suppose it true that it did diminish the quantity given to the labourer, in other words, that it did not raise his money wages in the same proportion as the tax raised the price of the corn which he consumed; would not the supply of corn exceed the demand?—would it not fall in price? and would not the labourer thus obtain his usual portion? In such case indeed capital would be withdrawn from agriculture; for if the price were not increased by the whole amount of the tax, agricultural profits would be lower than the general level of profits, and capital would seek more advantageous employment. In regard then to a tax on raw produce, which is the point under discussion, it appears to me that no interval which could bear oppressively on the labourer, would elapse between the rise in the price of raw produce, and the rise in the wages of the labourer; and that therefore no other inconvenience would be suffered by this class, than that which they would suffer from any other mode of taxation, namely, the risk that the tax might infringe on the funds destined for the maintenance of labour, and might therefore check or abate the demand for it.

With respect to the third objection against taxes on raw produce, namely, that the raising wages, and lowering profits, is a discouragement to accumulation, and acts in the same way as a natural poverty of soil; I have endeavoured to shew in another part of this work that savings may be as effectually made from expenditure as from production; from a reduction in the value of commodities, as from a rise in the rate of profits. By increasing my profits from 1000*l.* to 1200*l.*, whilst prices continue the same, my power of increasing my capital by savings is increased but it is not increased so much as it would be if my profits continued as before, whilst commodities were so lowered in price, that 800*l.* would procure me as much as 1000*l.* purchased before.

Taxation under every form presents but a choice of evils; if it do not act on profit, it must act on expenditure; and provided the burden be equally borne, and do not repress reproduction, it is indifferent on which it is laid. Taxes on production, or on the profits of stock, whether applied immediately to profits, or indirectly, by taxing the land or its produce, have this advantage over other

taxes; no class of the community can escape them, and each contributes according to his means.

From taxes on expenditure a miser may escape; he may have an income of 10,000 per annum, and expend only 300*l.*; but from taxes on profits, whether direct or indirect, he cannot escape; he will contribute to them either by giving up a part or the value of a part of his produce; or by the advanced prices of the necessaries essential to production, he will be unable to continue to accumulate at the same rate. He may indeed have an income of the same value, but he will not have the same command of labour, nor of an equal quantity of materials on which such labour can be exercised.

If a country is insulated from all others, having no commerce with any of its neighbours, it can in no way shift any portion of its taxes from itself. A portion of the produce of its land and labour will be devoted to the service of the state; and I cannot but think that, unless it presses unequally on that class which accumulates and saves, it will be of little importance whether the taxes be levied on profits, on agricultural, or on manufactured commodities. If my revenue be 1000*l.* per annum, and I must pay taxes to the amount of 100*l.*, it is of little importance whether I pay it from my revenue, leaving myself only 900*l.*, or pay 100*l.* in addition for my agricultural commodities, or for my manufactured goods. If 100*l.* is my fair proportion of the expenses of the country, the virtue of taxation consists in making sure that I shall pay that 100*l.*, neither more nor less; and that cannot be effected in any manner so securely as by taxes on wages, profits, or raw produce.

The fourth and last objection which remains to be noticed is: That by raising the price of raw produce, the prices of all commodities into which raw produce enters, will be raised, and that therefore we shall not meet the foreign manufacturer on equal terms in the general market.

In the first place, corn and *all* home commodities could not be materially raised in price without an influx of the precious metals; for the same quantity of money could not

circulate the same quantity of commodities, at high as at low prices, and the precious metals never could be purchased with dear commodities. When more gold is required, it must be obtained by giving more, and not fewer commodities in exchange for it. Neither could the want of money be supplied by paper, for it is not paper that regulates the value of gold as a commodity, but gold that regulates the value of paper. Unless then the value of gold could be lowered, no paper could be added to the circulation without being depreciated. And that the value of gold could not be lowered appears clear, when we consider that the value of gold as a commodity must be regulated by the quantity of goods which must be given to foreigners in exchange for it. When gold is cheap, commodities are dear; and when gold is dear, commodities are cheap, and fall in price. Now as no cause is shewn why foreigners should sell their gold cheaper than usual, it does not appear probable that there would be any influx of gold. Without such an influx there can be no increase of quantity, no fall in its value, no rise in the general price of goods.

The probable effect of a tax on raw produce would be to raise the price of all commodities in which raw produce entered, but not in any degree proportioned to the tax; while other commodities in which no raw produce entered, such as articles made of the metals and the earths, would fall in price: so that the same quantity of money as before would be adequate to the whole circulation.

A tax which should have the effect of raising the price of all home productions, would not discourage exportation, except during a very limited time. If they were raised in price at home, they could not indeed immediately be profitably exported, because they would be subject to a burthen here from which abroad they were free. The tax would produce the same effect as an alteration in the value of money, which was not general and common to all countries, but confined to a single one. If England were that country, she might not be able to sell, but she would be able to buy, because importable commodities would not be raised in price. Under these circumstances nothing but money could be exported in return for foreign commodities, but this is a trade which could not long continue; a nation cannot be exhausted of its money, for after a certain quantity has left it, the value of the remainder will rise, and such a price of commodities will be the consequence, that they will again be capable of being profitably exported. When money had risen, therefore, we should no longer export it in return for goods imported, but we should export those manufactures which had first been raised in price, by the rise in the price of the raw produce from which they were made, and then again lowered by the exportation of money.

But it may be objected, that when money so rose in value, it would rise with respect to foreign as well as home commodities, and therefore that all encouragement to import foreign goods would cease. Thus, suppose we imported goods which cost 100*l.* abroad, and which sold for 120*l.* here, we should cease to import them, when the value of money had so risen in England, that they would only sell for 100*l.* here: this however could never happen. The motive which determines us to import a commodity, is the discovery of its relative cheapness abroad: it is the comparison of its natural price abroad, with its natural price at home. If a country exports hats, and imports cloth, it does so because it can obtain more cloth by making hats, and exchanging them for cloth, than if it made the cloth itself. If the rise of raw produce occasions any increased cost of production in making hats, it would occasion also an increased cost in making cloth. If therefore both commodities were made at home, they would both rise. One, however, being a commodity which we import, would not rise, neither would it fall, when the value of money rose; for by not falling, it would regain its natural relation to the exported commodity. The rise of raw produce makes a hat rise from 30 to 33 shillings, or 10 per cent.: the same cause if we manufactured cloth, would make it rise from 20*s.* to 22*s.* per yard. This rise does not destroy the relation between cloth and hats; a hat was, and continues to be, worth one yard and a half of cloth. But if we import cloth, its price will continue uniformly at 20*s.* per yard, unaffected first by the fall, and then by the rise in the value of money; whilst hats, which had risen from 30*s.* to 33*s.*, will again

fall from 33*s.* to 30*s.*, at which point the relation between cloth and hats will be restored.

To simplify the consideration of this subject, I have been supposing that a rise in the value of raw materials would affect, in an equal proportion, all home commodities; that if the effect on one were to raise it 10 per cent., it would raise all 10 per cent.; but as the value of commodities is very differently made up of raw material and labour; as some commodities, for instance all those made from the metals, would be unaffected by the rise of raw produce from the surface of the earth, it is evident that there would be the greatest variety in the effects produced on the value of commodities, by a tax on raw produce. As far as this effect was produced, it would stimulate or retard the exportation of particular commodities, and would undoubtedly be attended with the same inconvenience that attends the taxing of commodities; it would destroy the natural relation between the value of each. Thus, the natural price of a hat, instead of being the same as a yard and a half of cloth, might only be of the value of a yard and a quarter, or it might be of the value of a yard and three quarters, and therefore rather a different direction might be given to foreign trade. All these inconveniences would not interfere with the value of the exports and imports; they would only prevent the very best distribution of the capital of the whole world, which is never so well regulated, as when every commodity is freely allowed to settle at its natural price.

Although then the rise in the price of most of our own commodities, would for a time check exportation generally, and might permanently prevent the exportation of a few commodities, it could not materially interfere with foreign trade, and would not place us under any comparative disadvantage as far as regarded competition in foreign markets.

CHAPTER VIII.*

TAXES ON RENT.

