

And if, after these commodities were double the quantity, of every 100

The labourers had only	22
The landlords	22
And the capitalists	56

100:

In that case I should say that wages and rent had fallen and profits risen; though, in consequence of the abundance of commodities, the quantity paid to the labourer and landlord would have increased in the proportion of 25 to 44. Wages are to be estimated by their real value, viz., by the quantity of labour and capital employed in producing them, and not by their nominal value either in coats, hats, money, or corn. Under the circumstances I have just supposed, commodities would have fallen to half their former value, and if money had not varied, to half their former price also. If then in this medium, which had not varied in value, the wages of the labourer should be found to have fallen, it will not the less be a real fall because they might furnish him with a greater quantity of cheap commodities than his former wages.

The variation in the value of money, however great, makes no difference in the *rate* of profits; for suppose the goods of the manufacturer to rise from £1000 to £2000, or 100 per cent., if his capital, on which the variations of money have as much effect as on the value of produce, if his machinery, buildings, and stock in trade rise also a 100 per cent., his rate of profits will be the same, and he will have the same quantity, and no more, of the produce of the labour of the country at his command.

If, with a capital of a given value, he can, by economy in labour, double the quantity of produce, and it fall to half its former price, it will bear the same proportion to the capital that produced it which it did before, and consequently profits will still be at the same rate.

If, at the same time that he doubles the quantity of produce by the employment of the same capital, the value of money is by any accident lowered one half, the produce will sell for twice the money value that it did before; but the capital employed to produce it will also be of twice its former money value; and therefore in this case, too, the value of the produce will bear the same proportion to the value of the capital as it did before; and although the produce be doubled, rent, wages, and profits will only vary as the proportions vary, in which this double produce may be divided among the three classes that share it.

CHAPTER II

ON RENT

It remains however to be considered whether the appropriation of land, and the consequent creation of rent, will occasion any variation in the relative value of commodities independently of the quantity of labour necessary to production. In order to understand this part of the subject we must inquire into the nature of rent, and the laws by which its rise or fall is regulated.

Rent is that portion of the produce of the earth which is paid to the landlord for the use of the original and indestructible powers of the soil. It is often, however, confounded with the interest and profit of capital, and, in popular language, the term is applied to whatever is annually paid by a farmer to his landlord. If, of two adjoining farms of the same extent, and of the same natural fertility, one had all the conveniences of farming buildings, and, besides, were properly drained and manured, and advantageously divided by hedges, fences, and walls, while the other had none of these advantages, more remuneration would naturally be paid for the use of one than for the use of the other; yet in both cases this remuneration would be called rent. But it is evident that a portion only of the money annually to be paid for the improved farm would be given for the original and indestructible powers of the soil; the other portion would be paid for the use of the capital which had been employed in ameliorating the quality of the land, and in erecting such buildings as were necessary to secure and preserve the produce. Adam Smith sometimes speaks of rent in the strict sense to which I am desirous of confining it, but more often in the popular sense in which the term is usually employed. He tells us that the demand for timber, and its consequent high price, in the more southern countries of Europe caused a rent to be paid for forests in Norway which could before afford no rent. Is it not, however, evident that the person who paid what he thus calls rent, paid it in consideration of the valuable commodity which was then standing on the land,

and that he actually repaid himself with a profit by the sale of the timber? If, indeed, after the timber was removed, any compensation were paid to the landlord for the use of the land, for the purpose of growing timber or any other produce, with a view to future demand, such compensation might justly be called rent, because it would be paid for the productive powers of the land; but in the case stated by Adam Smith, the compensation was paid for the liberty of removing and selling the timber, and not for the liberty of growing it. He speaks also of the rent of coal mines, and of stone quarries, to which the same observation applies—that the compensation given for the mine or quarry is paid for the value of the coal or stone which can be removed from them, and has no connection with the original and indestructible powers of the land. This is a distinction of great importance in an inquiry concerning rent and profits; for it is found that the laws which regulate the progress of rent are widely different from those which regulate the progress of profits, and seldom operate in the same direction. In all improved countries, that which is annually paid to the landlord, partaking of both characters, rent and profit, is sometimes kept stationary by the effects of opposing causes; at other times advances or recedes as one or the other of these causes preponderates. In the future pages of this work, then, whenever I speak of the rent of land, I wish to be understood as speaking of that compensation which is paid to the owner of land for the use of its original and indestructible powers.

On the first settling of a country in which there is an abundance of rich and fertile land, a very small proportion of which is required to be cultivated for the support of the actual population, or indeed can be cultivated with the capital which the population can command, there will be no rent; for no one would pay for the use of land when there was an abundant quantity not yet appropriated, and, therefore, at the disposal of whosoever might choose to cultivate it.

