duce of labour and capital between wages and profits, which I have attempted to establish, appears to me so certain, that excepting in the immediate effects, I should think it of little importance whether the profits of stock, or the wages of labour, were taxed. By taxing the profits of stock, you would probably alter the rate at which the funds for the maintenance of labour increase, and wages would be disproportioned to the state of that fund, by being too high. By taxing wages, the reward paid to the labourer would also be disproportioned to the state of that fund, by being too low. In the one case by a fall, and in the other by a rise in money wages, the natural equilibrium between profits and wages would be restored. A tax on wages then does not fall on the landlord, but it falls on the profits of stock: it does not "entitle and oblige the master manufacturer to charge it with a profit on the prices of his goods," for he will be unable to increase their price, and therefore he must himself wholly and without compensation pay such a tax.*

* M. Say appears to have imbibed the general opinion on this subject. Speaking of corn, he says, "thence it results, that its price influences the price of *all* other commodities. A farmer, a manufacturer, or a merchant, employs a certain number of workmen, who all have occasion to consume a certain quantity of corn. If the price of corn rises, he is obliged to raise, in an equal proportion, the price of his productions." Vol. i. p. 255.

If the effect of taxes on wages be such as I have described, they do not merit the censure cast upon them by Dr. Smith. He observes of such taxes, "These, and some other taxes of the same kind, by raising the price of labour, are said to have ruined the greater part of the manufactures of Holland. Similar taxes, though not quite so heavy, take place in the Milanese, in the states of Genoa, in the duchy of Modena, in the duchies of Parma, Placentia, and Guastalla, and in the ecclesiastical states. A French author of some note, has proposed to reform the finances of his country, by substituting in the room of other taxes, this most ruinous of all taxes. 'There is nothing so absurd,' says Cicero, 'which has not sometimes been asserted by some philosophers.'" And in another place he says: "taxes upon necessaries, by raising the wages of labour, necessarily tend to raise the price of all manufactures, and consequently to diminish the extent of their sale and consumption." They would not merit this censure; even if Dr. Smith's principle were correct that such taxes would enhance the prices of manufactured commodities; for such an effect could be only temporary, and would subject us to no disadvantage in our foreign trade. If any cause should raise the price of a few manufactured commodities, it would prevent or check their exportation; but if the same cause operated generally on all, the effect would be merely nominal, and would neither interfere with their relative value, nor in any degree diminish the stimulus to a trade of barter; which all commerce, both foreign and domestic, really is.

I have already attempted to shew, that when any cause raises the prices of all commodities in general, the effects are nearly similar to a fall in the value of money. If money falls in value, all commodities rise in price; and if the effect is confined to one country, it will affect its foreign commerce in the same way as a high price of commodities caused by

general taxation; and therefore in examining the effects of a low value of money confined to one country, we are also examining the effects of a high price of commodities confined to one country. Indeed Adam Smith was fully aware of the resemblance between these two cases, and consistently maintained that the low value of money, or, as he calls it, of silver in Spain, in consequence of the prohibition against its exportation, was very highly prejudicial to the manufactures and foreign commerce of Spain. "But that degradation in the value of silver, which being the effect either of the peculiar situation, or of the political institutions of a particular country, takes place only in that country, is a matter of very great consequence, which, far from tending to make any body really richer, tends to make every body really poorer. The rise in the money price of all commodities, which is in this case peculiar to that country, tends to discourage more or less every sort of industry which is carried on within it, and to enable foreign nations, by furnishing almost all sorts of goods for a smaller quantity of silver than its own workmen can afford to do, to undersell them not only in the foreign, but even in the home market." Vol. ii. page 278.

One, and I think the only one of the disadvantages of a low value of silver in a country, proceeding from a forced abundance, has been ably explained by Dr. Smith. If the trade in gold and silver were free, "the gold and silver which would go abroad, would not go abroad for nothing, but would bring back an equal value of goods of some kind or another. Those goods too would not be all matters of mere luxury and expense, to be consumed by idle people, who produce nothing in return for their consumption. As the real wealth and revenue of idle people would not be augmented by this extraordinary exportation of gold and silver, so would neither their consumption be augmented by it. Those goods would, probably the greater part of them, and certainly some part of them, consist in materials, tools, and provisions, for the employment and maintenance of industrious people, who would reproduce with a profit, the full value of their consumption. A part of the dead stock of the society would thus be turned into active stock, and would put

into motion a greater quantity of industry than had been employed before."

By not allowing a free trade in the precious metals when the prices of commodities are raised, either by taxation, or by the influx of the precious metals, you prevent a part of the dead stock of the society from being turned into active stock—you prevent a greater quantity of industry from being employed. But this is the whole amount of the evil; an evil never felt by those countries where the exportation of silver is either allowed or connived at.

The exchanges between countries are at par only, whilst they have precisely that quantity of currency which in the actual situation of things they should have to carry on the circulation of their commodities. If the trade in the precious metals were perfectly free, and money could be exported without any expense whatever, the exchanges could be no otherwise in every country than at par. If the trade in the precious metals were perfectly free, if they were generally used in circulation, even with the expenses of transporting them, the exchange could never in any of them deviate more from par, than by these expenses. These principles I believe are now no where disputed. If a country used paper money not exchangeable for specie, and therefore not regulated by any fixed standard, the exchanges in that country might deviate as much from par, as its money might be multiplied beyond that quantity which would have been allotted to it by general commerce, if the trade in money had been free, and the precious metals had been used, either for money, or for the standard of money.

If by the general operations of commerce, 10 millions of pounds sterling, of a known weight and fineness of bullion, should be the portion of England, and 10 millions of paper pounds were substituted, no effect would be produced on the exchange; but if by the abuse of the power of issuing paper money, 11 millions of pounds should be employed in the circulation, the exchange would be 9 per cent. against England; if 12 millions were employed, the exchange would be 16 per cent.; and if 20 millions, the exchange would be 50 per cent. against England.

To produce this effect it is not however necessary that paper money should be employed: any cause which retains in circulation a greater quantity of pounds than would have circulated, if commerce had been free, and the precious metals of a known weight and fineness had been used, either for money, or for the standard of money, would exactly produce the same effects. Suppose that by clipping the money, each pound did not contain the quantity of gold or silver which by law it should contain, a greater number of such pounds might be employed in the circulation, than if they were not clipped. If from each pound one tenth were taken away, 11 millions of such pounds might be used instead of 10; if two tenths were taken away, 12 millions might be employed; and if one half were taken away, 20 millions might not be found superfluous. If the latter sum were used instead of 10 millions, every commodity in England would be raised to double its former price, and the exchange would be 50 per cent. against England, but this would occasion no disturbance in foreign commerce, nor discourage the manufacture of any one commodity. If for example, cloth rose in

England from 20*l.* to 40*l.* per piece, we should just as freely export it after as before the rise, for a compensation of 50 per cent. would be made to the foreign purchaser in the exchange; so that with 20*l.* of his money, he could purchase a bill which would enable him to pay a debt of 40*l.* in England. In the same manner if he exported a commodity which cost 20*l.* at home, and which sold in England for 40*l.* he would only receive 20*l.*, for 40*l.* in England would only purchase a bill for 20*l.* on a foreign country. The same effects would follow from whatever cause 20 millions could be forced to perform the business of circulation in England, if 10 millions only were necessary. If so absurd a law, as the prohibition of the exportation of the precious metals, could be enforced, and the consequence of such prohibition were to force 11 millions instead of 10 into circulation, the exchange would be 9 per cent. against England; if 12 millions, 16 per cent.; and if 20 millions, 50 per cent. against England. But no discouragement would be given to the manufactures of England; if home commodities sold at a high price in England, so would foreign commodities; and whether they were

high or low would be of little importance to the foreign exporter and importer, whilst he would, on the one hand, be obliged to allow a compensation in the exchange when his commodities sold at a dear rate, and would receive the same compensation, when he was obliged to purchase English commodities at a high price. The sole disadvantage then which could happen to a country from retaining by prohibitory laws a greater quantity of gold and silver in circulation than would otherwise remain there, would be the loss which it would sustain from employing a portion of its capital unproductively, instead of employing it productively. In the form of money this capital is productive of no profit; in the form of materials, machinery, and food, for which it might be exchanged, it would be productive of revenue, and would add to the wealth and the resources of the state. Thus then I hope I have satisfactorily proved, that a comparatively low price of the precious metals, in consequence of taxation, or in other words, a generally high price of commodities, would be of no disadvantage to a state, as a part of the metals would be exported, which, by raising their value, would again lower the prices of commodities. And further, that if they were not exported, if by prohibitory laws they could be retained in a country, the effect on the exchange would counterbalance the effect of high prices. If then taxes on necessaries and on wages would not raise the prices of all commodities on which labour was expended, they cannot be condemned on such grounds; and moreover, even if the opinion that they would have such an effect were well founded, they would be in no degree injurious on that account.

It is undoubtedly true, that "taxes upon luxuries have no tendency to raise the price of any other commodities, except that of the commodities taxed;" but it is not true, that taxes upon necessaries, by raising the wages of labour, necessarily tend to raise the price of all manufactures." It is true, that "taxes upon luxuries are finally paid by the consumers of the commodities taxed, without any retribution. They fall indifferently upon every species of revenue, the wages of labour, the profits of stock, and the rent of land;" but it is not true, "that taxes upon necessaries *so far as they affect the labouring poor*,

are finally paid partly by landlords in the diminished rent of their lands, and partly by rich consumers, whether landlords or others, in the advanced price of manufactured goods;" for *so far as these taxes affect the labouring poor*, they will be almost wholly paid by the diminished profits of stock, a small part only being paid by the labourers themselves in the diminished demand for labour, which taxation of every kind has a tendency to produce.

It is from Dr. Smith's erroneous view of the effect of those taxes, that he has been led to the conclusion, that "the middling and superior ranks of people, if they understood their own interest, ought always to oppose all taxes upon the necessaries of life, as well as all direct taxes upon the wages of labour. This conclusion follows from his reasoning, "that the final payment of both one and the other falls altogether upon themselves, and always with a considerable overcharge. They fall heaviest upon the landlords, who always pay in a double capacity; in that of landlords, by the reduction of their rent, and in that of rich consumers, by the increase of their expense. The observation of Sir Matthew Decker, that certain taxes are in the price of certain goods, sometimes repeated and accumulated four or five times, is perfectly just with regard to taxes upon the necessaries of life. In the price of leather, for example, you must pay, not only for the tax upon the leather of your own shoes, but for a part of that upon those of the shoemaker and the tanner. You must pay too for the tax upon the salt, upon the soap, and upon the candles, which those workmen consume while employed in your service, and for the tax upon the leather, which the salt-maker, the soap-maker, and the candle-maker consume, while employed in their service."

Now as Dr. Smith does not contend that the tanner, the salt-maker, the soap-maker, and the candle-maker, will either of them be benefited by the tax on leather, salt, soap, and candles; and as it is certain, that government will receive no more than the tax imposed, it is impossible to conceive, that more can be paid by the public upon whomsoever the tax may fall. The rich consumers may, and indeed will, pay for the poor consumer, but they will pay no more than the whole amount

of the tax; and it is not in the nature of things, that "the tax should be repeated and accumulated four or five times."

A system of taxation may be defective; more may be raised from the people, than what finds its way into the coffers of the state, as a part, in consequence of its effect on prices, may possibly be received by those, who are benefited by the peculiar mode in which taxes are laid. Such taxes are pernicious, and should not be encouraged; for it may be laid down as a principle, that when taxes operate justly, they conform to the first of Dr. Smith's maxims, and raise from the people as little as possible beyond what enters into the public treasury of the state. M. Say says, "others offer plans of finance, and propose means for filling the coffers of the sovereign, without any charge to his subjects. But unless a plan of finance is of the nature of a commercial undertaking, it cannot give government more than it takes away, either from individuals, or from government itself, under some other form. Something cannot be made out of nothing, by the stroke of a wand. In whatever way an operation may be disguised, whatever forms we may constrain a value to take, whatever metamorphosis we may make it undergo, we can only have a value by creating it, or by taking it from others. The very best of all plans of finance is to spend little, and the best of all taxes is, that which is the least in amount."

Dr. Smith uniformly, and I think justly, contends, that the labouring classes cannot materially contribute to the burdens of the state. A tax on necessaries, or on wages, will therefore be shifted from the poor to the rich: if then, the meaning of Dr. Smith is, "that certain taxes are in the price of certain goods sometimes repeated, and accumulated four or five times," for the purpose only of accomplishing this end, namely, the transference of the tax from the poor to the rich, they cannot be liable to censure on that account.

Suppose the just share of the taxes of a rich consumer to be 100*l.*, and that he would pay it directly, if the tax were laid on income, on wine, or on any other luxury, he would suffer no injury if by the taxation of necessaries, he should

be only called upon for the payment of 25*l.*, as far as his own consumption of necessaries, and that of his family was concerned, but should be required to repeat this tax three times, by paying an additional price for other commodities to remunerate the labourers, or their employers, for the tax which they have been called upon to advance. Even in that case the reasoning is inconclusive: for if there be no more paid than what is required by Government; of what importance can it be to the rich consumer, whether he pay the tax directly, by paying an increased price for an object of luxury, or indirectly, by paying an increased price for the necessaries and other commodities he consumes? If more be not paid by the people, than what is received by Government, the rich consumer will only pay his equitable share; if more is paid, Adam Smith should have stated by whom it is received.

M. Say does not appear to me to have consistently adhered to the obvious principle, which I have quoted from his able work; for in the next page, speaking of taxation, he says, "When it is pushed too far, it produces this lamentable effect, it deprives the contributor of a portion of his riches, without enriching the state. This is what we may comprehend, if we consider that every man's power of consuming, whether productively or not, is limited by his income. He cannot then be deprived of a part of his income, without being obliged proportionally to reduce his consumption. Hence arises a diminution of demand for those goods, which he no longer consumes, and particularly for those on which the tax is imposed. From this diminution of demand, there results a diminution of production, and consequently of taxable commodities. The contributor then will lose a portion of his enjoyments; the producer, a portion of his profits; and the treasury, a portion of its receipts."

M. Say instances the tax on salt in France, previous to the revolution; which, he says, diminished the production of salt by one half. If, however, less salt was consumed, less capital was employed in producing it; and therefore, though the producer would obtain less profits on the production of salt, he would obtain more on the production of other things,

If a tax, however burdensome it may be, falls on revenue, and not on capital, it does not diminish demand, it only alters the nature of it. It enables Government to consume as much of the produce of the land and labour of the country, as was before consumed by the individuals who contribute to the tax. If my income is 1000*l.* per annum, and I am called upon for 100*l.* per annum for a tax, I shall only be able to demand nine tenths of the quantity of goods, which I before consumed, but I enable Government to demand the other tenth. If the commodity taxed be corn, it is not necessary that my demand for corn should diminish, as I may prefer to pay 100*l.* per annum more for my corn, and to the same amount abate in my demand for wine, furniture, or any other luxury.* Less capital will consequently be employed in the

* M. Say says, that "the tax, added to the price of a commodity, raises its price. Every increase in the price of a commodity, necessarily reduces the number of those who are able to purchase it, or at least the quantity they will consume of it." This is by no means a necessary consequence. I do not believe, that if bread were taxed, the consumption of bread would be diminished, more than if cloth, wine, or soap, were taxed.

wine or upholstery trade; but more will be employed in manufacturing those commodities, on which the taxes levied by Government will be expended.

M. Say says that M. Turgot, by reducing the market dues on fish *(les droits d'entrée et de halle sur la marée)* in Paris one half, did not diminish the amount of their produce, and that consequently, the consumption of fish must have doubled. He infers from this, that the profits of the fisherman and those engaged in the trade, must also have doubled, and that the income of the country must have increased, by the whole amount of these increased profits; and by giving a stimulus to accumulation, must have increased the resources of the state.*

* The following remark of the same author appears to me equally erroneous: "When a high duty is laid on cotton, the production of all those goods, of which cotton is the basis, is diminished. If the total value added to cotton in its various manufactures, in a particular country, amounted to 100 millions of francs per annum, and the effect of the tax was, to diminish the consumption one half, then the tax would deprive that country every year of 50 millions of francs, in addition to the sum received by government." Vol. ii. p. 314.