A TAX on rent would affect rent only; it would fall wholly on landlords, and could not be shifted to any class of consumers. The landlord could not raise his rent, because he would leave unaltered the difference between the produce obtained from the least productive land in cultivation, and that obtained from land of every other quality. Three sorts of land, No. 1, 2, and 3, are in cultivation, and yield respectively with the same labour 180, 170, and 160 quarters of wheat; but No. 3 pays no rent, and is therefore untaxed: the rent then of No. 2 cannot be made to exceed the value of ten, nor No. 1, of twenty quarters. Such a tax could not raise the price of raw produce, because as the cultivator of No. 3 pays neither rent nor tax, he would in no way be enabled to raise the price of the commodity produced. A tax on rent would not discourage the cultivation of fresh land, for such land pays no rent, and would be untaxed. If No. 4 were taken into cultivation, and yielded 150 quarters, no tax would be paid for such land; but it would create a rent of ten quarters on No. 3, which would then commence paying the tax.

A tax on rent, as rent is constituted, would discourage cultivation, because it would be a tax on the profits of the landlord. The term rent of land, as I have elsewhere observed, is applied to the whole amount of the value paid by the farmer to his landlord, a part only of which is strictly rent. The buildings and fixtures, and other expenses paid for by the landlord, form strictly a part of the stock of the farm, and must have been furnished by the tenant, if not provided by the landlord. Rent is the sum paid to the landlord for the use of the land, and for the use of the land only. The further sum that is paid to him under the name of rent, is for the use of the buildings, &c., and is really the profits of the landlord's stock. In taxing rent, as no distinction would be made between that part paid for the use of the land, and that paid for the use of the landlord's stock, a portion of the tax would fall on the landlord's profits, and would therefore discourage cultivation, unless the price of raw produce rose. On that land, for the use of which no rent was paid, a compensation under that name might be given to the landlord for the use of his buildings. These buildings would not be erected, nor would raw produce be grown on such land, till the price at which it sold would not only pay for all the usual outgoings, but also for this additional one of the tax. This part of the tax does not fall on the landlord, nor on the farmer, but on the consumer of raw produce.

There can be little doubt, but that if a tax were laid on rent, landlords would soon find a way to discriminate between that which was paid to them for the use of the land, and that which was paid for the use of the buildings, and the improvements which were made by the landlord's stock. The latter would either be called the rent of house and buildings, or in all new land taken into cultivation such buildings and improvements would be made by the tenant, and not by the landlord. The landlord's capital might indeed be really employed for that purpose; it might be nominally expended by the tenant, the landlord furnishing him with the means, either in the shape of a loan, or in the purchase of an annuity for the duration of the lease. Whether distinguished or not, there is a real difference between the nature of the compensations which the landlord receives for these different objects; and it is quite certain, that a tax on the real rent of land falls wholly on the landlord, but that a tax on that remuneration which the landlord receives for the use of his stock expended on the farm, falls on the consumer of raw produce. If a tax were laid on rent, and no means of separating the remuneration now paid by the tenant to the landlord under the name of rent were adopted, the tax, as far as it regarded the rent on the buildings and other fixtures, would never fall for any length of time on the landlord, but on the consumer. The capital expended on these buildings, &c., must afford the usual profits of stock; but it would cease to afford this profit on the land last cultivated, if the expenses of those buildings, &c. did not fall on the tenant; and if they did, the tenant would then cease to make his usual profits of stock, unless he could charge them on the consumer.

CHAPTER IX.

TITHES.

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

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

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

the tithes on the same land would advance from eight to ten shillings.

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

The chief objection against tithes is, that they are not a permanent and fixed tax, but increase in value, in proportion as the difficulty of producing corn increases. If those difficulties should make the price of corn *4l.* the tax is *8s.*, if they should increase it to *5l.*; the tax is *10s.*, and at *6l.*, it is *12s.* They not only rise in value, but they increase in amount: thus, when No. 1 was cultivated, the tax was only levied on 180 quarters; when No. 2 was cultivated, it was levied on 180+170, or 350 quarters; and when No. 3 was cultivated, on 180+170+160=510 quarters. Not only is the amount of the tax increased from 100,000 quarters, to 200,000 quarters, when the produce is increased from one to two millions of quarters; but, owing to the increased labour necessary to produce the second million, the relative value of raw produce is so advanced, that the 200,000 quarters may be, though only twice in quantity, yet in value three times that of the 100,000 quarters which were paid before.

If an equal value were raised for the church by any other means, increasing in the same manner as tithes increase, proportionably with the difficulty of cultivation, the effect would be the same. The church would be

constantly obtaining an increased portion of the net produce of the land and labour of the country. In an improving state of society, the net produce of land is always diminishing in proportion to its gross produce; but it is from the net income of a country that all taxes are ultimately paid, either in a progressive or in a stationary country. A tax increasing with the gross income, and falling on the net income, must necessarily be a very burdensome, and a very intolerable tax. Tithes are a tenth of the gross, and not of the net produce of the land, and therefore as society improves in wealth, they must, though the same proportion of the gross produce, become a larger and larger portion of the net produce.

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

If the trade of cloth were left perfectly free, our manufacturers might be able to sell cloth cheaper than we could import it. If a tax were laid on the home manufacturer, and not on the importer of cloth, capital might be injuriously driven from the manufacture of cloth to the manufacture of some other commodity, as it might then be imported cheaper than it could be made at home. If imported cloth should also be taxed, cloth would again be manufactured at home. The consumer first bought cloth at home, because it was cheaper than foreign cloth; he then bought foreign cloth, because it was cheaper untaxed than home cloth taxed: he lastly bought it again at home, because it was

cheaper when both home and foreign cloth were taxed. It is in the last case that he pays the greatest price for his cloth, but all his additional payment is gained by the state. In the second case, he pays more than in the first, but all he pays in addition is not received by the state, it is an increased price caused by difficulty of production, which is incurred, because the easiest means of production are taken away from us, by being fettered with a tax.

CHAPTER X.

LAND-TAX.

A LAND-TAX, levied in proportion to the rent of land, and varying with every variation of rent, is in effect a tax on rent; and as such a tax will not apply to that land which yields no rent, nor to the produce of that capital which is employed on the land with a view to profit merely, and which never pays rent, it will not in any way affect the price of raw produce, but will fall wholly on the landlords. In no respect would such a tax differ from a tax on rent. But if a land-tax be imposed on all cultivated land, however moderate that tax may be, it will be a tax on produce, and will therefore raise the price of produce. If No. 3 be the land last cultivated, although it should pay no rent, it cannot, after the tax, be cultivated, and afford

the general rate of profit, unless the price of produce rise to meet the tax. Either capital will be withheld from that employment until the price of corn shall have risen, in consequence of demand, sufficiently to afford the usual profit; or if already employed on such land, it will quit it, to seek a more advantageous employment. The tax canno be removed to the landlord, for by the supposition he receives no rent. Such a tax may be proportioned to the quality of the land and the abundance of its produce, and then it differs in no respect from tithes; or it may be a fixed tax per acre on all land cultivated, whatever its quality may be.

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

1. "The subjects of every state ought to contribute towards the support of the Government, as nearly as possible in proportion to their respective abilities.

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

An equal land-tax, imposed indiscriminately and without any regard to the distinction of its quality, on all land cultivated, will raise the price of corn in proportion to the tax paid by the cultivator of the land of the worst quality. Lands of different quality, with the employment of the same capital, will yield very different quantities of raw produce. If on the land which yields a thousand quarters of corn with a given capital, a tax of 100*l.* be laid, corn will rise 2*s.* per quarter to compensate the farmer for the tax. But with the same capital on land of a better quality, 2,000 quarters may be produced, which at 2*s.* a

quarter advance, would give 200*l.*; the tax, however, bearing equally on both lands will be 100*l.* on the better as well as on the inferior, and consequently the consumer of corn will be taxed, not only to pay the exigencies of the state, but also to give to the cultivator of the better land, 100*l.* per annum, during the period of his lease, and afterwards to raise the rent of the landlord to that amount. A tax of this description then would be contrary to the fourth maxim of Adam Smith, it would take out and keep out of the pockets of the people, more than what it brought into the treasury of the state. The taille in France before the Revolution, was a tax of this description; those lands only were taxed, which were held by an ignoble tenure, the price of raw produce rose in proportion to the tax, and therefore they whose lands were not taxed, were benefited by the increase of their rent. Taxes on raw produce as well as tithes are free from this objection: they raise the price of raw produce, but they take from each quality of land a contribution in proportion to its actual produce, and not in proportion to the produce of that which is the least productive.