On the common principles of supply and demand, no rent could be paid for such land, for the reason stated why nothing is given for the use of air and water, or for any other of the gifts of nature which exist in boundless quantity. With a given quantity of materials, and with the assistance of the pressure of the atmosphere, and the elasticity of steam, engines may perform work, and abridge human labour to a very great extent; but no charge is made for the use of these natural aids, because they are inexhaustible and at every man's disposal. In the

same manner, the brewer, the distiller, the dyer, make incessant use of the air and water for the production of their commodities; but as the supply is boundless, they bear no price.¹ If all land had the same properties, if it were unlimited in quantity, and had the same properties, if it were unlimited in quantity, and uniform in quality, no charge could be made for its use, unless where it possessed peculiar advantages of situation. It is only, then, because land is not unlimited in quantity and uniform in quality, and because, in the progress of population, land of an inferior quality, or less advantageously situated, is called into cultivation, that rent is ever paid for the use of it. When, in the progress of society, land of the second degree of fertility is taken into cultivation, rent immediately commences on that of the first quality, and the amount of that rent will depend on the difference in the quality of these two portions of land.

When land of the third quality is taken into cultivation, rent immediately commences on the second, and it is regulated as before by the difference in their productive powers. At the same time, the rent of the first quality will rise, for that must always be above the rent of the second by the difference between the produce which they yield with a given quantity of capital and labour. With every step in the progress of population, which shall oblige a country to have recourse to land of a worse quality, to enable it to raise its supply of food, rent, on all the more fertile land, will rise.

Thus suppose land—No. 1, 2, 3—to yield, with an equal employment of capital and labour, a net produce of 100, 90, and 80 quarters of corn. In a new country, where there is an abundance of fertile land compared with the population, and where therefore it is only necessary to cultivate No. 1, the whole net produce will belong to the cultivator, and will be the profits of the stock which he advances. As soon as population had so far increased as to make it necessary to cultivate No. 2, from which ninety quarters only can be obtained after supporting the labourers, rent would commence on No. 1; for either there must be two rates of profit on agricultural capital, or ten

¹ "The earth, as we have already seen, is not the only agent of nature which has a productive power; but it is the only one, or nearly so, that one set of men take to themselves to the exclusion of others; and of which, consequently, they can appropriate the benefits. The waters of rivers, and of the sea, by the power which they have of giving movement to our machines, carrying our boats, nourishing our fish, have also a productive power; the wind which turns our mills, and even the heat of the sun, work for us; but happily no one has yet been able to say, the 'wind and the sun are mine, and the service which they render must be paid for.'"—*Economie Politique*, par J. B. Say, vol. ii. p. 124.

quarters, or the value of ten quarters must be withdrawn from the produce of No. 1 for some other purpose. Whether the proprietor of the land, or any other person, cultivated No. 1, these ten quarters would equally constitute rent; for the cultivator of No. 2 would get the same result with his capital whether he cultivated No. 1, paying ten quarters for rent, or continued to cultivate No. 2, paying no rent. In the same manner it might be shown that when No. 3 is brought into cultivation, the rent of No. 2 must be ten quarters, or the value of ten quarters, whilst the rent of No. 1 would rise to twenty quarters; for the cultivator of No. 3 would have the same profits whether he paid twenty quarters for the rent of No. 1, ten quarters for the rent of No. 2, or cultivated No. 3 free of all rent.

It often, and, indeed, commonly happens, that before No. 2, 3, 4, or 5, or the inferior lands are cultivated, capital can be employed more productively on those lands which are already in cultivation. It may perhaps be found that by doubling the original capital employed on No. 1, though the produce will not be doubled, will not be increased by 100 quarters, it may be increased by eighty-five quarters, and that this quantity exceeds what could be obtained by employing the same capital on land No. 3.

In such case, capital will be preferably employed on the old land, and will equally create a rent; for rent is always the difference between the produce obtained by the employment of two equal quantities of capital and labour. If, with a capital of £1000 a tenant obtain 100 quarters of wheat from his land, and by the employment of a second capital of £1000 he obtain a further return of eighty-five, his landlord would have the power, at the expiration of his lease, of obliging him to pay fifteen quarters or an equivalent value for additional rent; for there cannot be two rates of profit. If he is satisfied with a diminution of fifteen quarters in the return for his second £1000, it is because no employment more profitable can be found for it. The common rate of profit would be in that proportion, and if the original tenant refused, some other person would be found willing to give all which exceeded that rate of profit to the owner of the land from which he derived it.