Without calling in question the policy, which dictated this alteration of the tax, I may be permitted to doubt whether it gave any great stimulus to accumulation. If the profits of the fisherman and others engaged in the trade, were doubled in consequence of more fish being consumed, capital and labour must have been withdrawn from other occupations to engage them in this particular trade. But in those occupations capital and labour were productive of profits, which must have been given up when they were withdrawn. The ability of the country to accumulate was only increased by the difference between the profits obtained in the business in which the capital was newly engaged, and those obtained in that from which it was withdrawn.

Whether taxes be taken from revenue or capital, they diminish the taxable commodities of the state. If I cease to expend 100*l.* on wine, because by paying a tax of that amount I have enabled Government to expend 100*l.* instead of expending it myself, one hundred pounds worth of goods are necessarily withdrawn from the list of taxable commodities. If the revenue of the individuals of a country be 10 millions, they will have at least 10 millions worth of taxable commodities. If by taxing some, one million be transferred to the disposal of Government, their revenue will still be nominally 10 millions, but they will remain with only nine millions worth of taxable commodities. There are no circumstances under which taxation does not abridge the enjoyments of those on whom the taxes ultimately fall, and no means by which those enjoyments can again be extended, but the accumulation of new revenue.

Taxation can never be so equally applied, as to operate in the same proportion on the value of all commodities, and still to preserve them at the same relative value. It frequently operates very differently from the intention of the legislature, by its indirect effects. We have already seen, that the effect of a direct tax on corn and raw produce, is, if money be also produced in the country, to raise the price of all commodities, in proportion as raw produce enters into their composition, and thereby to destroy the natural relation which previously existed between them.

Another indirect effect is, that it raises wages, and lowers the rate of profits; and we have also seen, in another part of this work, that the effect of a rise of wages, and a fall of profits, is to lower the money prices of those commodities which are produced in a greater degree by the employment of fixed capital.

That a commodity when taxed can no longer be so profitably exported, is so well understood, that a drawback is frequently allowed on its exportation, and a duty laid on its importation. If these drawbacks and duties be accurately laid, not only on the commodities themselves, but on all which they may indirectly affect, then indeed there will be no disturbance in the value of the precious metals. Since we could as readily export a commodity after being taxed as before, and since no peculiar facility would be given to importation, the precious metals would not, more than before, enter into the list of exportable commodities.

Of all commodities, none are perhaps so proper for taxation, as those which either by the aid of nature or art, are produced with peculiar facility. With respect to foreign countries, such commodities may be classed under the head of those which are not regulated in their price by the quantity of labour bestowed, but rather by the caprice, the tastes, and the power of the purchasers. If England had more productive tin mines than other countries, or if from superior machinery or fuel she had peculiar facilities in manufacturing cotton goods, the prices of tin, and of cotton goods would still in England be regulated by the comparative quantity of labour and capital required to produce them, and the competition of our merchants would make them very little dearer to the foreign consumer. Our advantage in the production of these commodities might be so decided, that probably they could bear a very great additional price in the foreign market, without very materially diminishing their consumption. This price they never could attain, whilst competition was free at home, by any other means but by a tax on their exportation. This tax would fall wholly on foreign consumers, and part of the expenses of the Government of England would be defrayed, by a tax on the land and labour of other

countries. The tax on tea, which at present is paid by the people of England, and goes to aid the expenses of the Government of England, might, if laid in China, on the exportation of the tea, be diverted to the payment of the expenses of the Government of China.

Taxes on luxuries have some advantage over taxes on necessaries. They are generally paid from income, and therefore do not diminish the productive capital of the country. If wine were much raised in price in consequence of taxation, it is probable that a man would rather forego the enjoyments of wine, than make any important encroachments on his capital, to be enabled to purchase it. They are so identified with price, that the contributor is hardly aware that he is paying a tax. But they have also their disadvantages. First, they never reach capital, and on some extraordinary occasions it may be expedient that even capital should contribute towards the public exigencies; and secondly, there is no certainty as to the amount of the tax, for it may not reach even income. A man intent on saving will exempt himself from a tax on wine, by giving up the use of it. The income of the country may be undiminished, and yet the state may be unable to raise a shilling by the tax.

Whatever habit has rendered delightful, will be relinquished with reluctance, and will continue to be consumed notwithstanding a very heavy tax; but this reluctance has its limits, and experience every day demonstrates that an increase in the nominal amount of taxation, often diminishes the produce. One man will continue to drink the same quantity of wine, though the price of every bottle should be raised three shillings, who would yet relinquish the use of wine rather than pay four. Another will be content to pay four, yet refuse to pay five shillings. The same may be said of other taxes on luxuries: many would pay a tax of *5l.* for the enjoyment which a horse affords, who would not pay *10l.* or *20l.* It is not because they cannot pay more, that they give up the use of wine and of horses, but because they will not pay more. Every man has some standard in his own mind by which he estimates the value of his enjoyments, but that standard is as various as the human character. A country

whose financial situation has become extremely artificial, by the mischievous policy of accumulating a large national debt, and a consequently enormous taxation, is particularly exposed to the inconvenience attendant on this mode of raising taxes. After visiting with a tax the whole round of luxuries; after laying horses, carriages, wine, servants, and all the other enjoyments of the rich, under contribution; a minister is disposed to conclude that the country is arrived at the maximum of taxation, because by increasing the rate, he cannot increase the amount of any one of these taxes. But in this conclusion he will not be always correct, for it is very possible that such a country could bear a very great addition to its burdens without infringing on the integrity of its capital.

CHAPTER XV.

TAXES ON OTHER COMMODITIES THAN RAW PRODUCE.

On the same principle that a tax on corn would raise the price of corn, a tax on any other commodity would raise the price of that commodity. If the commodity did not rise by a sum equal to the tax, it would not give the same profit to the producer which he had before, and he would remove his capital to some other employment.

The taxing of all commodities, whether they be necessaries or luxuries, will, while money remains at an unaltered value, raise their prices by a sum at least equal to the tax.* A tax on the manufactured necessaries

* It is observed by M. Say, "that a manufacturer is not enabled to make the consumer pay the whole tax levied on his

of the labourer would have the same effect on wages as a tax on corn, which differs from other necessaries only by being the first and most important on the list; and it would produce precisely the same effects on the profits of stock and foreign trade. But a tax on luxuries would have no other effect than to raise their price. It would fall wholly on the

commodity, because its increased price will diminish its consumption." Should this be the case, should the consumption be diminished, will not the supply also speedily be diminished? why should the manufacturer continue in the trade if his profits are below the general level? M. Say appears here also to have forgotten the doctrine which he elsewhere supports, "that the cost of production determines the price, below which commodities cannot fall for any length of time, because production would then be either suspended or diminished."—Vol. ii. p. 26.

"The tax in this case falls then partly on the consumer who is obliged to give more for the commodity taxed, and partly on the producer, who, after deducting the tax, will receive less. The public treasury will be benefited by what the purchaser pays in addition, and also by the sacrifice which the producer is obliged to make of a part of his profits. It is the effort of gunpowder, which acts at the same time on the bullet which it projects, and on the gun which it causes to recoil." Vol. ii. p. 333.

consumer, and could neither increase wages, nor lower profits.

Taxes which are levied on a country for the purpose of supporting war, or for the ordinary expenses of the state, and which are chiefly devoted to the support of unproductive labourers, are taken from the productive industry of the country; and every saving which can be made from such expenses will be generally added to the income, if not to the capital of the contributors. When for the expenses of a year's war, twenty millions are raised by means of a loan, it is the twenty millions which are withdrawn from the productive capital of the nation. The million per annum which is raised by taxes to pay the interest of this loan, is merely transferred from those who pay it to those who receive it, from the contributor to the tax to the national creditor. The real expense is the twenty millions, and not the interest which must be paid for it.* Whether

* "Melon says, that the debts of a nation are debts due from the right hand to the left, by which the body is not

the interest be or be not paid, the country will neither be richer nor poorer. Government might at once have required the twenty millions in the shape of taxes; in which case it would not have been necessary to raise annual taxes to the amount of a million. This however would not have changed the nature of the transaction. An individual instead of being called upon to pay 100*l.* per annum, might have been obliged to pay 2000*l.* once for all. It might also have suited

weakened. It is true that the general wealth is not diminished by the payment of the interest on arrears of the debt: The dividends are a value which passes from the hand of the contributor to the national creditor: Whether it be the national creditor or the contributor who accumulates or consumes it, is I agree of little importance to the society; but the principal of the debt—what has become of that? It exists no more. The consumption which has followed the loan has annihilated a capital which will never yield any further revenue. The society is deprived not of the amount of interest, since that passes from one hand to the other, but of the revenue from a destroyed capital. This capital, if it had been employed productively by him who lent it to the state, would equally have yielded him an income, but that income would have been derived from a real production, and would not have been furnished from the pocket of a fellow citizen."—*Say*, vol. ii. p. 357. This is both conceived and expressed in the true spirit of the science.

his convenience rather to borrow this 2000*l.*, and to pay 100*l.* per annum for interest to the lender, than to spare the larger sum from his own funds. In one case it is a private transaction between A and B, in the other Government guarantees to B the payment of the interest to be equally paid by A. If the transaction had been of a private nature, no public record would be kept of it, and it would be a matter of comparative indifference to the country whether A faithfully performed his contract to B, or unjustly retained the 100*l.* per annum in his own possession. The country would have a general interest in the faithful performance of a contract, but with respect to the national wealth, it would have no other interest than whether A or B would make this 100*l.* most productive, but on this question it would neither have the right nor the ability to decide. It might be possible, that if A retained it for his own use, he might squander it unprofitably, and if it were paid to B, he might add it to his capital, and employ it productively. And the converse would also be possible, B might squander it, and A might employ it productively. With a view to wealth only, it might be equally or

more desirable that A should or should not pay it; but the claims of justice and good faith, a greater utility, are not to be compelled to yield to those of a less; and accordingly, if the state were called upon to interfere, the courts of justice would oblige A to perform his contract. A debt guaranteed by the nation, differs in no respect from the above transaction. Justice and good faith demand that the interest of the national debt should continue to be paid, and that those who have advanced their capitals for the general benefit, should not be required to forego their equitable claims, on the plea of expediency.

But independently of this consideration, it is by no means certain, that political utility would gain any thing by the sacrifice of political integrity; it does by no means follow, that the party exonerated from the payment of the interest of the national debt would employ it more productively than those to whom indisputably it is due. By cancelling the national debt, one man's income might be raised from 1000*l.* to 1500*l.*, but another man's would be lowered from 1500*l.* to 1000*l.* These two men's income now amount to

2500*l.*, they would amount to no more then. If it be the object of Government to raise taxes, there would be precisely the same taxable capital and income in one case, as in the other. It is not then by the payment of the interest on the national debt that a country is distressed, nor is it by the exoneration from payment that it can be relieved. It is only by saving from income, and retrenching in expenditure, that the national capital can be increased; and neither the income would be increased, nor the expenditure diminished by the annihilation of the national debt. It is by the profuse expenditure of Government, and of individuals, and by loans, that a country is impoverished; every measure therefore which is calculated to promote public and private œconomy will relieve the public distress; but it is error and delusion, to suppose that a real national difficulty can be removed, by shifting it from the shoulders of one class of the community, who justly ought to bear it, to the shoulders of another class, who upon every principle of equity ought to bear no more than their share. From what I have said, it must not be inferred that I consider the system of borrowing as the best calcu-

lated to defray the extraordinary expenses of the state. It is a system which tends to make us less thrifty—to blind us to our real situation. If the expenses of a war be 40 millions per annum, and the share which a man would have to contribute towards that annual expense were 100*l.*, he would endeavour, on being at once called upon for his portion, to save speedily the 100*l.* from his income. By the system of loans he is called upon to pay only the interest of this 100*l.*, or 5*l.* per annum, and considers that he does enough by saving this 5*l.* from his expenditure, and then deludes himself with the belief that he is as rich as before. The whole nation, by reasoning and acting in this manner, save only the interest of 40 millions, or two millions; and thus, not only lose all the interest or profit which 40 millions of capital, employed productively, would afford, but also 38 millions, the difference between their savings and expenditure. If, as I before observed, each man had to make his own loan, and contribute his full proportion to the exigencies of the state, as soon as the war ceased, taxation would cease, and we should immediately fall into a natural state of prices. Out of his private funds, A might have to pay to B interest for the money he borrowed of him during the war, to enable him to pay his quota of the expense; but with this the nation would have no concern. A country which has accumulated a large debt is placed in a most artificial situation; and although the amount of taxes, and the increased price of labour, may not, and I believe does not, place it under any other disadvantage with respect to foreign countries, except the unavoidable one of paying those taxes, yet it becomes the interest of every contributor to withdraw his shoulder from the burthen, and to shift this payment from himself to another; and the temptation to remove himself and his capital to another country, where he will be exempted from such burthens, becomes at last irresistible, and overcomes the natural reluctance which every man feels to quit the place of his birth, and the scene of his early associations. A country which has involved itself in the difficulties attending this artificial system, would act wisely by ransoming itself from them, at the sacrifice of any portion of its property which might be necessary to redeem its debt. That which is wise in an individual, is

wise also in a nation. A man who has 10,000*l.*, paying him an income of 500*l.*, out of which he has to pay 100*l.* per annum towards the interest of the debt, is really worth only 8000*l.*, and would be equally rich, whether he continued to pay 100*l.* per annum, or at once, and for only once, sacrificed 2000*l.* But where, it is asked, would be the purchaser of the property which he must sell to obtain this 2000*l.*? the answer is plain: the national creditor, who is to receive this 2000*l.*, will want an investment for his money, and will be disposed either to lend it to the landholder, or manufacturer, or to purchase from them a part of the property of which they have to dispose. To such an effect the stockholders themselves would largely contribute. Such a scheme has been often recommended, but we have, I fear, neither wisdom enough, nor virtue enough, to adopt it. It must however be admitted, that during peace, our unceasing efforts should be directed towards paying off that part of the debt which has been contracted during war; and that no temptation of relief, no desire of escape from present, and I hope temporary distresses, should induce us to relax in our attention to that great object. No sinking fund can be efficient for the purpose of diminishing the debt, if it be not derived from the excess of the public revenue over the public expenditure. It is to be regretted, that the sinking fund in this country is only such in name; for there is no excess of revenue above expenditure. It ought by economy, to be made what it is professed to be, a really efficient fund for the payment of the debt. If on the breaking out of any future war, we shall not have very considerably reduced our debt, one of two things must happen, either the whole expenses of that war must be defrayed by taxes raised from year to year, or we must, at the end of that war, if not before, submit to a national bankruptcy; not that we shall be unable to bear any large additions to the debt; it would be difficult to set limits to the powers of a great nation; but assuredly there are limits to the price, which in the form of perpetual taxation, individuals will submit to pay for the privilege merely of living in their native country.

When a commodity is at a monopoly price, it is at the very highest price at which the consumers are willing to purchase it. Commodities are only at a monopoly price, when by no possible device their quantity can be augmented; and when therefore, the competition is wholly on one side—amongst the buyers. The monopoly price of one period may be much lower or higher than the monopoly price of another, because the competition amongst the purchasers must depend on their wealth, and their tastes and caprices. Those peculiar wines, which are produced in very limited quantity, and those works of art, which from their excellence or rarity, have acquired a fanciful value, will be exchanged for a very different quantity of the produce of ordinary labour, according as the society is rich or poor, as it possesses an abundance or scarcity of such produce, or as it may be in a rude or polished state. The exchangeable value therefore of a commodity which is at a monopoly price, is no where regulated by the cost of production.

Raw produce is not at a monopoly price, because the market price of barley and wheat is as much regulated by their cost of production, as the market price of cloth and linen. The only difference is this, that one portion of the capital employed in agriculture regulates the price of corn, namely, that portion which pays no rent; whereas, in the production of manufactured commodities, every portion of capital is employed with the same results; and as no portion pays rent, every portion is equally a regulator of price: corn, and other raw produce, can be augmented too in quantity, by the employment of more capital on the land, and therefore they are not at a monopoly price. There is competition among the sellers, as well as amongst the buyers. This is not the case in the production of those rare wines, and those valuable specimens of art, of which we have been speaking; their quantity cannot be increased, and their price is limited only by the extent of the power and will of the purchasers. The rent of these vineyards may be raised beyond any moderately assignable limits, because no other land being able to produce such wines, none can be brought into competition with them.