From the peculiar view which Adam Smith took of rent, from his not having observed that much capital is expended in every country, on the land for which no rent is paid, he concluded that all taxes on the land, whether they were laid on the land itself in the form of land-tax or tithes, or on the produce of the land, or were taken from the profits of the farmer, were all invariably paid by the landlord, and that he was in all cases the real contributor, although the tax was in general, nominally advanced by the tenant. "Taxes upon the produce of the land," he says, "are in reality taxes upon the rent; and though they may be originally advanced by the farmer, are finally paid by the landlord. When a certain portion of the produce is to be paid away for a tax, the farmer computes as well as he can, what the value of this portion is, one year with another, likely to amount to, and he makes a proportionable abatement in the rent which he agrees to pay to the landlord. There is no farmer who does not compute before hand what the church tithe, which is a land-tax of this kind, is, one year with another, likely to amount to." It is undoubtedly true, that the farmer does calculate his probable outgoings of all descriptions,

when agreeing with his landlord concerning the rent of his farm; and if for the tithe paid to the church, or for the tax on the produce of the land, he were not compensated by a rise in the relative value of the produce of his farm, he would naturally deduct them from his rent. But this is precisely the question in dispute: whether he will eventually deduct them from his rent, or be compensated by a higher price of produce. For the reasons which have been already given, I cannot have the least doubt but that they would raise the price of produce, and consequently that Adam Smith has taken an incorrect view of this important question.

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

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

This may be considered indeed as the unavoidable disadvantage attending all taxes

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

"A land-tax," says Adam Smith, "which like that of Great Britain, is assessed upon each district according to a certain invariable canon, though it should be equal at the time of its first establishment, necessarily becomes unequal in process of time, according to the unequal degrees of improvement or neglect in the cultivation of the different parts of the country. In England the valuation according to which the different counties and parishes were assessed to the land-tax by the 4th. William and Mary, was very unequal, even at its first establishment. This tax, therefore, so far offends against the first of the four maxims above mentioned. It is perfectly agreeable to the other three. It is perfectly certain. The time of payment for the tax being the same as that for the rent, is as convenient as it can be to the contributor. Though the landlord is in all cases the real contributor, the tax is commonly advanced by the tenant, to whom the landlord is obliged to allow it in the payment of the rent."

If the tax be shifted by the tenant not on the landlord but on the consumer, then if it be not unequal at first, it can never become so; for the price of produce has been at once raised in proportion to the tax, and will afterwards vary no more on that account. It may offend if unequal, as I have attempted to shew that it will, against the fourth maxim above mentioned, but it will not offend against the first. It may take more out of the pockets of the people than it brings into

the public treasury of the state, but it will not fall unequally on any particular class of contributors. M. Say appears to me to have mistaken the nature and effects of the English land-tax, when he says, "Many persons attribute to this fixed valuation, the great prosperity of English agriculture. That it has very much contributed to it there can be no doubt. But what should we say to a Government, which, addressing itself to a small trader, should hold this language: 'With a small capital you are carrying on a limited trade, and your direct contribution is in consequence very small. Borrow, and accumulate capital; extend your trade, so that it may procure you immense profits; yet you shall never pay a greater contribution. Moreover, when your successors shall inherit your profits, and shall have further increased them, they shall not be valued higher to them than they are to you; and your successors shall not bear a greater portion of the public burdens.'

"Without doubt this would be a great encouragement given to manufactures and trade; but would it be just? Could not their advancement be obtained at any other price? In England itself, has not manufacturing and commercial industry made even greater progress, since the same period, without being distinguished with so much partiality? A landlord by his assiduity, economy, and skill, increases his annual revenue by 5000 francs. If the state claim of him the fifth part of his augmented income, will there not remain 4000 francs of increase to stimulate his further exertions?"

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

the price of produce, and thus would M. Say's proposed tax fall on the consumer, and not either on the landlord or farmer.

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

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

Speaking of taxes in kind, or a tax of a certain proportion of the produce, which is precisely the same as tithes, M. Say says, "This mode of taxation appears to be the most equitable; there is however none which is less so: it totally leaves out of consideration the advances made by the producer; it is proportioned to the gross, and not to the net revenue. Two agriculturists cultivate different kinds of raw produce: one cultivates corn on middling land, his expenses amounting annually on an average to 8000 francs; the raw produce from his lands sells for 12,000 francs; he has then a net revenue of 4000 francs.

"His neighbour has pasture or wood land, which brings in every year a like sum of 12,000 francs, but his expenses amount only

to 2000 francs. He has therefore on an average a net revenue of 10,000 francs.

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

M. Say's error in the above passage lies in supposing that because the value of the produce of one of these two farms, after re-instating the capital, is greater than the value of the produce of the other, on that account the net income of the cultivators will differ by the same amount. M. Say has wholly omitted the consideration of the different amount of rent, which these cultivators would have to pay. There cannot be two rates of profit in the same employment, and therefore when produce is in different proportions to capital, it is the rent which will differ, and not the profit. Upon what pretence would one man with a capital of 2000 francs, be allowed to obtain a net profit of 10,000 francs from its employment, whilst another with a capital of 8000 francs would only obtain 4000 francs? Let M. Say make a due allowance for rent; let him further allow for the effect which such a tax would have on the prices of these different kinds of raw produce, and he will then perceive that it is not an unequal tax, and further that the producers themselves will no otherwise contribute to it, than any other class of consumers.

CHAPTER XI.

TAXES ON GOLD.

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

If the mines which supply us with gold

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

100*l.* as a tax, the remaining 900*l.* would purchase very little more than 900*l.* purchased before. The tax would fall upon him, whose property consisted of money, and would continue to do so till its quantity were reduced in proportion to the increased cost of its production caused by the tax.

This perhaps would be more particularly the case with respect to a metal used for money, than any other commodity, because the demand for money is not for a definite quantity, as is the demand for clothes, or for food. The demand for money is regulated entirely by its value, and its value by its quantity. If gold were of double the value, half the quantity would perform the same functions in circulation, and if it were of half the value, double the quantity would be required. If the market value of corn be increased one tenth by taxation, or by difficulty of production, it is doubtful, whether any effect whatever would be produced on the quantity consumed, because every man's want is for a definite quantity, and, therefore, if he has the means of purchasing, he will continue to consume as before; but for mo-

ney, the demand is exactly proportioned to its value. No man could consume twice the quantity of corn, which is usually necessary for his support, but every man purchasing and selling only the same quantity of goods, may be obliged to employ twice, thrice, or any number of times the same quantity of money.

The argument which I have just been using, applies only to those states of society in which the precious metals are used for money, and where paper credit is not established. The metal gold like all other commodities has its value in the market ultimately regulated by the comparative facility or difficulty of producing it; and although from its durable nature, and from the difficulty of reducing its quantity, it does not readily bend to variations in its market value, yet that difficulty is much increased from the circumstance of its being used as money. If the quantity of gold in the market for the purpose of commerce only, were 10,000 ounces, and the consumption in our manufactures were 2000 ounces annually, it might be raised one fourth, or 25 per cent. in its value, in one year, by withholding the annual supply;

but if in consequence of its being used as money, the quantity employed were 100,000 ounces, it would not be raised one fourth in value in less than ten years. As money made of paper may be readily reduced in quantity, its value, though its standard were gold, would be increased as rapidly as that of the metal itself would be increased if it had no connexion whatever with money.