The corn and raw produce of a country, may indeed for a time sell at a monopoly price; but they can do so permanently only when

no more capital can be profitably employed on the lands, and when, therefore, their produce cannot be increased. At such time, every portion of land in cultivation, and every portion of capital employed on the land will yield a rent, differing indeed in proportion to the difference in the return. At such a time too, any tax which may be imposed on the farmer, will fall on rent, and not on the consumer. He cannot raise the price of his corn, because, by the supposition, it is already at the highest price at which the purchasers will or can buy it. He will not be satisfied with a lower rate of profits, than that obtained by other capitalists, and, therefore, his only alternative will be to obtain a reduction of rent, or to quit his employment.

Mr. Buchanan considers corn and raw produce as at a monopoly price, because they yield a rent: all commodities which yield a rent, he supposes must be at a monopoly price; and thence he infers, that all taxes on raw produce would fall on the landlord, and not on the consumer. "The price of corn," he says, "which always affords a rent, being in no respect influenced by the expenses of its production, those expenses must be paid out of the rent; and when they rise or fall, therefore, the consequence is not a higher or a lower price, but a higher or a lower rent. In this view, all taxes on farm servants, horses, or the implements of agriculture, are in reality land-taxes; the burden falling on the farmer during the currency of his lease, and on the landlord, when the lease comes to be renewed. In like manner all those improved implements of husbandry which save expense to the farmer, such as machines for threshing and reaping, whatever gives him easier access to the market, such as good roads, canals, and bridges, though they lessen the original cost of corn, do not lessen its market price. Whatever is saved by those improvements, therefore, belongs to the landlord as part of his rent."

It is evident that if we yield to Mr. Buchanan the basis on which his argument is built, namely, that the price of corn always yields a rent, all the consequences which he contends for would follow of course. Taxes on the farmer would then fall not on the consu-

mer but on rent; and all improvements in husbandry would increase rent: but I hope I have made it sufficiently clear, that until a country is cultivated in every part, and up to the highest degree, there is always a portion of capital employed on the land which yields no rent, and that it is this portion of capital, the result of which, as in manufactures, is divided between profits and wages, that regulates the price of corn. The price of corn then, which does not afford a rent, being influenced by the expenses of its production, those expenses cannot be paid out of rent. The consequence therefore of those expenses increasing, is a higher price, and not a lower rent.*

It is remarkable that both Adam Smith and Mr. Buchanan, who entirely agree that taxes on raw produce, a land-tax, and tithes, all fall

* "Manufacturing industry increases its produce in proportion to the demand, and the price falls; *but the produce of land cannot be so increased;* and a high price is still necessary to prevent the consumption from exceeding the supply." *Buchanan*, vol. iv. p. 40. Is it possible that Mr. Buchanan can seriously assert, that the produce of the land cannot be increased, if the demand increases?

on the rent of land, and not on the consumers of raw produce, should nevertheless admit that taxes on malt would fall on the consumer of beer, and not on the rent of the landlord. Adam Smith's argument is so able a statement of the view which I take of the subject of the tax on malt, and every other tax on raw produce, that I cannot refrain from offering it to the attention of the reader.

"The rent and profits of barley land must always be nearly equal to those of other equally fertile, and equally well cultivated land. If they were less, some part of the barley land would soon be turned to some other purpose; and if they were greater, more land would soon be turned to the raising of barley. When the ordinary price of any particular produce of land is at what may be called a monopoly price, a tax upon it necessarily reduces the rent and profit* of

* I wish the word "Profit" had been omitted. Dr. Smith must suppose the profits of the tenants of these precious vineyards to be above the general rate of profits. If they were not, they would not pay the tax, unless they could shift it either to the landlord or consumer.

the land which grows it. A tax upon the produce of those precious vineyards, of which the wine falls so much short of the effectual demand, that its price is always above the natural proportion to that of other equally fertile, and equally well cultivated land, would necessarily reduce the rent and profit* of those vineyards. The price of the wines being already the highest that could be got for the quantity commonly sent to market, it could not be raised higher without diminishing that quantity; and the quantity could not be diminished without still greater loss, because the lands could not be turned to any other equally valuable produce. The whole weight of the tax, therefore, would fall upon the rent and profit;* properly upon the *rent* of the vineyard." "But the ordinary price of barley has never been a monopoly price; and the rent and profit of barley land have never been above their natural proportion to those of other equally fertile and equally well cultivated land. The different taxes which have been imposed upon malt, beer, and ale, *have never lowered the price of barley;*

* See note, p. 346.

have never reduced the rent and profit* of barley land. The price of malt to the brewer has constantly risen in proportion to the taxes imposed upon it; and those taxes, together with the different duties upon beer and ale, have constantly either raised the price, or, what comes to the same thing, reduced the quality of those commodities to the consumer. The final payment of those taxes has fallen constantly upon the consumer, and not upon the producer." On this passage Mr. Buchanan remarks, "A duty on malt never could reduce the price of barley, because, unless as much could be made of barley by malting it as by selling it unmalted, the quantity required would not be brought to market. It is clear, therefore, that the price of malt must rise in proportion to the tax imposed on it, as the demand could not otherwise be supplied. The price of barley, however, is just as much a monopoly price as that of sugar; they both yield a rent, and the market price of both has equally lost all connexion with the original cost."

* See note, p. 346.

It appears then to be the opinion of Mr. Buchanan, that a tax on malt would raise the price of malt, but that a tax on the barley from which malt is made, would not raise the price of barley; and therefore, if malt is taxed, the tax will be paid by the consumer; if barley is taxed, it will be paid by the landlord, as he will receive a diminished rent. According to Mr. Buchanan then, barley is at a monopoly price, at the highest price which the purchasers are willing to give for it; but malt made of barley is not at a monopoly price, and consequently it can be raised in proportion to the taxes that may be imposed upon it. This opinion of Mr. Buchanan of the effects of a tax on malt appears to me to be in direct contradiction to the opinion he has given of a similar tax, a tax on bread. "A tax on bread will be ultimately paid, not by a rise of price, but by a reduction of rent."* If a tax on malt would raise the price of beer, a tax on bread must raise the price of bread.

The following argument of M. Say is foun-

* Vol. iii. p. 355.

ded on the same views as Mr. Buchanan's: "The quantity of wine or corn which a piece of land will produce, will remain nearly the same, whatever may be the tax with which it is charged. The tax may take away a half, or even three fourths of its net produce, or of its rent if you please, yet the land would nevertheless be cultivated for the half or the quarter not absorbed by the tax. The rent, that is to say the landlord's share, would merely be somewhat lower. The reason of this will be perceived, if we consider, that in the case supposed, the quantity of produce obtained from the land, and sent to market, will remain nevertheless the same. On the other hand the motives on which the demand for the produce is founded continue also the same.

"Now, if the quantity of produce supplied, and the quantity demanded, necessarily continue the same, notwithstanding the establishment or the increase of the tax, the price of that produce will not vary; and if the price do not vary, the consumer will not pay the smallest portion of this tax.

"Will it be said that the farmer, he who furnishes labour and capital, will, jointly with the landlord, bear the burden of this tax? certainly not; because the circumstance of the tax has not diminished the number of farms to be let, nor increased the number of farmers. Since in this instance also the supply and demand remain the same, the rent of farms must also remain the same. The example of the manufacturer of salt, who can only make the consumers pay a portion of the tax, and that of the landlord who cannot reimburse himself in the smallest degree, prove the error of those who maintain, in opposition to the economists, that all taxes fall ultimately on the consumer."—Vol. ii. p. 338.

If the tax "took away half, or even three-fourths of the net produce of the land," and the price of produce did not rise, how could those farmers obtain the usual profits of stock who paid very moderate rents, having that quality of land which required a much larger proportion of labour to obtain a given result, than land of a more fertile quality? If the whole rent were remitted, they would still obtain lower profits than those in other trades, and would therefore not continue to cultivate their land, unless they could raise the price of its produce. If the tax fell on the farmers, there would be fewer farmers disposed to hire farms; if it fell on the landlord, many farms would not be let at all, for they would afford no rent. But from what fund would those pay the tax who produce corn without paying any rent? It is quite clear that the tax must fall on the consumer. How would such land, as M. Say describes in the following passage, pay a tax of one-half or three-fourths of its produce?

We see in Scotland poor lands thus cultivated by the proprietor, and which could be cultivated by no other person. Thus too we see in the interior provinces of the United States vast and fertile lands, the revenue of which alone would not be sufficient for the maintenance of the proprietor. These lands are cultivated nevertheless, but it must be by the proprietor himself, or, in other words, he must add to the rent, which is little or nothing, the profits of his capital and industry, to enable him to live in competence. It

is well known that land, though cultivated, yields no revenue to the landlord when no farmer will be willing to pay a rent for it: which is a proof that such land will give only the profits of the capital and of the industry necessary for its cultivation."—*Say*, Vol. ii. p. 127.

CHAPTER XVI.

POOR RATES.

We have seen that taxes on raw produce, and on the profits of the farmer, will fall on the consumer of raw produce; since unless he had the power of remunerating himself by an increase of price, the tax would reduce his profits below the general level of profits, and would urge him to remove his capital to some other trade. We have seen too that he could not, by deducting it from his rent, transfer the tax to his landlord; because that farmer who paid no rent, would, equally with the cultivator of better land, be subject to the tax, whether it were laid on raw produce, or on the profits of the farmer. I have also attempted to shew, that if a tax were general, and affected equally all profits, whether manufacturing or agricultural, it would not

operate either on the price of goods or raw produce, but would be immediately, as well as ultimately, paid by the producers. A tax on rent, it has been observed, would fall on the landlord only, and could not by any means be made to devolve on the tenant.

The poor rate is a tax which partakes of the nature of all these taxes, and under different circumstances falls on the consumer of raw produce and goods, on the profits of stock, and on the rent of land. It is a tax which falls with peculiar weight on the profits of the farmer, and therefore may be considered as affecting the price of raw produce. According to the degree in which it bears on manufacturing and agricultural profits equally, it will be a general tax on the profits of stock, and will occasion no alteration in the price of raw produce and manufactures. In proportion to the farmer's inability to remunerate himself, by raising the price of raw produce, for that portion of the tax which peculiarly affects him, it will be a tax on rent, and will be paid by the landlord. To know then the operation of the poor rate at any particular time, we must ascertain whether at that time it affects in an equal or unequal degree the profits of the farmer and manufacturer; and also whether the circumstances be such as to afford to the farmer the power of raising the price of raw produce.

The poor rates are professed to be levied on the farmer in proportion to his rent; and accordingly, the farmer who paid a very small rent, or no rent at all, should pay little or no tax. If this were true, poor rates, as far as they are paid by the agricultural class, would entirely fall on the landlord, and could not be shifted to the consumer of raw produce. But I believe that is not true; the poor rate is not levied according to the rent which a farmer actually pays to his landlord; it is proportioned to the annual value of his land, whether that annual value be given to it by the capital of the landlord or of the tenant.

If two farmers rented land of two different qualities in the same parish, the one paying a rent of 100*l.* per annum for 50 acres of the most fertile land, and the other the same sum of 100*l.* for 1000 acres of the least fertile land, they would pay the same amount of poor

rates, if neither of them attempted to improve the land; but if the farmer of the poor land, presuming on a very long lease, should be induced at a great expense to improve the productive powers of his land, by manuring, draining, fencing, &c., he would contribute to the poor rates, not in proportion to the actual rent paid to the landlord, but to the actual annual value of the land. The rate might equal or exceed the rent; but whether it did or not, no part of this rate would be paid by the landlord. It would have been previously calculated upon by the tenant; and if the price of produce were not sufficient to compensate him for all his expenses, together with this additional charge for poor rates, his improvements would not have been undertaken. It is evident then that the tax in this case is paid by the consumer; for if there had been no rate, the same improvements would have been undertaken, and the usual and general rate of profits would have been obtained on the stock employed, with a lower price of corn.

Nor would it make the slightest difference in this question, if the landlord had made these improvements himself, and had in consequence raised his rent from 100*l.* to 500*l.*; the rate would be equally charged to the consumer; for whether he should expend a large sum of money on his land, would depend on the rent, or what is called rent, which he would receive as a remuneration for it; and this again would depend on the price of corn, or other raw produce, being sufficiently high not only to cover this additional rent, but also the rate to which the land would be subject. But if at the same time all manufacturing capital contributed to the poor rates, in the same proportion as the capital expended by the farmer or landlord in improving the land, then it would no longer be a partial tax on the profits of the farmer's or landlord's capital, but a tax on the capital of all producers; and therefore it could no longer be shifted either on the consumer of raw produce or on the landlord. The farmer's profits would feel the effect of the rate no more than those of the manufacturer; and the former could not, any more than the latter, plead it as a reason for an advance in the price of his commodity. It is not the absolute, but the relative fall of profits, which prevents capital from being employed in any particular trade: it is the difference of profit which sends capital from one employment to another.

It must be acknowledged however, that in the actual state of the poor rates, a much larger amount falls on the farmer than on the manufacturer, in proportion to their respective profits; the farmer being rated according to the actual productions which he obtains, the manufacturer only according to the value of the buildings in which he works, without any regard to the value of the machinery, labour, or stock, which he may employ. From this circumstance it follows, that the farmer will be enabled to raise the price of his produce by this whole difference. For since the tax falls unequally, and peculiarly on his profits, he would have less motive to devote his capital to the land, than to employ it in some other trade, unless the price of raw produce were raised. If on the contrary, the rate had fallen with greater weight on the manufacturer than on the farmer, he would have been enabled to raise the price of his goods by the amount of the difference, for the same reason that the farmer, under similar circumstances, could raise the price of raw produce. In a society therefore, which is extending its agriculture, when poor rates fall with peculiar weight on the land, they will be paid partly by the employers of capital in a diminution of the profits of stock, and partly by the consumer of raw produce in its increased price. In such a state of things, the tax may, under some circumstances, be even advantageous rather than injurious to landlords; for if the tax paid by the cultivator of the worst land, be higher in proportion to the quantity of produce obtained, than that paid by the farmers of the more fertile lands, the rise in the price of corn, which will extend to all corn, will more than compensate the latter for the tax. This advantage will remain with them during the continuance of their leases, but it will afterwards be transferred to their landlords. This then would be the effect of poor rates in an advancing society; but in a stationary, or in a retrograde country, so far as capital could not be withdrawn from the land, if a further rate were levied for the support of the poor, that part of it which fell on agriculture would be paid, during the current leases, by the farmers,

but at the expiration of those leases it would almost wholly fall on the landlords. The farmer, who during his former lease, had expended his capital in improving his land, if it were still in his own hands, would be rated for this new tax according to the new value which the land had acquired by its improvement, and this amount he would be obliged to pay during his lease, although his profits might thereby be reduced below the general rate of profits; for the capital which he has expended may be so incorporated with the land, that it cannot be removed from it. If indeed he, or his landlord, (should it have been expended by him) were able to remove this capital, and thereby reduce the annual value of the land, the rate would proportionably fall, and as the produce would at the same time be diminished, its price would rise; he would be compensated for the tax, by charging it to the consumer, and no part would fall on rent; but this is impossible, at least with respect to some proportion of the capital, and consequently in that proportion the tax will be paid by the farmers during their leases, and by landlords at their expiration. This additional tax, as far as it fell unequally on manufacturers, would under such circumstances be added to the price of their goods; for there can be no reason why their profits should be reduced below the general rate of profits, when their capitals might be easily removed to agriculture.*

* In a former part of this work, I have noticed the difference between rent, properly so called, and the remuneration paid to the landlord under that name, for the advantages which the expenditure of his capital has procured to his tenant; but I did not perhaps sufficiently distinguish the difference which would arise from the different modes in which this capital might be applied. As a part of this capital, when once expended in the improvement of a farm, is inseparably amalgamated with the land, and tends to increase its productive powers, the remuneration paid to the landlord for its use is strictly of the nature of rent, and is subject to all the laws of rent. Whether the improvement be made at the expense of the landlord or the tenant, it will not be undertaken in the first instance, unless there is a strong probability that the return will at least be equal to the profit that can be made by the disposition of any other equal capital; but when once made, the return obtained will ever after be wholly of the nature of rent, and will be subject to all the variations of rent. Some of these expenses however, only give advantages to the land for a limited period, and do not add permanently to its productive powers: being bestowed on buildings, and other perishable improvements, they require to be constantly renewed, and therefore do not obtain for the landlord any permanent addition to his real rent.