If gold were the produce of one country only, and it were used universally for money, a very considerable tax might be imposed on it, which would not fall on any country, except in proportion as they used it in manufactures, and for utensils; upon that portion which was used for money, though a large tax might be received, nobody would pay it. This is a quality peculiar to money. All other commodities of which there exists a limited quantity, and which cannot be increased by competition, are dependant for their value, on the tastes, the caprice, and the power of purchasers; but money is a commodity which no country has any wish or necessity to increase: no more advantage results from using twenty millions, than from using

ten millions of currency. A country might have a monopoly of silk, or of wine, and yet the prices of silks and wine might fall, because from caprice or fashion, or taste, cloth and brandy might be preferred, and substituted; the same effect might in a degree take place with gold, as far as its use is confined to manufactures: but while money is the general medium of exchange, the demand for it is never a matter of choice, but always of necessity; you must take it in exchange for your goods, and therefore there are no limits to the quantity which may be forced on you by foreign trade, if it fall in value; and no reduction to which you must not submit, if it rise. You may indeed substitute paper money, but by this you do not, and cannot lessen the quantity of money; it is only by the rise of the price of commodities, that you can prevent them from being exported from a country where they are purchased with little money, to a country where they can be sold for more, and this rise can only be effected by an importation of metallic money from abroad, or by the creation or addition of paper money at home. If then the King of Spain, supposing him to be in exclusive possession of the mines, and gold alone to be used for money, were to lay a considerable tax on gold, he would very much raise its natural value; and as its market value in Europe is ultimately regulated by its natural value in Spanish America, more commodities would be given by Europe for a given quantity of gold. But the same quantity of gold would not be produced in America, as its value would only be increased in proportion to the diminution of quantity consequent on its increased cost of production. No more goods then would be obtained in America, in exchange for all their gold exported, than before; and it may be asked, where then would be the benefit to Spain and her colonies? The benefit would be this, that if less gold were produced, less capital would be employed in producing it; the same value of goods from Europe would be imported by the employment of the smaller capital, that was before obtained by the employment of the larger; and therefore all the productions obtained by the employment of the capital withdrawn from the mines, would be a benefit which Spain would derive from the imposition of the tax, and which she

could not obtain in such abundance, or with such certainty, by possessing the monopoly of any other commodity whatever. From such a tax, as far as money was concerned, the nations of Europe would suffer no injury whatever; they would have the same quantity of goods, and consequently the same means of enjoyment as before, but these goods would be circulated with a less quantity of money.

If in consequence of the tax, only one tenth of the present quantity of gold were obtained from the mines, that tenth would be of equal value with the ten tenths now produced. But the King of Spain is not exclusively in possession of the mines of the precious metals; and if he were, his advantage from their possession, and the power of taxation, would be very much reduced by the limitation of demand and consumption in Europe, in consequence of the universal substitution, in a greater or less degree, of paper money. The agreement of the market and natural prices of all commodities, depends at all times on the facility with which the supply can be increased or diminished. In the case of gold, houses, and labour, as well as many other things, this effect cannot, under some circumstances, be speedily produced. But it is different with those commodities which are consumed and reproduced from year to year, such as hats, shoes, corn, and cloth; they may be reduced if necessary, and the interval cannot be long before the supply is contracted in proportion to the increased charge of producing them.

A tax on raw produce from the surface of the earth, will, as we have seen, fall on the consumer, and will in no way affect rent; unless, by diminishing the funds for the maintenance of labour, it lowers wages, reduces the population, and diminishes the demand for corn. But a tax on the produce of gold mines must, by enhancing the value of that metal, necessarily reduce the demand for it, and must therefore necessarily displace capital from the employment to which it was applied. Notwithstanding then, that Spain would derive all the benefits which I have stated from a tax on gold, the proprietors of those mines from which capital was withdrawn would lose all their rent. This would

be a loss to individuals, but not a national loss; rent being not a creation, but merely a transfer of wealth: the King of Spain, and the proprietors of the mines which continued to be worked, would together receive not only all that the liberated capital produced, but all that the other proprietors lost.

Suppose the mines of the 1st, 2nd, and 3rd quality to be worked, and to produce respectively 100, 80, and 70 pounds weight of gold; and therefore the rent of No. 1 to be thirty pounds, and that of No. 2 ten pounds. Suppose now the tax to be seventy pounds of gold per annum on each mine worked; and consequently that No. 1 alone could be profitably worked; it is evident that all rent would immediately disappear. Before the imposition of the tax, out of the 100 pounds produced on No. 1, a rent was paid of thirty pounds, and the worker of the mine retained seventy, a sum equal to the produce of the least productive mine. The value then of what remains to the capitalist of the mine No. 1 must be the same as before, or he would not obtain the common profits of stock; and consequently, after paying seventy out of his 100 pounds for tax, the value of the remaining thirty must be as great as seventy were before, and therefore the value of the whole hundred as great as 233 pounds before. Its value might be higher, but it could not be lower, or even this mine would cease to be worked. Being a monopolised commodity, it could exceed its natural value, and then it would pay a rent equal to that excess; but no funds would be employed in the mine, if it were below this value. In return for one third of the labour and capital employed in the mines, Spain would obtain as much gold as would exchange for the same, or very nearly the same, quantity of commodities as before. She would be richer by the produce of the two thirds liberated from the mines. If the value of the 100 pounds of gold should be equal to that of the 250 pounds extracted before; the king of Spain's portion, his seventy pounds, would be equal to 175 at the former value: a small part of the king's tax only would fall on his own subjects, the greater part being obtained by the better distribution of capital.

The account of Spain would stand thus:

Formerly produced:

Gold 250 pounds, of the value of (suppose) .	10,000 yards of cloth.

Now produced:

By the two capitalists who quitted the mines, the value of 140 pounds of gold, or . .	5,600 yards of cloth.
By the capitalist who works the mine, No. 1, thirty pounds of gold increased in value, as 1 to $2\frac{1}{2}$, and therefore now of the value of	3,000 yards of cloth.
Tax to the king seventy pounds, now of the value of	7,000 yards of cloth.
	15,600

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

If the tax, instead of being a fixed sum per mine worked, were a certain portion of its produce, the quantity would not be reduced in consequence. If a half, a fourth, or a third of each mine were taken for the tax, it would nevertheless be the interest of the proprietors to make their mines yield as abundantly as before; but if the quantity were not reduced, but only a part of it transferred from the proprietor to the king, its value would not rise; the tax would fall on the people of the colonies, and no advantage would be gained. A tax of this kind would have the effect that Adam Smith supposes taxes on raw produce would have on the rent of land—it would fall entirely on the rent of the mine. If pushed a little further, the tax would not only absorb the whole rent, but would deprive the worker of the mine of the common profits of stock, and he would consequently withdraw his capital from the production of gold. If still further extended, the rent of still better mines would be absorbed, and capital would be further withdrawn; and thus the quantity would be continually reduced, and its value raised, and the same effects would take place as we have already pointed out; a part of the tax would be paid by the people of the Spanish colonies, and the other part would be a new creation of produce, by increasing the power of the instrument used as a medium of exchange. Taxes on gold are of two kinds, one on the actual quantity of gold in circulation, the other on the quantity that is annually produced from the mines. Both

have a tendency to reduce the quantity, and to raise the value of gold; but by neither will its value be raised till the quantity is reduced, and therefore such taxes will fall for a time, until the supply is diminished, on the proprietors of money, but ultimately they will be paid by the owner of the mine in the reduction of rent, and by the purchasers of that portion of gold, which is used as a commodity contributing to the enjoyments of mankind, and not set apart exclusively for a circulating medium.

CHAPTER XII.

TAXES ON HOUSES.

THERE are also other commodities besides gold which cannot be speedily reduced in quantity; any tax on which will therefore fall on the proprietor, if the increase of price should lessen the demand.

Taxes on houses are of this description; though laid on the occupier, they will frequently fall by a diminution of rent on the landlord. The produce of the land is consumed and reproduced from year to year, and so are many other commodities; as they may therefore be speedily brought to a level with the demand, they cannot long exceed their natural price. But as a tax on houses may be considered in the light of an additional rent paid by the tenant, its tendency will be

to diminish the demand for houses of the same annual rent, without diminishing their supply. Rent will therefore fall, and a part of the tax will be paid indirectly by the landlord.

"The rent of a house," says Adam Smith, "may be distinguished into two parts, of which the one may very properly be called the building rent, the other is commonly called the ground rent. The building rent is the interest or profit of the capital expended in building the house. In order to put the trade of a builder upon a level with other trades, it is necessary that this rent should be sufficient first to pay the same interest which he would have got for his capital, if he had lent it upon good security; and secondly, to keep the house in constant repair, or what comes to the same thing, to replace within a certain term of years the capital which had been employed in building it." "If in proportion to the interest of money, the trade of the builder affords at any time a much greater profit than this, it will soon draw so much capital from other trades, as will reduce the profit to its proper level. If it affords at any time much less than this, other trades will soon draw so much capital from it as will again raise that profit. Whatever part of the whole rent of a house is over and above what is sufficient for affording this reasonable profit, naturally goes to the ground rent; and where the owner of the ground, and the owner of the building are two different persons, it is in most cases completely paid to the former. In country houses, at a distance from any great town, where there is a plentiful choice of ground, the ground rent is scarcely any thing, or no more than what the space upon which the house stands, would pay if employed in agriculture. In country villas, in the neighbourhood of some great town, it is sometimes a good deal higher, and the peculiar conveniency, or beauty of situation, is there frequently very highly paid for. Ground rents are generally highest in the capital, and in those particular parts of it, where there happens to be the greatest demand for houses, whatever be the reason for that demand, whether for trade and business, for pleasure and society, or for mere vanity and fashion." A tax on the rent of houses may either fall on the occupier, on the

ground landlord, or on the building landlord. In ordinary cases it may be presumed, that the whole tax would be paid both immediately and finally by the occupier.

If the tax be moderate, and the circumstances of the country such, that it is either stationary or advancing, there would be little motive for the occupier of a house to content himself with one of a worse description. But if the tax be high, or any other circumstances should diminish the demand for houses, the landlord's income would fall, for the occupier would be partly compensated for the tax by a diminution of rent. It is, however, difficult to say, in what proportions that part of the tax, which was saved by the occupier by a fall of rent, would fall on the building rent and the ground rent. It is probable, that in the first instance, both would be affected; but as houses are, though slowly, yet certainly perishable, and as no more would be built, till the profits of the builder were restored to the general level, building rent, would, after an interval, be restored to its natural price. As the builder receives rent only whilst the building endures, he could pay no part of the tax, under the most disastrous circumstances, for any longer period.

The payment of this tax, then, would ultimately fall on the occupier and ground landlord, but "in what proportion, this final payment would be divided between them," says Adam Smith, "it is not perhaps very easy to ascertain. The division would probably be very different in different circumstances, and a tax of this kind might, according to those different circumstances, affect very unequally both the inhabitant of the house, and the owner of the ground."*

Adam Smith considers ground rents as peculiarly fit subjects for taxation. "Both ground rents, and the ordinary rent of land," he says, "are a species of revenue, which the owner in many cases enjoys, without any care or attention of his own. Though a part of this revenue should be taken from him, in order to defray the expenses of the state, no discouragement will thereby be given to any sort of industry. The annual produce of the

* Book V. ch. ii.

land and labour of the society, the real wealth and revenue of the great body of the people, might be the same after such a tax as before. Ground rents, and the ordinary rent of land, are, therefore, perhaps the species of revenue, which can best bear to have a peculiar tax imposed upon them." It must be admitted that the effects of these taxes would be such as Adam Smith has described; but it would surely be very unjust, to tax exclusively the revenue of any particular class of a community. The burdens of the state should be borne by all in proportion to their means: this is one of the four maxims mentioned by Adam Smith, which should govern all taxation. Rent often belongs to those who after many years of toil, have realised their gains, and expended their fortunes in the purchase of land; and it certainly would be an infringement of that principle which should ever be held sacred, the security of property, to subject it to unequal taxation. It is to be lamented, that the duty by stamps, with which the transfer of landed property is loaded, materially impedes the conveyance of it into those hands, where it would probably be made most productive. And if it be considered, that land, regarded as a fit subject for exclusive taxation, would not only be reduced in price, to compensate for the risk of that taxation, but in proportion to the indefinite nature and uncertain value of the risk, would become a fit subject for speculations, partaking more of the nature of gambling, than of sober trade, it will appear probable, that the hands into which land would in that case be most apt to fall, would be the hands of those, who possess more of the qualities of the gambler, than of the qualities of the sober-minded proprietor, who is likely to employ his land to the greatest advantage.

CHAPTER XIII.

TAXES ON PROFITS.

Taxes on those commodities, which are generally denominated luxuries, fall on those only who make use of them. A tax on wine is paid by the consumer of wine. A tax on pleasure horses, or on coaches, is paid by those who provide for themselves such enjoyments, and in exact proportion as they provide them. But taxes on necessaries do not affect the consumers of necessaries, in proportion to the quantity that may be consumed by them, but often in a much higher proportion. A tax on corn, we have observed, not only affects a manufacturer in the proportion that he and his family may consume corn, but it alters the rate of profits of stock, and therefore also affects his income. Whatever raises the wages of labour, lowers the profits of stock; therefore every tax on any commodity consumed by the labourer, has a tendency to lower the rate of profits.

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

In the same manner a tax on the profits of the farmer would raise the price of corn; a tax on the profits of the clothier, the price of cloth; and if a tax in proportion to profits were laid on all trades, every commodity would be raised in price. But if the mine, which supplied us with the standard of our money, were in this country, and the profits of the miner were also taxed, the price of no

commodity would rise, each man would give an equal proportion of his income, and every thing would be as before.

If money be not taxed, and therefore be permitted to preserve its value, whilst every thing else is taxed, and is raised in value, the hatter, the farmer, and clothier, each employing the same capitals, and obtaining the same profits, will pay the same amount of tax. If the tax be 100*l.*, the hats, the cloth, and the corn, will each be increased in value 100*l.* If the hatter gain by his hats 1100*l.*, instead of 1000*l.*, he will pay 100*l.* to Government for the tax; and therefore will still have 1000*l.* to lay out on goods for his own consumption. But as the cloth, corn, and all other commodities, will be raised in price from the same cause, he will not obtain more for his 1000*l.* than he before obtained for 910*l.*, and thus will he contribute by his diminished expenditure to the exigencies of the state; he will, by the payment of the tax, have placed a portion of the produce of the land and labour of the country at the disposal of Government, instead of using that portion himself. If instead of expending his 1000*l.*, he adds it to his capital, he will find in the rise of wages, and in the increased cost of the raw material and machinery, that his saving of 1000*l.* does not amount to more than a saving of 910*l.* amounted to before.

If money be taxed, or if by any other cause its value be altered, and all commodities remain precisely at the same price as before, the profits of the manufacturer and farmer will also be the same as before, they will continue to be 1000*l.*; and as they will each have to pay 100*l.* to Government, they will retain only 900*l.*, which will give them a less command over the produce of the land and labour of the country, whether they expend it in productive or unproductive labour. Precisely what they lose, Government will gain. In the first case the contributor to the tax would, for 1000*l.*, have as great a quantity of goods as he before had for 910*l.*; in the second, he would have only as much as he before had for 900*l.* This proceeds from the difference in the amount of the tax; in the first case it is only an eleventh of his income, in the second it is a tenth; money in the two cases being of a different value.