CHAPTER XVII.

ON SUDDEN CHANGES IN THE CHANNELS OF TRADE.

A GREAT manufacturing country is peculiarly exposed to temporary reverses and contingencies, produced by the removal of capital from one employment to another. The demands for the produce of agriculture are uniform, they are not under the influence of fashion, prejudice, or caprice. To sustain life, food is necessary, and the demand for food must continue in all ages, and in all countries. It is different with manufactures; the demand for any particular manufactured commodity, is subject not only to the wants, but to the tastes and caprice of the purchasers. A new tax too may destroy the comparative advantage which a country before possessed in the manufacture of a particular commodity; or the effects of war may so raise the freight and insurance on its conveyance, that it can no longer enter into competition with the home manufacture of the country to which it was before exported. In all such cases, considerable distress, and no doubt some loss, will be experienced by those who are engaged in the manufacture of such commodities; and it will be felt not only at the time of the change, but through the whole interval during which they are removing their capitals, and the labour which they can command, from one employment to another.

Nor will distress be experienced in that country alone where such difficulties originate, but in the countries to which its commodities were before exported. No country can long import unless it also exports, or can long export unless it also imports. If then any circumstance should occur, which should permanently prevent a country from importing the usual amount of foreign commodities, it will necessarily diminish the manufacture of some of those commodities which were usually exported; and although the total value of the productions of the country will

probably be but little altered, since the same capital will be employed, yet they will not be equally abundant and cheap; and considerable distress will be experienced through the change of employments. If by the employment of 10,000*l.* in the manufacture of cotton goods for exportation, we imported annually 3000 pair of silk stockings of the value of 2000*l.*, and by the interruption of foreign trade we should be obliged to withdraw this capital from the manufacture of cotton, and employ it ourselves in the manufacture of stockings, we should still obtain stockings of the value of 2000*l.* provided no part of the capital were destroyed; but instead of having 3000 pair, we might only have 2,500. In the removal of the capital from the cotton to the stocking trade, much distress might be experienced, but it would not considerably impair the value of the national property, although it might lessen the quantity of our annual productions.

The commencement of war after a long peace, or of peace after a long war, generally produces considerable distress in trade. It changes in a great degree the nature of the employments to which the respective capitals of countries were before devoted; and during the interval while they are settling in the situations which new circumstances have made the most beneficial, much fixed capital is unemployed, perhaps wholly lost, and labourers are without full employment. The duration of this distress will be longer or shorter according to the strength of that disinclination, which most men feel to abandon that employment of their capital to which they have long been accustomed. It is often protracted too by the restrictions and prohibitions, to which the absurd jealousies which prevail between the different states of the commercial commonwealth give rise.

The distress which proceeds from a revulsion of trade, is often mistaken for that which accompanies a diminution of the national capital, and a retrograde state of society; and it would perhaps be difficult to point out any marks by which they may be accurately distinguished.

When, however, such distress immediately accompanies a change from war to peace,

our knowledge of the existence of such a cause will make it reasonable to believe, that the funds for the maintenance of labour have rather been diverted from their usual channel than materially impaired, and that after temporary suffering, the nation will again advance in prosperity. It must be remembered too that the retrograde condition is always an unnatural state of society. Man from youth grows to manhood, then decays, and dies; but this is not the progress of nations. When arrived to a state of the greatest vigour, their further advance may indeed be arrested, but their natural tendency is to continue for ages, to sustain undiminished their wealth, and their population.

In rich and powerful countries where large capitals are invested in machinery, more distress will be experienced from a revulsion in trade, than in poorer countries where there is proportionally a much smaller amount of fixed, and a much larger amount of circulating capital, and where consequently more work is done by the labour of men. It is not so difficult to withdraw a circulating as a fixed capital, from any employment in which it may be engaged. It is often impossible to divert the machinery which may have been erected for one manufacture, to the purposes of another; but the clothing, the food, and the lodging of the labourer in one employment may be devoted to the support of the labourer in another, or the same labourer may receive the same food, clothing, and lodging, whilst his employment is changed. This, however, is an evil to which a rich nation must submit; and it would not be more reasonable to complain of it, than it would be in a rich merchant to lament that his ship was exposed to the dangers of the sea, whilst his poor neighbour's cottage was safe from all such hazard.

From contingencies of this kind, though in an inferior degree, even agriculture is not exempted. War, which in a commercial country, interrupts the commerce of states, frequently prevents the exportation of corn from countries where it can be produced with little cost, to others not so favourably situated. Under such circumstances an unusual quantity of capital is drawn to agriculture, and the country which before imported be-

comes independent of foreign aid. At the termination of the war, the obstacles to importation are removed, and a competition destructive to the home-grower commences, from which he is unable to withdraw, without the sacrifice of a great part of his capital. The best policy of the state would be, to lay a tax, decreasing in amount from time to time, on the importation of foreign corn, for a limited number of years, in order to afford to the home-grower an opportunity to withdraw his capital gradually from the land. In so doing the country might not be making the most advantageous distribution of its capital, but the temporary tax to which it was subjected, would be for the advantage of a particular class, the distribution of whose capital was highly useful in procuring a supply of food when importation was stopped. If such exertions in a period of emergency were followed by risk of ruin on the termination of the difficulty, capital would shun such an employment. Besides the usual profits of stock, farmers would expect to be compensated for the risk which they incurred of a sudden influx of corn, and therefore the price to the consumer, at the seasons when he most required a supply, would be enhanced, not only by the superior cost of growing corn at home, but also by the insurance which he would have to pay, in the the price, for the peculiar risk to which this employment of capital was exposed. Notwithstanding then, that it would be more productive of wealth to the country, at whatever sacrifice of capital it might be done, to allow the importation of cheap corn, it would perhaps be advisable to charge it with a duty for a few years.

In examining the question of rent, we found, that with every increase in the supply of corn, and with the consequent fall of its price, capital would be withdrawn from the poorer land; and land of a better description, which would then pay no rent, would become the standard by which the natural price of corn would be regulated. At *4l.* per quarter, land of an inferior quality, which may be designated by No. 6, might be cultivated; at *3l.* 10*s.* No. 5; at *3l.* No. 4, and so on. If corn, in consequence of permanent abundance, fell to

3l. 10*s.* the capital employed on No. 6 would cease to be employed; for it was only when corn was at *4l.* that it could obtain the general profits, even without paying rent: it would therefore be withdrawn to manufacture those commodities with which all the corn grown on No. 6 would be purchased and imported. In this employment it would necessarily be more productive to its owner, or it would not be withdrawn from the other; for if he could obtain more corn by growing it on land for which he paid no rent, than by manufacturing a commodity with which he purchased it, its price could not be under *4l.*

It has, however, been said that capital cannot be withdrawn from the land; that it takes the form of expenses, which cannot be recovered, such as manuring, fencing, draining, &c., which are necessarily inseparable from the land. This is in some degree true; but that capital which consists of cattle, sheep, hay and corn ricks, carts, &c. may be withdrawn; and it always becomes a matter of calculation whether these shall continue to be employed on the land, notwithstanding the low price of corn, or whether they shall be sold, and their value transferred to another employment.

Suppose, however, the fact to be as stated, and that no part of the capital could be withdrawn; the farmer would continue to raise corn, and precisely the same quantity too, at whatever price it might sell; for it could not be his interest to produce less, and if he did not so employ his capital, he would obtain from it no return whatever. Corn could not be imported, because he would sell it lower than 3*l.*10*s.* rather than not sell it at all; and by the supposition the importer could not sell it under that price. Although then the farmers, who cultivated land of this quality, would undoubtedly be injured by the fall in the exchangeable value of the commodity which they produced,—how would the country be affected? We should have precisely the same quantity of every commodity produced, but raw produce and corn would sell at a much cheaper price. The capital of a country consists of its commodities, and as these would be the same as before, reproduction would go on at the same rate. This low price of corn would however

only afford the usual profits of stock to the land, No. 5, which would then pay no rent, and the rent of all better land would fall: wages would also fall, and profits would rise.

However low the price of corn might fall; if capital could not be removed from the land, and the demand did not increase, no importation would take place; for the same quantity as before would be produced at home. Although there would be a different division of the produce, and some classes would be benefited, and others injured, the aggregate of production would be precisely the same, and the nation collectively would neither be richer nor poorer.

But there is this advantage always resulting from a relatively low price of corn,—that the division of the actual production is more likely to increase the fund for the maintenance of labour, inasmuch as more will be allotted, under the name of profit, to the productive class, a less, under the name of rent, to the unproductive class.

This is true, even if the capital cannot be withdrawn from the land, and must be employed there, or not be employed at all: but if great part of the capital could be withdrawn, as it evidently could, it will be only withdrawn, when it will yield more to the owner by being withdrawn than by being suffered to remain where it was; it will only be withdrawn then, when it can elsewhere be employed more productively both for the owner and the public. He consents to sink that part of his capital which cannot be separated from the land, because with that part which he can take away, he can obtain a greater value, and a greater quantity of raw produce, than by not sinking this part of the capital. His case is precisely similar to that of a man who has erected machinery in his manufactory at a great expense, machinery which is afterwards so much improved upon by more modern inventions, that the commodities manufactured by him very much sink in value. It would be entirely a matter of calculation with him whether he should abandon the old machinery, and erect the more perfect, *losing all the value of the old,* or continue to avail himself of its comparatively feeble powers. Who,

under such circumstances, would exhort him to forego the use of the better machinery, because it would deteriorate or annihilate the value of the old? Yet this is the argument of those who would wish us to prohibit the importation of corn, because it will deteriorate or annihilate that part of the capital of the farmer which is for ever sunk in land. They do not see that the end of all commerce is to increase production, and that by increasing production, though you may occasion partial loss, you increase the general happiness. To be consistent, they should endeavour to arrest all improvements in agriculture and manufactures, and all inventions of machinery; for though these contribute to general abundance, and therefore to the general happiness, they never fail, at the moment of their introduction, to deteriorate or annihilate a part of the existing capital of farmers and manufacturers.

Agriculture like all other trades, and particularly in a commercial country, is subject to a re-action, which, in an opposite direction, succeeds the action of a strong stimulus. Thus, when war interrupts the importation of corn, its consequent high price attracts capital to the land, from the large profits which such an employment of it affords; this will probably cause more capital to be employed, and more raw produce to be brought to market than the demands of the country require. In such case, the price of corn will fall from the effects of a glut, and much agricultural distress will be produced, till the average supply is brought to a level with the average demand.

CHAPTER XVIII.

VALUE AND RICHES, THEIR DISTINCTIVE PROPERTIES.

"A MAN is rich or poor," says Adam Smith, "according to the degree in which he can afford to enjoy the necessaries, conveniences, and amusements of human life."

Value then essentially differs from riches, for value depends not on abundance, but on the difficulty or facility of production. The labour of a million of men in manufactures, will always produce the same value, but will not always produce the same riches. By the invention of machinery, by improvements in skill, by a better division of labour, or by the discovery of new markets, where more advantageous exchanges may be made, a million of men may produce double, or treble the amount of riches, of "necessaries, conveniences, and amusements," in one state of society, that they could produce in another, but they will not on that account add any thing to value; for every thing rises or falls in value, in proportion to the facility or difficulty of producing it, or in other words, in proportion to the quantity of labour employed on its production. Suppose with a given capital, the labour of a certain number of men produced 1000 pair of stockings, and that by inventions in machinery, the same number of men can produce 2000 pair, or that they can continue to produce 1000 pair, and can produce besides 500 hats; then the value of the 2000 pair of stockings; or of the 1000 pair of stockings, and 500 hats, will be neither more nor less than that of the 1000 pair of stockings before the introduction of machinery; for they will be the produce of the same quantity of labour. But the value of the general mass of commodities will nevertheless be diminished; for although the value of the increased quantity produced in consequence of the improvement will be the same exactly as the value would have been of the less quantity that would have been produced,

had no improvement taken place, an effect is also produced on the portion of goods still unconsumed, which were manufactured previously to the improvement; the value of those goods will be reduced, inasmuch as they must fall to the level, quantity for quantity, of the goods produced under all the advantages of the improvement: and the society will, notwithstanding the increased quantity of its commodities, notwithstanding its augmented riches, and its augmented means of enjoyment, have a less amount of value. By constantly increasing the facility of production, we constantly diminish the value of some of the commodities before produced, though by the same means we not only add to the national riches, but also to the power of future production. Many of the errors in political economy have arisen from errors on this subject, from considering an increase of riches, and an increase of value, as meaning the same thing, and from unfounded notions as to what constituted a standard measure of value. One man considers money as a standard of value, and a nation grows richer or poorer, according to him, in proportion as its commodities of all kinds can exchange for more or less money. Others represent money as a very convenient medium for the purpose of barter, but not as a proper measure by which to estimate the value of other things: the real measure of value according to them is corn,* and a country is rich or poor, according as its commodities will exchange for more or less corn. There are others again, who consider a country rich or poor, according to the quantity of labour that it can purchase.† But why should gold, or corn, or labour, be the standard measure of value, more than coals or iron?—more than cloth, soap, candles, and the other necessaries of the labourer?—why, in short, should

* Adam Smith says, "that the difference between the real and the nominal price of commodities and labour, is not a matter of mere speculation, but may sometimes be of considerable use in practice." I agree with him; but the real price of labour and commodities, is no more to be ascertained by their price in goods, Adam Smith's real measure, than by their price in gold and silver, his nominal measure. The labourer is only paid a really high price for his labour, when his wages will purchase the produce of a great deal of labour.

† In vol. i. p. 108, M. Say infers, that silver is now of the same value, as in the reign of Louis XIV. "because the same quantity of silver will buy the same quantity of corn."

any commodity, or all commodities together, be the standard, when such a standard is itself subject to fluctuations in value? Corn, as well as gold, may from difficulty or facility of production, vary 10, 20, or 30 per cent., relatively to other things; why should we always say, that it is those other things which have varied, and not the corn? That commodity is alone invariable, which at all times requires the same sacrifice of toil and labour to produce it. Of such a commodity we have no knowledge, but we may hypothetically argue and speak about it, as if we had; and may improve our knowledge of the science, by shewing distinctly the absolute inapplicability of all the standards which have been hitherto adopted. But supposing either of these to be a correct standard of value, still it would not be a standard of riches, for riches do not depend on value. A man is rich or poor, according to the abundance of necessaries and luxuries, which he can command; and whether the exchangeable value of these for money, for corn, or for labour, be high or low, they will equally contribute to the enjoyment of their possessor. It is through confounding the ideas of value and wealth, or riches, that it has been asserted, that by diminishing the quantity of commodities, that is to say, of the necessaries, conveniences, and enjoyments of human life, riches may be increased. If value were the measure of riches this could not be denied, because by scarcity the value of commodities is raised; but if Adam Smith be correct, if riches consist in necessaries and enjoyments, then they cannot be increased by a diminution of quantity.

It is true, that the man in possession of a scarce commodity is richer, if by means of it he can command more of the necessaries and enjoyments of human life; but as the general stock out of which each man's riches are drawn, is diminished in quantity, by all that any individual takes from it, other men's shares must necessarily be reduced in proportion as this favoured individual is able to appropriate a greater quantity to himself.

Let water become scarce, says Lord Lauderdale, and be exclusively possessed by an individual, and you will increase his riches, because water will then have value; and if wealth be the aggregate of individual riches,

you will by the same means also increase wealth. You undoubtedly will increase the riches of this individual, but inasmuch as the farmer must sell a part of his corn, the shoemaker a part of his shoes, and all men give up a portion of their possessions for the sole purpose of supplying themselves with water, which they before had for nothing, they are poorer by the whole quantity of commodities which they are obliged to devote to this purpose, and the proprietor of water is benefited precisely by the amount of their loss. The same quantity of water, and the same quantity of commodities, are enjoyed by the whole society, but they are differently distributed. This is however supposing rather a monopoly of water than a scarcity of it. If it should be scarce, then the riches of the country and of individuals would be actually diminished, inasmuch as it would be deprived of a portion of one of its enjoyments. The farmer would not only have less corn to exchange for the other commodities which might be necessary or desirable to him, but he and every other individual would be abridged in the enjoyment of one of the most essential of their comforts. Not only would there be a different distribution of riches, but an actual loss of wealth.

It may be said then of two countries possessing precisely the same quantity of all the necessaries and comforts of life, that they are equally rich, but the value of their respective riches would depend on the comparative facility or difficulty with which they were produced. For if an improved piece of machinery should enable us to make two pair of stockings, instead of one, without additional labour, double the quantity would be given in exchange for a yard of cloth. If a similar improvement be made in the manufacture of cloth, stockings and cloth will exchange in the same proportions as before, but they will both have fallen in value; for in exchanging them for hats, for gold, or other commodities in general, twice the former quantity must be given. Extend the improvement to the production of gold, and every other commodity; and they will all regain their former proportions. There will be double the quantity of commodities annually produced in the coun-

try, and therefore the wealth of the country will be doubled, but this wealth will not have increased in value.

Although Adam Smith has given the correct description of riches, which I have more than once noticed, he afterwards explains them differently, and says, " that a man must be rich or poor according to the quantity of labour which he can afford to purchase." Now this description differs essentially from the other, and is certainly incorrect; for suppose the mines were to become more productive, so that gold and silver fell in value, from the greater facility of their production; or that velvets were to be manufactured with so much less labour than before, that they fell to half their former value; the riches of all those who purchased those commodities would be increased: one man might increase the quantity of his plate, another might buy double the quantity of velvet; but with the possession of this additional plate, and velvet, they could employ no more labour than before; because as the exchangeable value of velvet and of plate would be lowered, they must part with proportionally more of these species of riches to purchase a day's labour. Riches then cannot be estimated by the quantity of labour which they can purchase.

From what has been said, it will be seen that the wealth of a country may be increased in two ways: it may be increased by employing a greater portion of revenue in the maintenance of productive labour,—which will not only add to the quantity, but to the value of the mass of commodities; or it may be increased, without employing any additional quantity of labour, by making the same quantity more productive,—which will add to the abundance, but not to the value of commodities.

In the first case, a country would not only become rich, but the value of its riches would increase. It would become rich by parsimony; by diminishing its expenditure on objects of luxury and enjoyment; and employing those savings in reproduction.

In the second case, there will not necessarily be either any diminished expenditure on luxuries and enjoyments, or any increased quantity of productive labour employed; but with the same labour more would be produced; wealth would increase, but not value. Of these two modes of increasing wealth, the last must be preferred, since it produces the same effect without the privation and diminution of enjoyments, which can never fail to accompany the first mode. Capital is that part of the wealth of a country which is employed with a view to future production, and may be increased in the same manner as wealth. An additional capital will be equally efficacious in the production of future wealth, whether it be obtained from improvements in skill and machinery, or from using more revenue reproductively; for wealth always depends on the quantity of commodities produced, without any regard to the facility with which the instruments employed in production may have been procured. A certain quantity of clothes and provisions will maintain and employ the same number of men, and will therefore procure the same quantity of work to be done, whether they be produced by the labour of 100 or of 200 men; but they will be of twice the value if 200 have been employed on their production.

M. Say appears to me to have been singularly unfortunate in his definition of riches and value in the first chapter of his excellent work: the following is the substance of his reasoning: riches, he observes, consist only of things which have a value in themselves: riches are great, when the sum of the values of which they are composed is great. They are small when the sum of their values is small. Two things having an equal value, are riches of equal amount. They are of equal value, when by general consent they are freely exchanged for each other. Now, if mankind attach value to a thing, it is on account of the *uses* to which it is applicable. This faculty, which certain things have, of satisfying the various wants of mankind, I call utility. To create objects that have a value of any kind is to create riches, since the utility of things is the first foundation of their value, and it is the value of things which constitutes riches. But we do not create

objects: all we can do is to reproduce matter under another form—we can give it utility. Production then is a creation, not of matter but of utility, and it is measured by the value arising from the utility of the object produced. The utility of any object, according to general estimation, is pointed out by the quantity of other commodities for which it will exchange. This valuation, arising from the general estimate formed by society, constitutes what Adam Smith calls value in exchange; what Turgot calls appreciable value; and what we may more briefly designate by the term *value.*

Thus far M. Say, but in his account of value and riches he has confounded two things which ought always to be kept separate, and which are called by Adam Smith, value in use and value in exchange. If by an improved machine I can, with the same quantity of labour, make two pair of stockings instead of one, I in no way impair the *utility* of one pair of stockings, though I diminish their value. If then I had precisely the same quantity of coats, shoes, stockings, and all other things, as before, I should have precisely the same quantity of useful objects, and should therefore be equally rich, if utility were the measure of riches; but I should have a less amount of value, for my stockings would be of only half their former value. Utility then is not the measure of exchangeable value.

If we ask M. Say in what riches consist, he tells us in the possession of objects having value. If we then ask him what he means by value, he tells us that things are valuable in proportion as they possess utility. If again we ask him to explain to us by what means we are to judge of the utility of objects, he answers, by their value. Thus then the measure of value is utility, and the measure of utility is value.

M. Say, in speaking of the excellences and imperfections of the great work of Adam Smith, imputes to him, as an error, that "he attributes to the labour of man alone the power of producing value. A more correct analysis shews us that value is owing to the action of labour, or rather the industry of man, combined with the action of those agents which nature supplies, and with that of capi-

tal. His ignorance of this principle prevented him from establishing the true theory of the influence of machinery in the production of riches."

In contradiction to the opinion of Adam Smith, M. Say, in the fourth chapter, speaks of the value which is given to commodities by natural agents, such as the sun, the air, the pressure of the atmosphere &c., which are sometimes substituted for the labour of man, and sometimes concur with him in producing.*

---

* "The first man who knew how to soften metals by fire, is not the creator of the value which that process adds to the melted metal. That value is the result of the physical action of fire added to the industry and capital of those who availed themselves of this knowledge."

"From this error Smith has drawn this false result, that the value of all productions represents the recent or former labour of man, *or in other words, that riches are nothing else but accumulated labour; from which, by a second consequence, equally false, labour is the sole measure of riches, or of the value of productions.*"* The inferences with which M. Say concludes are his own, and not Dr. Smith's; they are correct if no distinction be made between value and riches: but though Adam Smith, who defined riches to consist in the abundance of necessaries, conveniences, and enjoyments of human life, would

* Chap. iv. p. 31.

But these natural agents, though they add greatly to *value in use*, never add exchangeable value, of which M. Say is speaking, to a commodity: as soon as by the aid of machinery, or by the knowledge of natural philosophy, you oblige natural agents to do the work which was before done by man, the exchangeable value of such work falls accordingly. If ten men turned a corn mill, and it be discovered that by the assistance of wind, or of water, the labour of these ten men may be spared, the flour, which is the produce of the work performed by the mill, would immediately fall in value, in proportion to the quantity of labour saved; and the society would be richer by the commodities which the labour of the ten men could produce, the funds destined for their maintenance being in no degree impaired.

M. Say accuses Dr. Smith of having overlooked the value which is given to commodities by natural agents, and by machinery, be-

have allowed that machines and natural agents might very greatly add to the riches of a country, he would not have allowed that they add any thing to value in exchange.

cause he considered that the value of all things was derived from the labour of man; but it does not appear to me, that this charge is made out; for Adam Smith no where undervalues the services which these natural agents and machinery perform for us, but he very justly distinguishes the nature of the value which they add to commodities—they are serviceable to us, by increasing the abundance of productions, by making men richer, by adding to value in use; but as they perform their work gratuitously, as nothing is paid for the use of air, of heat, and of water, the assistance which they afford us, adds nothing to value in exchange. In the first chapter of the second book, M. Say himself gives a similar statement of value, for he says that "utility is the foundation of value, that commodities are only desirable, because they are in some way useful, but that their value depends not on their utility, not on the degree in which they are desired, but on the quantity of labour necessary to procure them." "The utility of a commodity thus understood, makes it an object of man's desire, makes him wish for it, and establishes a demand for it. When to obtain a thing, it is sufficient to desire it, it may be considered as an article of natural wealth, given to man in an unlimited quantity, and which he enjoys, without purchasing it by any sacrifice; such are the air, water, the light of the sun. If he obtained in this manner all the objects of his wants and desires, he would be infinitely rich: he would be in want of nothing. But unfortunately this is not the case; the greater part of the things which are convenient and agreeable to him, as well as those which are indispensably necessary in the social state, for which man seems to be specifically formed, are not given to him gratuitously; they could only exist by the exertion of certain labour, the employment of a certain capital, and, in many cases, by the use of land. These are obstacles in the way of gratuitous enjoyment; obstacles from which result a real expense of production; because we are obliged to pay for the assistance of these agents of production." "It is only when this utility has thus been communicated to a thing (viz. by industry, capital, and land,) that it is a production, *and that it has a value.* It is its utility which is the foundation of the demand for it, *but the sacrifices, and the charges necessary to obtain it, or in other words, its price,* limits the extent of this demand."

The confusion which arises from confounding the terms "value" and "riches" will best be seen in the following passages.* His pupil observes: "You have said, besides, that the riches of a society were composed of the sum total of the values which it possessed; it appears to me to follow, that the fall of one production, of stockings for example, by diminishing the sum total of the value belonging to the society, diminishes the mass of its riches;" to which the following answer is given: "the *sum* of the society's riches will not fall on that account. Two pair of stockings are produced instead of one; and two pair at three francs, are equally valuable with one pair at six francs. The income of the society remains the same, because the manufacturer has gained as much on two pair at three francs, as he gained on one pair at six francs." Thus far M. Say, though incorrect, is at least consistent. If value be the measure of riches, the society is equally rich, because the value

* M. Say, *Catechisme d'Economie Politique*, p. 99.

of all its commodities is the same as before. But now for his inference. " But when the income remains the same, and productions fall in price, the society is really enriched. If the same fall took place in all commodities at the same time, which is not absolutely impossible, the society by procuring at half their former price, all the objects of its consumption, without having lost any portion of its income, would really be twice as rich as before, and could purchase twice the quantity of goods."

In the first passage we are told, that if every thing fell to half its value, from abundance, the society would be equally rich, because there would be double the quantity of commodities at half their former value, or in other words, there would be the same value. But in the last passage we are informed, that by doubling the quantity of commodities, although the value of each commodity should be diminished one half, and therefore the value of all the commodities together be precisely the same as before, yet the society would be twice as rich as before. In the first case riches are estimated by the amount of

value: in the second, they are estimated by the abundance of commodities contributing to human enjoyments. M. Say further says, " that a man is infinitely rich without valuables, if he can for nothing obtain all the objects he desires; yet in another place we are told, " that riches consist, not in the product itself, for it is not riches if it have not value, but in its value." Vol. ii. p. 2.

CHAPTER XIX.

EFFECTS OF ACCUMULATION ON PROFITS AND INTEREST.

From the account which has been given of the profits of stock, it will appear, that no accumulation of capital will permanently lower profits, unless there be some permanent cause for the rise of wages. If the funds for the maintenance of labour were doubled, trebled, or quadrupled, there would not long be any difficulty in procuring the requisite number of hands, to be employed by those funds; but owing to the increasing difficulty of making constant additions to the food of the country, funds of the same value would probably not maintain the same quantity of labour. If the necessaries of the workman could be constantly increased with the same facility, there could be no permanent altera-

tion in the rate of profits or wages, to whatever amount capital might be accumulated. Adam Smith, however, uniformly ascribes the fall of profits to accumulation of capital, and to the competition which will result from it, without ever adverting to the increasing difficulty of providing food for the additional number of labourers which the additional capital will employ. "The increase of stock he says, which raises wages, tends to lower profit. When the stocks of many rich merchants are turned into the same trade, their mutual competition naturally tends to lower its profit; and when there is a like increase of stock in all the different trades carried on in the same society, the same competition must produce the same effect in all." Adam Smith speaks here of a rise of wages, but it is of a temporary rise, proceeding from increased funds before the population is increased; and he does not appear to see, that at the same time that capital is increased, the work to be effected by capital, is increased in the same proportion. M. Say has however most satisfactorily shewn, that there is no amount of capital which may not be employed in a country, because demand is only limited by production. No man produces, but with a view to consume or sell, and he never sells, but with an intention to purchase some other commodity, which may be immediately useful to him, or which may contribute to future production. By producing, then, he necessarily becomes either the consumer of his own goods, or the purchaser and consumer of the goods of some other person. It is not to be supposed that he should, for any length of time, be ill-informed of the commodities which he can most advantageously produce, to attain the object which he has in view, namely, the possession of other goods; and therefore it is not probable that he will continually produce a commodity for which there is no demand.*

* Adam Smith speaks of Holland, as affording an instance of the fall of profits from the accumulation of capital, and from every employment being consequently overcharged. "The Government there borrow at 2 per cent., and private people of good credit, at 3 per cent." But it should be remembered, that Holland was obliged to import almost all the corn which she consumed, and by imposing heavy taxes on the necessaries of the labourer, she further raised the wages of labour. These facts will sufficiently account for the low rate of profits and interest in Holland.

There cannot then be accumulated in a country any amount of capital which cannot be employed productively, until wages rise so high in consequence of the rise of necessaries, and so little consequently remains for the profits of stock, that the motive for accumulation ceases.* While the profits of stock are high, men will have a motive to accumulate. Whilst a man has any wished-for gratification unsupplied he will have a demand for more commodities; and it will be an effectual demand while he has any new value to offer in exchange for them. If ten thousand pounds were given to a man having 100,000*l.* per annum, he would not lock it up in a chest, but would either increase his expenses by 10,000*l.*; employ it himself productively, or lend it to some other person for that purpose; in either case, demand would be increased, although it would be for different objects.

* Is the following quite consistent with M. Say's principle? "The more disposable capitals are abundant in proportion to the extent of employment for them, the more will the rate of interest on loans of capital fall."—Vol. ii. p. 108. If capital to any extent can be employed by a country, how can it be said to be abundant compared with the extent of employment for it?

If he increased his expenses, his effectual demand might probably be for buildings, furniture, or some such enjoyment. If he employed his 10,000*l.* productively, his effectual demand would be for food, clothing, and raw material, which might set new labourers to work; but still it would be demand.*

* Adam Smith says, that "When the produce of any particular branch of industry exceeds what the demand of the country requires, the surplus must be sent abroad, and exchanged for something for which there is a demand at home. *Without such exportation a part of the productive labour of the country must cease, and the value of its annual produce diminish.* The land and labour of great Britain produce generally more corn, woollens, and hardware, than the demand of the home market requires. The surplus part of them, therefore, must be sent abroad, and exchanged for something for which there is a demand at home. It is only by means of such exportation, that this surplus can acquire a value sufficient to compensate the labour and expense of producing it." One would be led to think by the above passage, that Adam Smith concluded we were under some necessity of producing a surplus of corn, woollen goods, and hardware, and that the capital which produced them could not be otherwise employed. It is, however, always a matter of choice in what way a capital shall be employed, and therefore there can never, for any length of time, be a surplus of any commodity; for if there were, it would fall below its natural price, and capital would be removed to some more profitable employment. No writer has more satisfactorily and ably shewn than Dr. Smith, the

Productions are always bought by productions, money is only the medium by which the exchange is effected. Too much of a particular commodity may be produced, of which there may be such a glut in the market, as not to repay the capital expended on it; but this cannot be the case with respect to all commodities; the demand for corn is limited by the mouths which are to eat it, for shoes and coats by the persons who are to wear them; but though a community, or a part of a community, may have as much corn, and as many hats and shoes, as it is able or may wish to consume, the same cannot be said of every commodity produced by nature or by art. Some would consume more wine, if they had the ability to procure it. Others having enough of wine, would wish to increase the quantity or improve the quality of their furniture. Others might wish to ornament their grounds, or to enlarge their houses. The wish to do all or some of these is implanted

tendency of capital to move from employments in which the goods produced do not repay by their price the whole expenses, including the ordinary profits, of producing and bringing them to market.†

† See Chap. 10. Book I.

in every man's breast; nothing is required but the means, and nothing can afford the means, but an increase of production. If I had food and necessaries at my disposal, I should not be long in want of workmen who would put me in possession of some of the objects most useful or most desirable to me.