But although, if money be not taxed, and do not alter in value, all commodities will rise in price, they will not rise in the same proportion; they will not after the tax bear the same relative value to each other which they did before the tax. In a former part of this work, we discussed the effects of the division of capital into fixed and circulating, or rather into durable and perishable capital, on the prices of commodities. We shewed that two manufacturers might employ precisely the same amount of capital, and might derive from it precisely the same amount of profits, but that they would sell their commodities for very different sums of money, according as the capitals they employed were rapidly, or slowly, consumed and reproduced. The one might sell his goods for 4000*l.*, the other for 10,000*l.*, and they might both employ 10,000*l.* of capital, and obtain 20 per cent. profit, or 2000*l.* The capital of one might consist for example of 2000*l.* circulating capital, to be reproduced, and 8000*l.* fixed, in buildings and machinery; the capital of the other on the contrary might consist of 8000*l.* of circulating, and of only 2000*l.* fixed capital in machinery and buildings. Now if each of these persons were to be taxed 10 per cent. on his income, or 200*l.*, the one, to make his business yield him the general rate of profit, must raise his goods from 10,000*l.* to 10,200*l.*; the other would also be obliged to raise the price of his goods from 4000*l.* to 4200*l.* Before the tax, the goods sold by one of these manufacturers were $2\frac{1}{2}$ times more valuable than the goods of the other; after the tax they will be 2.42 times more valuable: the one kind will have risen 2 per cent.; the other 5 per cent.: consequently a tax upon income, whilst money continued unaltered in value, would alter the relative prices and value of commodities. This is true, if the tax instead of being laid on the profits were laid on the commodities themselves: provided they were taxed in proportion to the value of the capital employed on their production, they would rise equally, whatever might be their value, and therefore they would not preserve the same proportion as before. A commodity, which rose from ten to eleven thousand pounds, would not bear the same relation as before, to another which rose from 2 to 3000*l.* If under these circumstances money rose in value, from whatever cause it might proceed, it would not affect

the prices of commodities in the same proportion. The same cause which would lower the price of one from 10,200*l.* to 10,000*l.* or less than 2 per cent., would lower the price of the other from 4200*l.* to 4000*l.* or $4\frac{3}{4}$ per cent. If they fell in any different proportion, profits would not be equal; for to make them equal, when the price of the first commodity was 10,000*l.*, the price of the second should be 4000*l.*; and when the price of the first was 10,200*l.*, the price of the other should be 4200*l.*

The consideration of this fact will lead to the understanding of a very important principle, which I believe has never been adverted to. It is this; that in a country where no taxation subsists, the alteration in the value of money arising from scarcity or abundance will operate in an equal proportion on the prices of all commodities; that if a commodity of 1000*l.* value rise to 1200*l.*, or fall to 800*l.*, a commodity of 10,000*l.* value will rise to 12,000*l.* or fall to 8000*l.*; but in a country where prices are artificially raised by taxation, the abundance of money from an influx, or the exportation and consequent scarcity of it from foreign demand, will not operate in the same proportion on the prices of all commodities; some it will raise or lower 5, 6, or 12 per cent., others 3, 4, or 7 per cent. If a country were not taxed, and money should fall in value, its abundance in every market would produce similar effects in each. If meat rose 20 per cent., bread, beer, shoes, labour, and every commodity, would also rise 20 per cent.; it is necessary they should do so, to secure to each trade the same rate of profits. But this is no longer true when any of these commodities is taxed; if in that case they should all rise in proportion to the fall in the value of money, profits would be rendered unequal; in the case of the commodities taxed profits would be raised above the general level, and capital would be removed from one employment to another, till an equilibrium of profits was restored, which could only be, after the relative prices were altered.

Will not this principle account for the different effects, which it was remarked were produced on the prices of commodities, from the altered value of money during the Bank-

restriction? It was objected to those who contended that the currency was at that period depreciated, from the too great abundance of the paper circulation, that, if that were the fact, all commodities ought to have risen in the same proportion; but it was found that many had varied considerably more than others, and thence it was inferred that the rise of prices was owing to something affecting the value of commodities, and not to any alteration in the value of the currency. It appears however, as we have just seen, that in a country where commodities are taxed, they will not all vary in price in the same proportion, either in consequence of a rise or of a fall in the value of currency.

If the profits of all trades were taxed, excepting the profits of the farmer, all goods would rise in money value, excepting raw produce. The farmer would have the same corn income as before, and would sell his corn also for the same money price; but as he would be obliged to pay an additional price for all the commodities, except corn, which he consumed, it would be to him a tax on expenditure. Nor would he be relieved from this tax by an alteration in the value of money, for an alteration in the value of money might sink all the taxed commodities to their former price, but the untaxed one would sink below its former level; and therefore, though the farmer would purchase his commodities at the same price as before, he would have less money with which to purchase them.

The landlord too would be precisely in the same situation, he would have the same corn, and the same money rent as before, if all commodities rose in price, and money remained at the same value; and he would have the same corn, but a less money rent, if all commodities remained at the same price: so that in either case, though his income were not directly taxed, he would indirectly contribute towards the money raised.

But suppose the profits of the farmer to be also taxed, he then would be in the same situation as other traders; his raw produce would rise, so that he would have the same money revenue, after paying the tax, but he would pay an additional price for all the

commodities he consumed, raw produce included.

His landlord however would be differently situated, he would be benefited by the tax on his tenant's profits, as he would be compensated for the additional price at which he would purchase his manufactured commodities, if they rose in price; and he would have the same money revenue, if in consequence of a rise in the value of money, commodities sold at their former price. A tax on the profits of the farmer, is not a tax proportioned to the gross produce of the land, but to its net produce, after the payment of rent, wages, and all other charges. As the cultivators of the different kinds of land, No. 1, 2, and 3, employ precisely the same capitals, they will get precisely the same profits, whatever may be the quantity of gross produce, which one may obtain more than the other; and consequently they will be all taxed alike. Suppose the gross produce of the land of the quality No. 1, to be 180 qrs., that of No. 2, 170 qrs., and of No 3, 160, and each to be taxed 10 quarters, the difference between the produce of No. 1, No. 2, and

No. 3, after paying the tax, will be the same as before; for if No. 1 be reduced to 170, No. 2 to 160, and No. 3 to 150 qrs.; the difference between 3 and 1 will be as before, 20 qrs.; and of No. 3 and No. 2, 10 qrs. If after the tax the prices of corn and of every other commodity should remain the same as before, money rent as well as corn rent, would continue unaltered; but if the price of corn, and every other commodity should rise in consequence of the tax, money rent will also rise in the same proportion. If the price of corn were 4*l.* per quarter, the rent of No. 1 would have been 80*l.*, and that of No. 2, 40*l.*; but if corn rose ten per cent., or to 4*l.* 8*s.*, rent would also rise ten per cent., for twenty quarters of corn would then be worth 88*l.*, and ten quarters 44*l.*; so that in every case the landlord will be unaffected by such a tax. A tax on the profits of stock always leaves corn rent unaltered, and therefore money rent varies with the price of corn; but a tax on raw produce, or tithes, never leaves corn rent unaltered, but generally leaves money rent the same as before. In another part of this work I have observed, that if a land-tax of the same money amount, were laid on every kind of land in cultiva-

tion, without any allowance for difference of fertility, it would be very unequal in its operation, as it would be a profit to the landlord of the more fertile lands. It would raise the price of corn in proportion to the burden borne by the farmer of the worst land; but this additional price being obtained for the greater quantity of produce yielded by the better land, farmers of such land would be benefited during their leases, and afterwards, the advantage would go to the landlord in the form of an increase of rent. The effect of an equal tax on the profits of the farmer is precisely the same; it raises the money rent of the landlords, if money retains the same value; but as the profits of all other trades are taxed, as well as those of the farmer, and consequently the prices of all goods, as well as corn, are raised, the landlord loses as much by the increased money price of the goods and corn on which his rent is expended, as he gains by the rise of his rent. If money should rise in value, and all things should, after a tax on the profits of stock, fall to their former prices, rent also would be the same as before. The landlord would receive the same money rent, and would obtain all the commodities on which it was expended at their former price; so that under all circumstances he would continue untaxed.

A tax on the profits of stock would also affect the stock-holder, if all commodities were to rise in proportion to the tax; but if from the alteration in the value of money, all commodities were to sink to their former price, the stock-holder would pay nothing towards the tax; he would purchase all his commodities at the same price, but would still receive the same money dividend.

If it be agreed, that by taxing the profits of one manufacturer only, the price of his goods would rise, to put him on an equality with all other manufacturers; and that by taxing the profits of two manufacturers, the prices of two descriptions of goods must rise, I do not see how it can be disputed, that by taxing the profits of all manufacturers, the prices of all goods would rise, provided the mine which supplied us with money, were in the country taxed. But as money, or the standard of money, is a commodity imported from abroad, the prices of all goods could

not rise; for such an effect could not take place without an additional quantity of money, which could not be obtained in exchange for dear goods, as was shewn in page 108. If however, such a rise could take place, it could not be permanent, for it would have a powerful influence on foreign trade. In return for commodities imported, those dear goods could not be exported, and therefore we should for a time continue to buy, although we ceased to sell; and should export money, or bullion, till the relative prices of commodities were nearly the same as before. It appears to me absolutely certain, that a well regulated tax on profits, would ultimately restore commodities both of home and foreign manufacture, to the same money price which they bore before the tax was imposed.