Whether these increased productions, and the consequent demand which they occasion, shall or shall not lower profits, depends solely on the rise of wages; and the rise of wages, excepting for a limited period, on the facility of producing the food and necessaries of the labourer. I say excepting for a limited period, because no point is better established, than that the supply of labourers will always ultimately be in proportion to the means of supporting them.

There is only one case, and that will be temporary, in which the accumulation of capital with a low price of food may be attended with a fall of profits; and that is, when the funds for the maintenance of labour increase much more rapidly than population;—wages will then be high, and profits low. If every

man were to forego the use of luxuries, and be intent only on accumulation, a quantity of necessaries might be produced, for which there could not be any immediate consumption. Of commodities so limited in number, there might undoubtedly be an universal glut, and consequently there might neither be demand for an additional quantity of such commodities, nor profits on the employment of more capital. If men ceased to consume, they would cease to produce. This admission does not impugn the general principle. In such a country as England, for example, it is difficult to suppose that there can be any disposition to devote the whole capital and labour of the country to the production of necessaries only.

When merchants engage their capitals in foreign trade, or in the carrying trade, it is always from choice, and never from necessity: it is because in that trade their profits will be somewhat greater than in the home trade.

Adam Smith has justly observed "that the desire of food is limited in every man by the narrow capacity of the human stomach, but the desire of the conveniences and ornaments of building, dress, equipage, and household furniture, seems to have no limit or certain boundary." Nature then has necessarily limited the amount of capital which can at any one time be profitably engaged in agriculture, but she has placed no limits to the amount of capital that may be employed in procuring "the conveniences and ornaments" of life. To procure these gratifications in the greatest abundance is the object in view, and it is only because foreign trade, or the carrying trade, will accomplish it better, that men engage in them, in preference to manufacturing the commodities required, or a substitute for them, at home. If, however, from peculiar circumstances, we were precluded from engaging capital in foreign trade, or in the carrying trade, we should, though with less advantage, employ it at home; and while there is no limit to the desire of "conveniences, ornaments of building, dress, equipage, and household furniture," there can be no limit to the capital that may be employed in procuring them, except that which bounds our power to maintain the workmen who are to produce them.

Adam Smith however, speaks of the carrying trade as one not of choice, but of necessity; as if the capital engaged in it would be inert if not so employed, as if the capital in the home trade could overflow, if not confined to a limited amount. He says, "when the capital stock of any country is increased to such a degree, *that it cannot be all employed in supplying the consumption, and supporting the productive labour of that particular country*, the surplus part of it naturally disgorges itself into the carrying trade, and is employed in performing the same offices to other countries."

"About ninety-six thousand hogsheads of tobacco are annually purchased with a part of the surplus produce of British industry. But the demand of Great Britain does not require, perhaps, more than fourteen thousand. If the remaining eighty-two thousand, therefore, could not be sent abroad *and exchanged for something more in demand at home*, the importation of them would cease immediately, *and with it the productive labour of all the inhabitants of Great Britain, who are at present employed in preparing the goods with which these eighty-two thousand hogsheads are annually purchased*." But could not this portion of the productive labour of Great Britain be employed in preparing some other sort of goods, with which something more in demand at home might be purchased? And if it could not, might we not employ this productive labour, though with less advantage, in making those goods in demand at home, or at least some substitute for them? If we wanted velvets, might we not attempt to make velvets; and if we could not succeed, might we not make more cloth, or some other object desirable to us?

We manufacture commodities, and with them buy goods abroad, because we can obtain a greater quantity than we could make at home. Deprive us of this trade, and we immediately manufacture again for ourselves. But this opinion of Adam Smith is at variance with all his general doctrines on this subject. "If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry, employed in a way in which we have some advantage. *The general industry of the country being always in proportion to the capital which employs it,*

will not thereby be diminished, but only left to find out the way in which it can be employed with the greatest advantage."

Again. "Those, therefore, who have the command of more food than they themselves can consume, are always willing to exchange the surplus, or, what is the same thing, the price of it, for gratifications of another kind. What is over and above satisfying the limited desire, is given for the amusement of those desires which cannot be satisfied, but seem to be altogether endless. The poor, in order to obtain food, exert themselves to gratify those fancies of the rich; and to obtain it more certainly, they vie with one another in the cheapness and perfection of their work. The number of workmen increases with the increasing quantity of food, or with the growing improvement and cultivation of the lands; and as the nature of their business admits of the utmost subdivisions of labours, the quantity of materials which they can work up increases in a much greater proportion than their numbers. Hence arises a demand for every sort of material which human invention can employ, either usefully or ornamentally, in building, dress, equipage, or household furniture; for the fossils and minerals contained in the bowels of the earth, the precious metals, and the precious stones."

Adam Smith has justly observed, that it is extremely difficult to determine the rate of the profits of stock. "Profit is so fluctuating, that even in a particular trade, and much more in trades in general, it would be difficult to state the average rate of it. To judge of what it may have been formerly, or in remote periods of time, with any degree of precision, must be altogether impossible." Yet since it is evident that much will be given for the use of money, when much can be made by it, he suggests, that "the market rate of interest will lead us to form some notion of the rate of profits, and the history of the progress of interest afford us that of the progress of profits." Undoubtedly if the market rate of interest could be accurately known for any considerable period, we should have a tolerably correct criterion, by which to estimate the progress of profits.

But in all countries, from mistaken notions

of policy, the state has interfered to prevent a fair and free market rate of interest, by imposing heavy and ruinous penalties on all those who shall take more than the rate fixed by law. In all countries probably these laws are evaded, but records give us little information on this head, and point out rather the legal and fixed rate, than the market rate of interest. During the present war, exchequer and navy bills have frequently been at so high a discount, as to afford the purchasers of them 7, 8 per cent., or a greater rate of interest for their money. Loans have been raised by Government at an interest exceeding 6 per cent., and individuals have been frequently obliged, by indirect means, to pay more than 10 per cent., for the interest of money; yet during this same period the legal rate of interest has been uniformly at 5 per cent. Little dependance for information then can be placed on that which is the fixed and legal rate of interest, when we find it may differ so considerably from the market rate. Adam Smith informs us, that from the 37th of Henry VIII., to 21st of James I., 10 per cent. continued to be the legal rate of interest. Soon after the restoration, it was reduced to 6 per cent., and by the 12th of Anne, to 5 per cent. He thinks the legal rate followed, and did not precede the market rate of interest. Before the American War, Government borrowed at 3 per cent., and the people of credit in the capital, and in many other parts of the kingdom at 3½, 4, and 4½ per cent.

The rate of interest, though ultimately and permanently governed by the rate of profit, is however subject to temporary variations from other causes. With every fluctuation in the quantity and value of money, the prices of commodities naturally vary. They vary also, as we have already shewn, from the alteration in the proportion of supply to demand, although there should not be either greater facility or difficulty of production. When the market prices of goods fall from an abundant supply, from a diminished demand, or from a rise in the value of money, a manufacturer naturally accumulates an unusual quantity of finished goods, being unwilling to sell them at very depressed prices. To meet his ordinary payments, for which he used to depend on the sale of his goods, he now endeavours to borrow on credit, and

is often obliged to give an increased rate of interest. This however is but of temporary duration; for either the manufacturer's expectations were well grounded, and the market price of his commodities rises, or he discovers that there is a permanently diminished demand, and he no longer resists the course of affairs: prices fall, and money and interest regain their real value. If by the discovery of a new mine, by the abuses of banking, or by any other cause, the quantity of money be greatly increased, its ultimate effect is to raise the prices of commodities in proportion to the increased quantity of money; but there is probably always an interval, during which some effect is produced on the rate of interest.

The price of funded property is not a steady criterion by which to judge of the rate of interest. In time of war, the stock market is so loaded by the continual loans of Government, that the price of stock has not time to settle at its fair level before a new operation of funding takes place, or it is affected by anticipation of political events. In time of peace, on the contrary, the operations of the sinking fund, the unwillingness, which a particular class of persons feel to divert their funds to any other employment than that to which they have been accustomed, which they think secure, and in which their dividends are paid with the utmost regularity, elevates the price of stock, and consequently depresses the rate of interest on these securities below the general market rate. It is observable too, that for different securities, Government pays very different rates of interest. Whilst 100*l.* capital in 5 per cent. stock is selling for 95*l.*, an exchequer bill of 100*l.*, will be sometimes selling for 100*l.* 5*s.*, for which exchequer bill, no more interest will be annually paid than 4*l.* 11*s.* 3*d.*: one of these securities pays to a purchaser at the above prices, an interest of more than 5¼ per cent., the other but little more than 4¼; a certain quantity of these exchequer bills is required as a safe and marketable investment for bankers; if they were increased much beyond this demand, they would probably be as much depreciated as the 5 per cent. stock. A stock paying 3 per cent. per annum will always sell at a proportionally greater price than

stock paying 5 per cent., for the capital debt of neither can be discharged but at par, or 100*l.* money for 100*l.* stock. The market rate of interest may fall to 4 per cent., and Government would then pay the holder of 5 per cent. stock at par, unless he consented to take 4 per cent., or some diminished rate of interest under 5 per cent.: they would have no advantage from so paying the holder of 3 per cent. stock, till the market rate of interest had fallen below 3 per cent. per annum. To pay the interest on the national debt, large sums of money are withdrawn from circulation four times in the year for a few days. These demands for money being only temporary, seldom affect prices; they are generally surmounted by the payment of a large rate of interest.*

* "All kinds of public loans," observes M. Say, "are attended with the inconvenience of withdrawing capital, or portions of capital, from productive employments, to devote them to consumption; and when they take place in a country, *the Government of which does not inspire much confidence*, they have the further inconvenience of raising the interest of capital. Who would lend at 5 per cent. per annum to agriculture, to manufacturers, and to commerce, when a borrower may be found ready to pay an interest of 7 or 8 per cent.?

That sort of income, which is called profit of stock, would rise then at the expense of the consumer. Consumption would be reduced by the rise in the price of produce; and the other productive services would be less in demand, less well paid. The whole nation, capitalists excepted, would be the sufferers from such a state of things." To the question: "who would lend money to farmers, manufacturers, and merchants, at 5 per cent. per annum, when another borrower having little credit, would give 7 or 8?" I reply, that every prudent and reasonable man would. Because the rate of interest is 7 or 8 per cent. there where the lender runs extraordinary risk, is this any reason that it should be equally high in those places where they are secured from such risks? M. Say allows, that the rate of interest depends on the rate of profits; but it does not therefore follow, that the rate of profits depends on the rate of interest. One is the cause, the other the effect, and it is impossible for any circumstances to make them change places.

CHAPTER XX.

BOUNTIES ON EXPORTATION, AND PROHIBITIONS OF IMPORTATION.

A BOUNTY on the exportation of corn tends to lower its price to the foreign consumer, but it has no permanent effect on its price in the home market.

Suppose that to afford the usual and general profits of stock, the price of corn should in England be 4*l.* per quarter; it could not then be exported to foreign countries where it sold for 3*l.* 15*s.* per quarter. But if a bounty of 10*s.* per quarter were given on exportation, it could be sold in the foreign market at 3*l.* 10*s.*, and consequently the same profit would be afforded to the corn grower, whether he sold it at 3*l.* 10*s.* in the foreign, or at 4*l.* in the home market.

A bounty then, which should lower the price of British corn in the foreign country, below the cost of producing corn in that country, would naturally extend the demand for British, and diminish the demand for their own corn. This extension of demand for British corn could not fail to raise its price for a time in the home market, and during that time to prevent also its falling so low in the foreign market as the bounty has a tendency to effect. But the causes which would thus operate on the market price of corn in England would produce no effect whatever on its natural price, on its real cost of production. To grow corn would neither require more labour nor more capital, and, consequently, if the profits of the farmer's stock were before only equal to the profits of the stock of other traders, they will, after the rise of price, be considerably above them. By raising the profits of the farmer's stock, the bounty will operate as an encouragement to agriculture, and capital will be withdrawn from manufactures to be employed on the land, till the enlarged demand for the foreign market has been supplied, when the price of corn will again fall in the home

market to its natural and necessary price, and profits will be again at their ordinary and accustomed level. The increased supply of grain operating on the foreign market, will also lower its price in the country to which it is exported, and will thereby restrict the profits of the exporter to the lowest rate at which he can afford to trade.

The ultimate effect then of a bounty on the exportation of corn, is not to raise or to lower the price in the home market, but to lower the price of corn to the foreign consumer—to the whole extent of the bounty, if the price of corn had not before been lower in the foreign, than in the home market—and in a less degree, if the price in the home had been above the price in the foreign market.

A writer in the fifth vol. of the Edinburgh Review on the subject of a bounty on the exportation of corn, has very clearly pointed out its effects on the foreign and home demand. He has also justly remarked, that it would not fail to give encouragement to agriculture in the exporting country; but he appears to have imbibed the common error which has misled Dr. Smith, and I believe most other writers on this subject. He supposes, because the price of corn ultimately regulates wages, that therefore it will regulate the price of all other commodities. He says that the bounty, "by raising the profits of farming, will operate as an encouragement to husbandry; by raising the price of corn to the consumers at home, it will diminish for the time their power of purchasing this necessary of life, and thus abridge their real wealth. It is evident, however, that this last effect must be temporary: the wages of the labouring consumers had been adjusted before by competition, and the same principle will adjust them again to the same rate, by raising the money price of labour, *and, through that, of other commodities, to the money price of corn.* The bounty upon exportation, therefore, will ultimately raise the money price of corn in the home market; not directly, however, but through the medium of an extended demand in the foreign market, and a consequent enhancement of the real price at home: *and*

this rise of the money price, when it has once been communicated to other commodities, will of course become fixed."

If, however, I have succeeded in shewing that it is not the rise in the money wages of labour which raises the price of commodities, but that such rise always affects profits, it will follow that the prices of commodities would not rise in consequence of a bounty.

But a temporary rise in the price of corn, produced by an increased demand from abroad, would have no effect on the money price of wages. The rise of corn is occasioned by a competition for that supply which was before exclusively appropriated to the home market. By raising profits, additional capital is employed in agriculture, and the increased supply is obtained; but till it be obtained, the high price is absolutely necessary to proportion the consumption to the supply, which would be counteracted by a rise of wages. The rise of corn is the consequence of its scarcity, and is the means by which the demand of the home purchasers is diminished. If wages were increased, the competition would increase, and a further rise of the price of corn would become necessary. In this account of the effects of a bounty, nothing has been supposed to occur to raise the natural price of corn, by which its market price is ultimately governed; for it has not been supposed that any additional labour would be required on the land to insure a given production, and this alone can raise natural price. If the natural price of cloth were 20*s*. per yard, a great increase in the foreign demand might raise the price to 25*s*., or more, but the profits which would then be made by the clothier would not fail to attract capital in that direction, and although the demand should be doubled, trebled, or quadrupled, the supply would ultimately be obtained, and cloth would fall to its natural price of 20*s*. So in the supply of corn, although we should export 2, 3, or 800,000 quarters, annually, it would ultimately be produced at its natural price, which never varies unless a different quantity of labour becomes necessary to production.

Perhaps in no part of Adam Smith's justly celebrated work are his conclusions more

liable to objection, than in the chapter on bounties. In the first place, he speaks of corn as of a commodity of which the production cannot be increased in consequence of a bounty on exportation; he supposes invariably that it acts only on the quantity actually produced, and is no stimulus to further production. "In years of plenty," he says, "by occasioning an extraordinary exportation, it necessarily keeps up the price of corn in the home market above what it would naturally fall to. In years of scarcity, though the bounty is frequently suspended, yet the great exportation which it occasions in years of plenty, must frequently hinder, more or less, the plenty of one year from relieving the scarcity of another. Both in the years of plenty and in years of scarcity, therefore, the bounty necessarily tends to raise the money price of corn somewhat higher than it otherwise would be in the home market."*

* In another place he says, that "whatever extension of the foreign market can be occasioned by the bounty, must, in every particular year, be altogether at the expense of the home market; as every bushel of corn which is exported by means of the bounty, and which would not have been exported

Adam Smith appears to have been fully aware, that the correctness of his argument entirely depended on the fact, whether the increase "of the money price of corn, by rendering that commodity more profitable to the farmer, would not necessarily encourage its production."