As taxes on raw produce, tithes, taxes on wages, and on the necessaries of the labourer, will, by raising wages, lower profits, they will all, though not in an equal degree, be attended with the same effects.

The discovery of machinery, which materially improves home manufactures, always tends to raise the relative value of money, and therefore to encourage its importation. All taxation, all increased impediments, either to the manufacturer, or the grower of commodities, tend on the contrary to lower the relative value of money, and therefore to encourage its exportation.

CHAPTER XIV.

TAXES ON WAGES.

TAXES on wages will raise wages, and therefore will diminish the rate of the profits of stock. We have already seen that a tax on necessaries will raise their prices, and will be followed by a rise of wages. The only difference between a tax on necessaries, and a tax on wages is, that the former will necessarily be accompanied by a rise in the price of necessaries, but the latter will not; towards a tax on wages, consequently, neither the stock-holder, the landlord, nor any other class but the employers of labour will contribute. A tax on wages is wholly a tax on profits, a tax on necessaries is partly a tax on profits, and partly a tax on rich consumers. The ultimate effects which will result from such taxes then are precisely the same as those which result from a direct tax on profits.

"The wages of the inferior classes of workmen," says Adam Smith, "I have endeavoured to shew in the first book, are every where necessarily regulated by two different circumstances; the demand for labour, and the ordinary or average price of provisions. The demand for labour, according as it happens to be either increasing, stationary, or declining, or to require an increasing, stationary, or declining population, regulates the subsistence of the labourer, and determines in what degree it shall be either liberal, moderate, or scanty. The *ordinary or average* price of provisions determines the quantity of money which must be paid to the workman, in order to enable him one year with another to purchase this liberal, moderate, or scanty subsistence. While the demand for labour, and the price of provisions, therefore remain the same, a direct tax upon the wages of labour can have no other effect than to raise them somewhat higher than the tax."

To the proposition, as it is here advanced by Dr. Smith, Mr. Buchanan offers two objections. First, he denies that the money

wages of labour are regulated by the price of provisions; and secondly, he denies that a tax on the wages of labour would raise the price of labour. On the first point, Mr. Buchanan's argument is as follows, page 59: "The wages of labour, it has already been remarked, consist not in money, but in what money purchases, namely, provisions and other necessaries; and the allowance of the labourer out of the common stock, will always be in proportion to the supply. Where provisions are *cheap and abundant*, his share will be the larger; and where they are *scarce and dear*, it will be the less. His wages will always give him his just share, and they cannot give him more. It is an opinion indeed, adopted by Dr. Smith and most other writers, that the money price of labour is regulated by the money price of provisions, and that when provisions rise in price, wages rise in proportion. But it is clear that the price of labour has no necessary connexion with the price of food, since it depends entirely on the supply of labourers compared with the demand. Besides, it is to be observed, that the high price of provisions is a certain indication of a deficient supply, and arises in the natural course of things, for the purpose of retarding the consumption. A smaller supply of food, shared among the same number of consumers, will evidently leave a smaller portion to each, and the labourer must bear his share of the common want. To distribute this burden equally, and to prevent the labourer from consuming subsistence so freely as before, the price rises. But wages it seems must rise along with it, that he may still use the same quantity of a scarcer commodity; and thus nature is represented as counteracting her own purposes: first, raising the price of food, to diminish the consumption, and afterwards, raising wages to give the labourer the same supply as before."

In this argument of Mr. Buchanan, there appears to me, to be a great mixture of truth and error. Because a high price of provisions is sometimes occasioned by a deficient supply, Mr. Buchanan assumes it as a certain indication of a deficient supply. He attributes to one cause exclusively, that which may arise from many. It is undoubtedly true, that in the case of a deficient supply, a smal-

ler quantity will be shared among the same number of consumers, and a smaller portion will fall to each. To distribute this privation equally, and to prevent the labourer from consuming subsistence so freely as before, the price rises. It must therefore be conceded to Mr. Buchanan, that any rise in the price of provisions, occasioned by a deficient supply, will not necessarily raise the money wages of labour; as the consumption must be retarded; which can only be effected by diminishing the power of the consumers to purchase. But, because the price of provisions is raised by a deficient supply, we are by no means warranted in concluding, as Mr. Buchanan appears to do, that there may not be an abundant supply, with a high price; not a high price with regard to money only, but with regard to all other things.

The natural price of commodities, which always ultimately governs their market price, depends on the facility of production; but the quantity produced is not in proportion to that facility. Although the lands, which are now taken into cultivation, are much inferior to the lands in cultivation three centuries ago, and therefore the difficulty of production is increased, who can entertain any doubt, but that the quantity produced now, very far exceeds the quantity then produced? Not only is a high price compatible with an increased supply, but it rarely fails to accompany it. If, then, in consequence of taxation, or of difficulty of production, the price of provisions be raised, and the quantity be not diminished, the money wages of labour will rise; for as Mr. Buchanan has justly observed, "The wages of labour consist not in money, but in what money purchases, namely, provisions and other necessaries; and the allowance of the labourer out of the common stock, will always be in proportion to the supply."

With respect to the second point, whether a tax on the wages of labour would raise the price of labour, Mr. Buchanan says, "After the labourer has received the fair recompense of his labour, how can he have recourse on his employer, for what he is afterwards compelled to pay away in taxes? There is no law or principle in human affairs to warrant such a conclusion. After the labourer has received his wages, they are in his own

keeping, and he must, as far as he is able, bear the burthen of whatever exactions he may ever afterwards be exposed to: for he has clearly no way of compelling those to re-imburse him, who have already paid him the fair price of his work." Mr. Buchanan has quoted with great approbation, the following able passage from Mr. Malthus's work on population, which appears to me completely to answer his objection. "The price of labour, when left to find its natural level, is a most important political barometer, expressing the relation between the supply of provisions, and the demand for them, between the quantity to be consumed, and the number of consumers; and, taken on the average, independently of accidental circumstances, it further expresses, clearly, the wants of the society respecting population, that is, whatever may be the number of children to a marriage necessary to maintain exactly the present population, the price of labour will be just sufficient to support this number, or be above it, or below it, according to the state of the real funds, for the maintenance of labour, whether stationary, progressive, or retrograde. Instead, however, of considering it in this light, we consider it as something which we may raise or depress at pleasure, something which depends principally on his majesty's justices of the peace. When an advance in the price of provisions already expresses that the demand is too great for the supply, in order to put the labourer in the same condition as before, we raise the price of labour, that is, we increase the demand, and are then much surprised, that the price of provisions continues rising. In this, we act much in the same manner, as if, when the quicksilver in the common weather glass, stood at *stormy*, we were to raise it by some forcible pressure to settled fair, and then be greatly astonished that it continued raining."

"The price of labour will express, clearly, the wants of the society respecting population;" it will be just sufficient to support the population, which at that time the state of the funds for the maintenance of labourers, requires. If the labourer's wages were before only adequate to supply the requisite population, they will, after the tax, be inadequate to that supply, for he will not

have the same funds to expend on his family. Labour will therefore rise, because the demand continues, and it is only by raising the price, that the supply is not checked.

Nothing is more common, than to see hats or malt rise when taxed; they rise because the requisite supply would not be afforded if they did not rise: so with labour, when wages are taxed, its price rises, because, if it did not, the requisite population would not be kept up. Does not Mr. Buchanan allow all that is contended for, when he says, that "were he (the labourer) indeed reduced to a bare allowance of necessaries, he would then suffer no further abatement of his wages, as he could not on such conditions continue his race?" Suppose the circumstances of the country to be such, that the lowest labourers are not only called upon to continue their race, but to increase it; their wages would have been regulated accordingly. Can they multiply, if a tax takes from them a part of their wages, and reduces them to bare necessaries?