---

without the bounty, would have remained in the home market to increase the consumption, and to lower the price of that commodity. The corn bounty, it is to be observed, as well as every other bounty upon exportation, imposes two different taxes upon the people; first, the tax which they are obliged to contribute, in order to pay the bounty; and, secondly, the tax which arises from the advanced price of the commodity in the home market, and which, as the whole body of the people are purchasers of corn, must in this particular commodity be paid by the whole body of the people. In this particular commodity, therefore, this second tax is by much the heaviest of the two." "For every five shillings, therefore, which they contribute to the payment of the first tax, they must contribute six pounds four shillings to the payment of the second." "The extraordinary exportation of corn, therefore, occasioned by the bounty, not only in every particular year diminishes the home, just as much as it extends the foreign market and consumption, but, by restraining the population and industry of the country, its final tendency is to stunt and restrain the gradual extension of the home market, and thereby, in the long run, rather to diminish than to augment the whole market and consumption of corn."

"I answer," he says, "that this might be the case, if the effect of the bounty was to raise the real price of corn, or to enable the farmer, with an equal quantity of it, to maintain a greater number of labourers in the same manner, whether liberal, moderate, or scanty, as other labourers are commonly maintained in his neighbourhood."

If nothing were consumed by the labourer but corn, and if the portion which he received, was the very lowest which his sustenance required, there might be some ground for supposing that the quantity paid to the labourer could, under no circumstances, be reduced,—but the money wages of labour sometimes do not rise at all, and never rise in proportion to the rise in the money price of corn, because corn, though an important part, is only a part of the consumption of the labourer. If half his wages were expended on corn, and the other half on soap, candles, fuel, tea, sugar, clothing, &c., commodities on which no rise is supposed to take place, it is evident that he would be quite as well paid with a bushel and a half of wheat, when it was 16*s.* a bushel, as he was with two bushels, when the price was 8*s.* per bushel; or with

24*s.* in money, as he was before with 16*s.* His wages would rise only 50 per cent. though corn rose 100 per cent., and, consequently, there would be sufficient motive to divert more capital to the land, if profits on other trades continued the same as before. But such a rise of wages would also induce manufacturers to withdraw their capitals from manufactures, to employ them on the land; for whilst the farmer increased the price of his commodity 100 per cent., and his wages only 50 per cent., the manufacturer would be obliged also to raise wages 50 per cent., whilst he had no compensation whatever, in the rise of his manufactured commodity, for this increased charge of production; capital would consequently flow from manufactures to agriculture, till the supply would again lower the price of corn to 8*s.* per bushel, and wages to 16*s.* per week; when the manufacturer would obtain the same profits as the farmer, and the tide of capital would cease to set in either direction. This is in fact the mode in which the cultivation of corn is always extended, and the increased wants of the market supplied. The funds for the maintenance of labour increase, and wages are raised. The

comfortable situation of the labourer induces him to marry—population increases, and the demand for corn raises its price relatively to other things,—more capital is profitably employed on agriculture, and continues to flow towards it, till the supply is equal to the demand, when the price again falls, and agricultural and manufacturing profits are again brought to a level.

But whether wages were stationary after the rise in the price of corn, or advanced moderately, or enormously, is of no importance to this question, for wages are paid by the manufacturer as well as by the farmer, and, therefore, in this respect they must be equally affected by a rise in the price of corn. But they are unequally affected in their profits, inasmuch as the farmer sells his commodity at an advanced price, while the manufacturer sells his for the same price as before. It is however the inequality of profit, which is always the inducement to remove capital from one employment to another, and therefore more corn would be produced, and fewer commodities manufactured. Manufactures would not rise, because fewer were manufactured, for a supply of them would be obtained in exchange for the exported corn.

A bounty, if it raises the price of corn, either raises it in comparison with the price of other commodities, or it does not. If the affirmative be true, it is impossible to deny the greater profits of the farmer, and the temptation to the removal of capital, till its price is again lowered by an abundant supply. If it does not raise it in comparison with other commodities, where is the injury to the home consumer, beyond the inconvenience of paying the tax? If the manufacturer pays a greater price for his corn, he is compensated by the greater price at which he sells his commodity, with which his corn is ultimately purchased.

The error of Adam Smith proceeds precisely from the same source as that of the writer in the Edinburgh Review; for they both think "that the money price of corn regulates that of all other home-made commodities."* "It regulates," says Adam

* The same opinion is held by M. Say. Vol. ii. p. 335.

Smith, "the money price of labour, which must always be such as to enable the labourer to purchase a quantity of corn sufficient to maintain him and his family, either in the liberal, moderate, or scanty manner, in which the advancing, stationary, or declining circumstances of the society oblige his employers to maintain him. By regulating the money price of all the other parts of the rude produce of land, it regulates that of the materials of almost all manufactures. By regulating the money price of labour, it regulates that of manufacturing art, and industry; and by regulating both, it regulates that of the complete manufacture. *The money price of labour, and of every thing that is the produce either of land and labour, must necessarily rise or fall in proportion to the money price of corn.*"

This opinion of Adam Smith, I have before attempted to refute. In considering a rise in the price of commodities as a necessary consequence of a rise in the price of corn, he reasons as though there were no other fund from which the increased charge could be paid. He has wholly neglected the consideration of profits, the diminution of which forms that fund, without raising the price of commodities. If this opinion of Dr. Smith were well founded, profits could never really fall, whatever accumulation of capital there might be. If when wages rose, the farmer could raise the price of his corn, and the clothier, the hatter, the shoe-maker, and every other manufacturer, could also raise the price of their goods in proportion to the advance, although estimated in money, they might be all raised, they would continue to bear the same value relatively to each other. Each of these trades could command the same quantity as before of the goods of the others, which, since it is goods, and not money, which constitute wealth, is the only circumstance that could be of importance to them; and the whole rise in the price of raw produce and of goods, would be injurious to no other persons but to those whose property consisted of gold and silver, or whose annual income was paid in a contributed quantity of those metals, whether in the form of bullion or of money. Suppose the use of money to be wholly laid aside, and all trade to be carried on by barter. Under such circumstances,

could corn rise in exchangeable value with other things? If it could, then it is not true that the value of corn regulates the value of all other commodities; for to do that, it should not vary in relative value to them. If it could not, then it must be maintained, that whether corn be obtained on rich, or on poor land, with much labour, or with little, with the aid of machinery, or without, it would always exchange for an equal quantity of all other commodities.

I cannot, however, but remark that, though Adam Smith's general doctrines correspond with this which I have just quoted, yet in one part of his work he appears to have given a correct account of the nature of value. "The proportion between the value of gold and silver, and that of goods of any other kind, *depends in all cases*," he says, "*upon the proportion between the quantity of labour which is necessary in order to bring a certain quantity of gold and silver to market, and that which is necessary to bring thither a certain quantity of any other sort of goods.*" Does he not here fully acknowledge that if any increase takes place in the quantity of labour, required to bring one sort of goods to market, whilst no such increase takes place in bringing another sort thither, those goods will rise in relative value. If no more labour be required to bring cloth and gold to market, they will not vary in relative value, but if more labour be required to bring corn and shoes to market, will not corn and shoes rise in value relatively to cloth, and money made of gold?

Adam Smith again considers that the effect of the bounty is to cause a partial degradation in the value of money. "That degradation," says he "in the value of silver, which is the effect of the fertility of the mines, and which operates equally, or very nearly equally, through the greater part of the commercial world, is a matter of very little consequence to any particular country. The consequent rise of all money prices, though it does not make those who receive them really richer, does not make them really poorer. A service of plate becomes really cheaper, and every thing else remains precisely of the same real value as before." This observation is most correct.

"But that degradation in the value of silver, which being the effect either of the peculiar situation, or of the political institutions of a particular country, takes place only in that country, is a matter of very great consequence, which, far from tending to make any body really richer, tends to make every body really poorer. The rise in the money price of all commodities, which is in this case peculiar to that country, tends to discourage more or less every sort of industry which is carried on within it, and to enable foreign nations, by furnishing almost all sorts of goods for a smaller quantity of silver than its own workmen can afford to do, to undersell them, not only in the foreign, but even in the home market."

I have elsewhere attempted to shew that a partial degradation in the value of money, which shall affect both agricultural produce, and manufactured commodities, cannot possibly be permanent. To say that money is partially degraded, in this sense, is to say that all commodities are at a high price; but while gold and silver are at liberty to make purchases in the cheapest market, they will be exported for the cheaper goods of other countries, and the reduction of their quantity will increase their value at home; commodities will regain their usual level, and those fitted for foreign markets will be exported, as before.

A bounty therefore cannot, I think, be objected to on this ground.

If then, a bounty raises the price of corn in comparison with all other things, the farmer will be benefited, and more land will be cultivated; but if the bounty do not raise the value of corn relatively to other things, then no other inconvenience will attend it, than that of paying the bounty; one which I neither wish to conceal nor underrate.

Dr. Smith states, that "by establishing high duties on the importation, and bounties on the exportation of corn, the country gentlemen seemed to have imitated the conduct of the manufacturers." By the same means both had endeavoured to raise the value of their commodities. "They did not perhaps attend to the great and essential difference which nature has established between corn,

and almost every other sort of goods. When by either of the above means, you enable our manufacturers to sell their goods for somewhat a better price than they otherwise could get for them, you raise not only the nominal, but the real price of those goods. You increase not only the nominal, but the real profit, the real wealth and revenue of those manufacturers—you really encourage those manufactures. But when, by the like institutions, you raise the nominal or money price of corn, you do not raise its real value, you do not increase the real wealth of our farmers or country gentlemen, you do not encourage the growth of corn. The nature of things has stamped upon corn a real value, which cannot be altered by merely altering its money price. Through the world in general, that value is equal to the quantity of labour which it can maintain."

I have already attempted to shew, that the market price of corn, would, under an increased demand from the effects of a bounty, exceed its natural price, till the requisite additional supply was obtained, and that then it would again fall to its natural price. But the natural price of corn is not so fixed as the natural price of commodities; because, with any great additional demand for corn, land of a worse quality must be taken into cultivation, on which more labour will be required to produce a given quantity, and the natural price of corn would be raised. By a continued bounty, therefore, on the exportation of corn, there would be created a tendency to a permanent rise in the price of corn, and this, as I have shewn elsewhere,* never fails to raise rent. Country gentlemen then have not only a temporary but a permanent interest in prohibitions of the importation of corn, and in bounties on its exportation; but manufacturers have no permanent interest in a bounty on the exportation of commodities, their interest is wholly temporary.

A bounty on the exportation of manufactures will undoubtedly, as Dr. Smith contends, raise the market price of manufactures, but it will not raise their natural price. The labour of 200 men will produce double the quantity of these goods that 100 could pro-

* See Chap. on Rent.

duce before; and consequently, when the requisite quantity of capital was employed in supplying the requisite quantity of manufactures, they would again fall to their natural price. It is then only during the interval after the rise in the market price of commodities, and before the additional supply is obtained, that the manufacturers will enjoy high profits; for as soon as prices had subsided, their profits would sink to the general level.

Instead of agreeing, therefore, with Adam Smith, that the country gentlemen had not so great an interest in prohibiting the importation of corn, as the manufacturer had in prohibiting the importation of manufactured goods, I contend that they have a much superior interest; for their advantage is permanent, while that of the manufacturer is only temporary. Dr. Smith observes, that nature has established a great and essential difference between corn and other goods, but the proper inference from that circumstance is directly the reverse of that which he draws from it; for it is on account of this difference that rent is created, and that country gentlemen have an interest in the rise of the natural price of corn. Instead of comparing the interest of the manufacturer with the interest of the country gentleman, Dr. Smith should have compared it with the interest of the farmer, which is very distinct from that of his landlord. Manufacturers have no interest in the rise of the natural price of their commodities, nor have farmers any interest in the rise of the natural price of corn, or other raw produce, though both these classes are benefited while the market price of their productions exceeds their natural price. On the contrary, landlords have a most decided interest in the rise of the natural price of corn; for the rise of rent is the inevitable consequence of the difficulty of producing raw produce, without which its natural price could not rise. Now as bounties on exportation and prohibitions of the importation of corn increase the demand, and drive us to the cultivation of poorer lands, they necessarily occasion an increased difficulty of production.

The sole effect of the bounty either on the exportation of manufactures, or of corn, is to divert a portion of capital to an employment, which it would not naturally seek. It causes

a pernicious distribution of the general funds of the society—it bribes a manufacturer to commence or continue in a comparatively less profitable employment. It is the worst species of taxation, for it does not give to the foreign country all that it takes away from the home country, the balance of loss being made up by the less advantageous distribution of the general capital. Thus, if the price of corn is in England 4*l.*, and in France 3*l.* 15*s.* a bounty of 10*s.* will ultimately reduce it to 3*l.* 10*s.* in France, and maintain it at the same price of 4*l.* in England. For every quarter exported, England pays a tax of 10*s.* For every quarter imported into France, France gains only 5*s.*, so that the value of 5*s.* per quarter is absolutely lost to the world, by such a distribution of its funds as to cause diminished production, probably not of corn, but of some other object of necessity or enjoyment.

Mr. Buchanan appears to have seen the fallacy of Dr. Smith's arguments respecting bounties, and on the last passage which I have quoted, very judiciously remarks: "In asserting that nature has stamped a real value on corn, which cannot be altered by merely altering its money price, Dr. Smith confounds its value in use, with its value in exchange. A bushel of wheat will not feed more people during scarcity than during plenty; but a bushel of wheat will exchange for a greater quantity of luxuries and conveniences when it is scarce, than when it is abundant; and the landed proprietors, who have a surplus of food to dispose of, will therefore, in times of scarcity, be richer men; they will exchange their surplus for a greater value of other enjoyments, than when corn is in greater plenty. It is vain to argue, therefore, that if the bounty occasions a forced exportation of corn, it will not also occasion a real rise of price." The whole of Mr. Buchanan's arguments on this part of the subject of bounties, appear to me to be perfectly clear and satisfactory.

Mr. Buchanan however has not, I think, any more than Dr. Smith, or the writer in the Edinburgh Review, correct opinions as to the influence of a rise in the price of labour on manufactured commodities. From his peculiar views, which I have elsewhere noticed, he

thinks that the price of labour has no connexion with the price of corn, and therefore that the real value of corn might and would rise without affecting the price of labour; but if labour were affected, he would maintain with Adam Smith and the writer in the Edinburgh Review, that the price of manufactured commodities would also rise; and then I do not see how he would distinguish such a rise of corn, from a fall in the value of money, or how he could come to any other conclusion than that of Dr. Smith. In a note to page 276, vol. i. of the Wealth of Nations, Mr. Buchanan observes, "but the price of corn does not regulate the money price of all the other parts of the rude produce of land. It regulates the price neither of metals, nor of various other useful substances, such as coals, wood, stones, &c.; *and as it does not regulate the price of labour, it does not regulate the price of manufactures;* so that the bounty, in so far as it raises the price of corn, is undoubtedly a real benefit to the farmer. It is not on this ground, therefore, that its policy must be argued. Its encouragement to agriculture, by raising the price of corn, must be admitted; and the question then comes to be, whether agriculture ought to be thus encouraged?"— It is then, according to Mr. Buchanan, a real benefit to the farmer, because it does not raise the price of labour; but if it did, it would raise the price of all things in proportion, and then it would afford no particular encouragement to agriculture.

It must, however, be conceded, that the tendency of a bounty on the exportation of any commodity is to lower in a small degree the value of money. Whatever facilitates exportation, tends to accumulate money in a country; and on the contrary, whatever impedes exportation, tends to diminish it. The general effect of taxation, by raising the prices of the commodities taxed, tends to diminish exportation, and therefore to check the influx of money; and on the same principle, a bounty encourages the influx of money. This is more fully explained in the general observations on taxation.

The injurious effects of the mercantile system have been fully exposed by Dr. Smith; the whole aim of that system was to raise the price of commodities, in the home market, by

prohibiting foreign competition; but this system was no more injurious to the agricultural classes than to any other part of the community. By forcing capital into channels where it would not otherwise flow, it diminished the whole amount of commodities produced. The price, though permanently higher, was not sustained by scarcity, but by difficulty of production; and therefore, though the sellers of such commodities sold them for a higher price, they did not sell them, after the requisite quantity of capital was employed in producing them, at higher profits.*

---

* M. Say supposes the advantage of the manufacturers at home to be more than temporary. "A Government which absolutely prohibits the importation of certain foreign goods, establishes a monopoly *in favour of those* who produce such commodities at home, *against those* who consume them; in other words, those at home who produce them having the exclusive privilege of selling them, may elevate their price above the natural price; and the consumers at home, not being able to obtain them elsewhere, are obliged to purchase them at a higher price." Vol. i. p. 201.

But how can they permanently support the market price of their goods above the natural price, when every one of their fellow citizens is free to enter into the trade? they are guaranteed against foreign, but not against home competition. The

The manufacturers themselves, as consumers, had to pay an additional price for such commodities, and therefore it cannot be correctly said, that "the enhancement of price occasioned by both, (corporation laws and high duties on the importation of foreign commodities,) is every where finally paid by the landlords, farmers, and labourers of the country."

It is the more necessary, to make this remark, as in the present day the authority of Adam Smith is quoted by country gentlemen for imposing similar high duties on the importation of foreign corn. Because the cost of production, and therefore the prices of various manufactured commodities, are raised to the consumer by one error in legislation, the country has been called upon, on the plea of justice, quietly to submit to fresh exactions. Because we all pay an additional

real evil arising to the country from such monopolies, if they can be called by that name, lies, not in raising the market price of such goods, but in raising their real and natural price. By increasing the cost of production, a portion of the labour of the country is less productively employed.

price for our linen, muslin, and cottons, it is thought just that we should pay also an additional price for our corn. Because, in the general distribution of the labour of the world, we have prevented the greatest amount of productions from being obtained by that labour in manufactured commodities; we should further punish ourselves by diminishing the productive powers of the general labour in the supply of raw produce. It would be much wiser to acknowledge the errors which a mistaken policy has induced us to adopt, and immediately to commence a gradual recurrence to the sound principles of an universally free trade.

"I have already had occasion to remark," observes M. Say, "in speaking of what is improperly called the balance of trade, that if it suits a merchant better to export the precious metals to a foreign country than any other goods, it is also the interest of the state that he should export them, because the state only gains or loses through the channel of its citizens; and in what concerns foreign trade, that which best suits the individual, best suits also the state; therefore, by opposing obstacles to the exportation which individuals would be inclined to make of the precious metals, nothing more is done, than to force them to substitute some other commodity less profitable to themselves, and to the state. It must however be remarked, that I say only *in what concerns foreign trade;* because the profits which merchants make by their dealings with their countrymen, as well as those which are made in the exclusive commerce with colonies, are not entirely gains for the state. In the trade between individuals of the same country, there is no other gain but the value of an utility produced; *Que la valeur d'une utilité produite.*"* Vol. i. p. 401. I cannot see

* Are not the following passages contradictory to the one above quoted? "Besides, that home trade, though less noticed, (because it is in a variety of hands) is the most considerable, it is also the most profitable. The commodities exchanged in that trade are necessarily the productions of the same country." Vol. i. p. 84.

"The English Government has not observed, that the most profitable sales are those which a country makes to itself, because they cannot take place, without two values being produced by the nation; the value which is sold, and the value with which the purchase is made." Vol. i. p. 221.

I shall, in the 24th chapter, examine the soundness of this opinion.

the distinction here made between the profits of the home and foreign trade. The object of all trade is to increase productions. If for the purchase of a pipe of wine, I had it in my power to export bullion, which was bought with the value of the produce of 100 days' labour, but Government, by prohibiting the exportation of bullion, should oblige me to purchase my wine with a commodity bought with the value of the produce of one hundred and five days' labour, the produce of five days' labour is lost to me, and, through me, to the state. But if these transactions took place between individuals, in different provinces of the same country, the same advantage would accrue both to the individual, and, through him, to the country, if he were unfettered in his choice of the commodities, with which he made his purchases; and the same disadvantage, if he were obliged by Government to purchase with the least beneficial commodity. If a manufacturer could work up with the same capital, more iron where coals are plentiful, than he could where coals are scarce, the country would be benefited by the difference. But if coals were no where plentiful, and he imported iron, and could get this additional quantity, by the manufacture of a commodity, with the same capital and labour, he would in like manner benefit his country by the additional quantity of iron. In the 6th Chap. of this work, I have endeavoured to shew that all trade, whether foreign or domestic, is beneficial, by increasing the quantity, and not by increasing the value of productions. We shall have no greater value, whether we carry on the most beneficial home and foreign trade, or in consequence of being fettered by prohibitory laws, we are obliged to content ourselves with the least advantageous. The rate of profits, and the value produced, will be the same. The advantage always resolves itself into that which M. Say appears to confine to the home trade; in both cases there is no other gain but that of the value of an *utilité produite.*

CHAPTER XXI.

ON BOUNTIES ON PRODUCTION.

It may not be uninstructive to consider the effects of a bounty on the *production* of raw produce and other commodities, with a view to observe the application of the principles which I have been endeavouring to establish, with regard to the profits of stock, the annual produce of the land and labour, and the relative prices of manufactures and raw produce. In the first place, let us suppose that a tax was imposed on all commodities, for the purpose of raising a fund to be employed by Government, in giving a bounty on the *production* of corn. As no part of such a tax would be expended by Government, and as all that was received from one class of the people, would be returned to another, the nation collectively would neither be richer nor poorer, from such a tax and bounty. It would be readily allowed, that the tax on commodities by which the fund was created, would raise the price of the commodities taxed; all the consumers of those commodities therefore would contribute towards that fund; in other words, their natural or necessary price being raised, so would too their market price. But for the same reason that the natural price of those commodities would be raised, the natural price of corn would be lowered; before the bounty was paid on production, the farmers obtained as great a price for their corn as was necessary to repay them their rent and their expenses, and afford them the general rate of profits; after the bounty, they would receive more than that rate, unless the price of corn fell by a sum at least equal to the bounty. The effect then of the tax and bounty, would be to raise the price of commodities in a degree equal to the tax levied on them, and to lower the price of corn by a sum equal to the bounty paid. It will be observed too, that no permanent alteration could be made in the distribution of capital between agriculture and manufactures, because as there would be

no alteration, either in the amount of capital or population, there would be precisely the same demand for bread and manufactures. The profits of the farmer would be no higher than the general level, after the fall in the price of corn; nor would the profits of the manufacturer be lower after the rise of manufactured goods; the bounty then would not occasion any more capital to be employed on the land in the production of corn, nor any less in the manufacture of goods. But how would the interest of the landlord be affected? On the same principles that a tax on raw produce would lower the corn rent of land, leaving the money rent unaltered, a bounty on production, which is directly the contrary of a tax, would raise corn rent, leaving the money rent unaltered.* With the same money rent the landlord would have a greater price to pay for his manufactured goods, and a less price for his corn; he would probably therefore be neither richer nor poorer.

Now whether such a measure would have any operation on the wages of labour, would

* See page 198.

depend on the question, whether the labourer, in purchasing commodities, would pay as much towards the tax, as he would receive from the bounty, in the low price of his food. If these two quantities were equal, wages would continue unaltered; but if the commodities taxed were not those consumed by the labourer, his wages would fall, and his employer would be benefited by the difference. But this is no real advantage to his employer; it would indeed operate to increase the rate of his profits, as every fall of wages must do; but in proportion as the labourer contributed less to the fund from which the bounty was paid, and which, let it be remembered, must be raised, his employer must contribute more; in other words, he would contribute as much to the tax by his expenditure, as he would receive in the effects of the bounty and the higher rate of profits together. He obtains a higher rate of profits to requite him for his payment, not only of his own quota of the tax, but of his labourer's also; the remuneration which he receives for his labourer's quota appears in diminished wages, or, which is the same thing, in increased profits; the remuneration for his

own appears in the diminution in the price of the corn which he consumes, arising from the bounty.

Here it will be proper to remark the different effects produced on profits from an alteration in the real labour value of corn, and an alteration in the relative value of corn, from taxation and from bounties. If corn is lowered in price by an alteration in its labour price, not only will the rate of the profits of stock be altered, but the absolute profits also; which does not happen, as we have just seen, when the fall is occasioned artificially by a bounty. In the real fall in the value of corn, arising from less labour being required to produce one of the most important objects of man's consumption, labour is rendered more productive. With the same capital the same labour is employed, and an increase of productions is the result; not only then will the rate of profits, but the absolute profits of stock be increased; not only will each capitalist have a greater money revenue, if he employs the same money capital, but also when that money is expended, it will procure him a greater sum of commodities; his enjoyments will be augmented. In the case of the bounty, to balance the advantage which he derives from the fall of one commodity, he has the disadvantage of paying a price more than proportionally high for another; he receives an increased rate of profits in order to enable him to pay this higher price; so that his real situation is in no way improved: though he gets a higher rate of profits, he has no greater command of the produce of the land and labour of the country. When the fall in the value of corn is brought about by natural causes, it is not counteracted by the rise of other commodities; on the contrary, they fall from the raw material falling from which they are made: but when the fall in corn is occasioned by artificial means, it is always counteracted by a real rise in the value of some other commodity, so that if corn be bought cheaper, other commodities are bought dearer.

This then is a further proof, that no particular disadvantage arises from taxes on necessaries, on account of their raising wages and lowering the rate of profits. Profits are indeed lowered, but only to the amount of the

labourer's portion of the tax, which must at all events, be paid either by his employer, or by the consumer of the produce of the labourer's work. Whether you deduct 50*l.* per annum from the employer's revenue, or add 50*l.* to the prices of the commodities which he consumes, can be of no other consequence to him or to the community, than as it may equally affect all other classes. If it be added to the prices of the commodity, a miser may avoid the tax by not consuming; if it be indirectly deducted from every man's revenue, he cannot avoid paying his fair proportion of the public burthens.

A bounty on the production of corn then, would produce no real effect on the annual produce of the land and labour of the country, although it would make corn relatively cheap, and manufactures relatively dear. But suppose now that a contrary measure should be adopted, that a tax should be raised on corn for the purpose of affording a fund for a bounty on the production of commodities.

In such case, it is evident that corn would be dear, and commodities cheap; labour would continue at the same price, if the labourer were as much benefited by the cheapness of commodities as he was injured by the dearness of corn; but if he were not, wages would rise, and profits would fall, while money rent would continue the same as before; profits would fall, because, as we have just explained, that would be the mode in which the labourer's share of the tax would be paid by the employers of labour. By the increase of wages the labourer would be compensated for the tax which he would pay in the increased price of corn; by not expending any part of his wages on the manufactured commodities, he would receive no part of the bounty; the bounty would be all received by the employers, and the tax would be partly paid by the employed; a remuneration would be made to the labourers, in the shape of wages, for this increased burden laid upon them, and thus the rate of profits would be reduced. In this case too there would be a complicated measure producing no national result whatever.

In considering this question, we have purposely left out of our consideration the effect of such a measure on foreign trade; we have rather been supposing the case of an insulated country, having no commercial connexion with other countries. We have seen that as the demand of the country for corn and commodities would be the same, whatever direction the bounty might take, there would be no temptation to remove capital from one employment to another: but this would no longer be the case if there were foreign commerce, and that commerce were free. By altering the relative value of commodities and corn, by producing so powerful an effect on their natural prices, we should be applying a strong stimulus to the exportation of those commodities whose natural prices were lowered, and an equal stimulus to the importation of those commodities whose natural prices were raised, and thus such a financial measure might entirely alter the natural distribution of employments; to the advantage indeed of the foreign countries, but ruinously to that in which so absurd a policy was adopted.

CHAPTER XXII.

DOCTRINE OF ADAMS SMITH CONCERNING THE RENT OF LAND.

" SUCH parts only of the produce of land," says Adam Smith, " can commonly be brought to market, of which the ordinary price is sufficient to replace the stock which must be employed in bringing them thither, together with its ordinary profits. If the ordinary price is more than this, the surplus part of it will naturally go to the rent of land. *If it is not more, though the commodity can be brought to market, it can afford no rent to the landlord.* Whether the price is, or is not more, depends upon the demand."

This passage would naturally lead the reader to conclude that its author could not have mistaken the nature of rent, and that he must

have seen that the quality of land which the exigencies of society might require to be taken into cultivation would depend on " *the ordinary price of its produce,*" *whether it were* " *sufficient to replace the stock, which must be employed in cultivating it, together with its ordinary profits.*"

But he had adopted the notion that " there were some parts of the produce of land for which the demand must always be such as to afford a greater price than what is sufficient to bring them to market;" and he considered food as one of those parts.

He says, that " land, in almost any situation, produces a greater quantity of food than what is sufficient to maintain all the labour necessary for bringing it to market, in the most liberal way in which that labour is ever maintained. The surplus too is always more than sufficient to replace the stock which employed that labour, together with its profits. Something, therefore, always remains for a rent to the landlord."

But what proof does he give of this?—no

other than the assertion that "the most desert moors in Norway and Scotland produce some sort of pasture for cattle, of which the milk and the increase are always more than sufficient, not only to maintain all the labour necessary for tending them, and to pay the ordinary profit to the farmer, or owner of the herd or flock, but to afford some small rent to the landlord." Now of this I may be permitted to entertain a doubt. I believe that as yet in every country, from the rudest to the most refined, there is land of such a quality that it cannot yield a produce more than sufficiently valuable to replace the stock employed upon it, together with the profits ordinary and usual in that country. In America we all know that this is the case, and yet no one maintains that the principles which regulate rent are different in that country and in Europe. But if it were true that England had so far advanced in cultivation, that at this time there were no lands remaining which did not afford a rent, it would be equally true that there formerly must have been such lands; and that whether there be or not is of no importance to this question, for it is the same thing if there be any capital employed

in Great Britain on land which yields only the return of stock with its ordinary profits, whether it be employed on old or on new land. If a farmer agrees for land on a lease of seven or fourteen years, he may propose to employ on it a capital of 10,000*l.*, knowing that at the existing price of grain and raw produce, he can replace that part of his stock which he is obliged to expend, pay his rent, and obtain the general rate of profit. He will not employ 11,000*l.*, unless the last 1,000*l.* can be employed so productively as to afford him the usual profits of stock. In his calculation, whether he shall employ it or not, he considers only whether the price of raw produce is sufficient to replace his expenses and profits, for he knows that he shall have no additional rent to pay. Even at the expiration of his lease his rent will not be raised; for if his landlord should require rent, because this additional 1000*l.* was employed, he would withdraw it; since by employing it he gets, by the supposition, only the ordinary and usual profits which he may obtain by any other employment of stock; and therefore he cannot afford to pay rent for it, unless the price of raw produce should further rise, or, which is the same thing, unless the usual and general rate of profits should fall.

If the comprehensive mind of Adam Smith had been directed to this fact, he would not have maintained that rent forms one of the component parts of the price of raw produce; for price is everywhere regulated by the return obtained by this last portion of capital, for which no rent whatever is paid. If he had adverted to this principle, he would have made no distinction between the law which regulates the rent of mines and the rent of land.

" Whether a coal mine, for example," he says, " can afford any rent, depends partly upon its fertility, and partly upon its situation. A mine of any kind may be said to be either fertile or barren, according as the quantity of mineral which can brought from it by a certain quantity of labour, is greater or less than what can be brought by an equal quantity from the greater part of other mines of the same kind. Some coal mines, advantageously situated, cannot be wrought on account of their barrenness. The produce does not pay the ex-

pense. They can afford neither profit nor rent. There are some, of which the produce is barely sufficient to pay the labour, and replace, together with its ordinary profits, the stock employed in working them. They afford some profit to the undertaker of the work, but no rent to the landlord. They can be wrought advantageously by nobody but the landlord, who being himself the undertaker of the work, gets the ordinary profit of the capital which he employs in it. Many coal mines in Scotland are wrought in this manner, and can be wrought in no other. The landlord will allow no body else to work them without paying some rent, and nobody can afford to pay any.

" Other coal mines in the same country, sufficiently fertile, cannot be wrought on account of their situation. A quantity of mineral sufficient to defray the expense of working, could be brought from the mine by the ordinary, or even less than the ordinary quantity of labour; but in an inland country, thinly inhabited, and without either good roads or water-carriage, this quantity could not be sold." The whole principle of rent is here admirably and perspicuously ex-