It is undoubtedly true, that a taxed commodity will not rise in proportion to the tax, if the demand for it will diminish, and if the quantity cannot be reduced. If metallic money were in general use, its value would not for a considerable time be increased by a tax, in proportion to the amount of the tax, because at a higher price, the demand would be diminished, and the quantity would not be diminished; and unquestionably the same cause frequently influences the wages of labour, the number of labourers cannot be rapidly increased or diminished in proportion to the increase or diminution of the fund, which is to employ them; but in the case supposed, there is no necessary diminution of demand for labour, and if diminished, the demand does not abate in proportion to the tax. Mr. Buchanan forgets that the fund raised by the tax is employed by Government in maintaining labourers, unproductive indeed, but still labourers. If labour were not to rise when wages are taxed, there would be a great increase in the competition for labour, because the owners of capital, who would have nothing to pay towards such a tax, would have the same funds for imploying labour; whilst the Government who received the tax would have an additional

fund for the same purpose. Government and the people thus become competitors, and the consequence of their competition is a rise in the price of labour. The same number of men only will be employed, but they will be employed at additional wages.

If the tax had been laid at once on the people, their fund for the maintenance of labour would have been diminished in the very same degree that the fund of Government for that purpose had been increased; and therefore there would have been no rise in wages; for though there would be the same demand, there would not be the same competition. If when the tax were levied, Government at once exported the produce of it as a subsidy to a foreign state, and if therefore these funds were devoted to the maintenance of foreign, and not of English labourers, such as soldiers, sailors, &c. &c.; then, indeed, there would be a diminished demand for labour, and wages might not increase although they were taxed; but the same thing would happen if the tax had been laid on consumable commodities, on the profits of stock, or if in any other manner the same sum had been raised to supply this subsidy: less labour could be employed at home. In one case wages are prevented from rising, in the other they must absolutely fall. But suppose the amount of a tax on wages were, after being raised on the labourers, paid gratuitously to their employers, it would increase their money fund for the maintenance of labour, but it would not increase either commodities or labour. It would consequently increase the competition amongst the employers of labour, and the tax would be ultimately attended with no loss either to master or labourer. The master would pay an increased price for labour; the addition which the labourer received would be paid as a tax to Government, and would be again returned to the masters. It must however not be forgotten that the produce of taxes is often wastefully expended, and that by diminishing capital they tend to diminish the real fund destined for the maintenance of labour; and therefore to diminish the real demand for it. Taxes then, generally, as far as they impair the real capital of the country, diminish the demand for labour, and therefore

it is a probable, but not a necessary, nor a peculiar consequence of a tax on wages, that though wages would rise, they would not rise by a sum precisely equal to the tax.

Adam Smith, as we have seen, has fully allowed that the effect of a tax on wages would be to raise wages by a sum at least equal to the tax, and would be finally, if not immediately, paid by the employer of labour. Thus far we fully agree; but we essentially differ in our views of the subsequent operation of such a tax.

"A direct tax upon the wages of labour, therefore," says Adam Smith, "though the labourer might perhaps pay it out of his hand, could not properly be said to be even advanced by him; at least if the demand for labour and the average price of provisions remained the same after the tax as before it. In all such cases, not only the tax, but something more than the tax, would in reality be advanced by the person who immediately employed him. The final payment would in different cases fall upon different persons. The rise which such a tax might occasion in the wages of manufacturing labour, would be advanced by the master manufacturer, *who would be entitled and obliged to charge it with a profit, upon the price of his goods.* The rise which such a tax might occasion in country labour would be advanced by the farmer, who, in order to maintain the same number of labourers as before, would be obliged to employ a greater capital. In order to get back this greater capital, *together with the ordinary profits of stock,* it would be necessary that he should retain a larger portion, or what comes to the same thing, the price of a larger portion of the produce of the land, and consequently that he should pay less rent to the landlord. The final payment of this rise of wages, therefore, would in this case fall upon the landlord, *together with the additional profits of the farmer who had advanced it.* In all cases a direct tax upon the wages of labour must, in the long run, occasion both a greater reduction in the rent of land, and a greater rise in the price of manufactured goods, than would have followed, from the proper assessment of a sum equal to the produce of the tax, partly upon the rent of land, and partly upon consumable commodities."

Vol. iii. p. 337. In this passage it is asserted that the additional wages paid by farmers will ultimately fall on the landlords, who will receive a diminished rent; but that the additional wages paid by manufacturers will occasion a rise in the price of manufactured goods, and will therefore fall on the consumers of those commodities.

Now suppose a society to consist of landlords, manufacturers, farmers, and labourers. The labourers, it is agreed, would be recompensed for the tax;—but by whom?—who would pay that portion which did not fall on the landlords?—the manufacturers could pay no part of it; for if the price of their commodities should rise in proportion to the additional wages they paid, they would be in a better situation after than before the tax. If the clothier, the hatter, the shoemaker, &c., should be each able to raise the price of their goods 10 per cent.,—supposing 10 per cent. to recompense them completely for the additional wages they paid,—if, as Adam Smith says, "they would be entitled and obliged to charge the additional wages *with a profit* upon the price of their goods," they could each consume as much as before of each other's goods, and therefore they would pay nothing towards the tax. If the clothier paid more for his hats and shoes, he would receive more for his cloth, and if the hatter paid more for his cloth and shoes, he would receive more for his hats. All manufactured commodities then would be bought by them with as much advantage as before, and inasmuch as corn would not be raised in price whilst they had an additional sum to lay out upon its purchase, they would be benefited, and not injured by such a tax.

If then neither the labourers nor the manufacturers would contribute towards such a tax; if the farmers would be also recompensed by a fall of rent, landlords alone must not only bear its whole weight, but they must also contribute to the increased gains of the manufacturers. To do this, however, they should consume all the manufactured commodities in the country, for the additional price charged on the whole mass is little more than the tax originally imposed on the labourers in manufactures.

Now it will not be disputed that the clothier, the hatter, and all other manufacturers,

are consumers of each other's goods; it will not be disputed that labourers of all descriptions consume soap, cloth, shoes, candles, and various other commodities: it is therefore impossible that the whole weight of these taxes should fall on landlords only.

But if the labourers pay no part of the tax, and yet manufactured commodities rise in price, wages must rise, not only to compensate them for the tax, but for the increased price of manufactured necessaries, which, as far as it affects agricultural labour, will be a new cause for the fall of rent; and, as far as it affects manufacturing labour, for a further rise in the price of goods. This rise in the price of goods will again operate on wages, and the action and re-action, first of wages on goods, and then of goods on wages, will be extended without any assignable limits. The arguments by which this theory is supported, lead to such absurd conclusions that it may at once be seen that the principle is wholly indefensible.

All the effects which are produced on the profits of stock and the wages of labour, by a rise of rent and a rise of necessaries, in the natural progress of society, and increasing difficulty of production, will be produced by a rise of wages in consequence of taxation; and therefore the enjoyments of the labourer, as well as those of his employers, will be curtailed by the tax; and not by this tax particularly, but by any other which should raise an equal amount.

The error of Adam Smith proceeds in the first place from supposing, that all taxes paid by the farmer must necessarily fall on the landlord, in the shape of a deduction from rent. On this subject I have explained myself most fully, and I trust that it has been shewn, to the satisfaction of the reader, that since much capital is employed on the land which pays no rent, and since it is the result obtained by this capital which regulates the price of raw produce, no deduction can be made from rent; and consequently either no remuneration will be made to the farmer for a tax on wages, or if made, it must be made by an addition to the price of raw produce.

If taxes press unequally on the farmer, he will be enabled to raise the price of raw pro-

duce, to place himself on a level with those who carry on other trades; but a tax on wages, which would not affect him more than it would affect any other trade, could not be removed or compensated by a high price of raw produce; for, the same reason which should induce him to raise the price of corn, namely, to remunerate himself for the tax, would induce the clothier to raise the price of cloth, the shoemaker, hatter, and upholsterer, to raise the price of shoes, hats, and furniture.

If they could all raise the price of their goods, so as to remunerate themselves, with a profit, for the tax; as they are all consumers of each other's commodities, it is obvious that the tax could never be paid; for who would be the contributors if all were compensated?

I hope then that I have succeeded in shewing, that any tax which shall have the effect of raising wages, will be paid by a diminution of profits, and therefore that a tax on wages is in fact a tax on profits.

This principle of the division of the pro-