In this case, as well as in the other, the capital last employed pays no rent. For the greater productive powers of the first £1000, fifteen quarters, is paid for rent, for the employment of the second £1000 no rent whatever is paid. If a third £1000 be employed on the same land, with a return of seventy-five

quarters, rent will then be paid for the second £1000, and will be equal to the difference between the produce of these two, or ten quarters; and at the same time the rent for the first £1000 will rise from fifteen to twenty-five quarters; while the last £1000 will pay no rent whatever.

If, then, good land existed in a quantity much more abundant than the production of food for an increasing population required, or if capital could be indefinitely employed without a diminished return on the old land, there could be no rise of rent; for rent invariably proceeds from the employment of an additional quantity of labour with a proportionally less return.

The most fertile and most favourably situated land will be first cultivated, and the exchangeable value of its produce will be adjusted in the same manner as the exchangeable value of all other commodities, by the total quantity of labour necessary in various forms, from first to last, to produce it and bring it to market. When land of an inferior quality is taken into cultivation, the exchangeable value of raw produce will rise, because more labour is required to produce it.

The exchangeable value of all commodities, whether they be manufactured, or the produce of the mines, or the produce of land, is always regulated, not by the less quantity of labour that will suffice for their production under circumstances highly favourable, and exclusively enjoyed by those who have peculiar facilities of production; but by the greater quantity of labour necessarily bestowed on their production by those who have no such facilities; by those who continue to produce them under the most unfavourable circumstances; meaning—by the most unfavourable circumstances, the most unfavourable under which the quantity of produce required renders it necessary to carry on the production.

Thus, in a charitable institution, where the poor are set to work with the funds of benefactors, the general prices of the commodities, which are the produce of such work, will not be governed by the peculiar facilities afforded to these workmen, but by the common, usual, and natural difficulties which every other manufacturer will have to encounter. The manufacturer enjoying none of these facilities might indeed be driven altogether from the market if the supply afforded by these favoured workmen were equal to all the wants of the community; but if he continued the trade, it would be only on condition that he should derive from it the usual and general rate of profits on stock; and that could only happen when his commodity sold

for a price proportioned to the quantity of labour bestowed on its production.¹

It is true, that on the best land, the same produce would still be obtained with the same labour as before, but its value would be enhanced in consequence of the diminished returns obtained by those who employed fresh labour and stock on the less fertile land. Notwithstanding, then, that the advantages of fertile over inferior lands are in no case lost, but only transferred from the cultivator, or consumer, to the landlord, yet, since more labour is required on the inferior lands, and since it is from such land only that we are enabled to furnish ourselves with the additional supply of raw produce, the comparative value of that produce will continue permanently above its former level, and make it exchange for more hats, cloth, shoes, etc., etc., in the production of which no such additional quantity of labour is required.

The reason, then, why raw produce rises in comparative value is because more labour is employed in the production of the last portion obtained, and not because a rent is paid to the landlord. The value of corn is regulated by the quantity of labour bestowed on its production on that quality of land, or with that portion of capital, which pays no rent. Corn is not high because a rent is paid, but a rent is paid because corn is high; and it has been justly observed that no reduction would take place in the price of corn although landlords should forego the whole of their rent. Such a measure would only enable some farmers to live like gentlemen, but would not diminish

¹ Has not M. Say forgotten, in the following passage, that it is the cost of production which ultimately regulates price? "The produce of labour employed on the land has this peculiar property, that it does not become more dear by becoming more scarce, because population always diminishes at the same time that food diminishes, and consequently the quantity of these products *demanded* diminishes at the same time as the quantity supplied. Besides, it is not observed that corn is more dear in those places where there is plenty of uncultivated land, than in completely cultivated countries. England and France were much more imperfectly cultivated in the middle ages than they are now; they produced much less raw produce: nevertheless, from all that we can judge by a comparison with the value of other things, corn was not sold at a dearer price. If the produce was less, so was the population; the weakness of the demand compensated the feebleness of the supply" (vol. ii. 338). M. Say being impressed with the opinion that the price of commodities is regulated by the price of labour, and justly supposing that charitable institutions of all sorts tend to increase the population beyond what it otherwise would be, and therefore to lower wages, says, "I suspect that the cheapness of the goods which come from England is partly caused by the numerous charitable institutions which exist in that country" (vol. ii. 277). This is a consistent opinion in one who maintains that wages regulate price.

the quantity of labour necessary to raise raw produce on the least productive land in cultivation.

Nothing is more common than to hear of the advantages which the land possesses over every other source of useful produce, on account of the surplus which it yields in the form of rent. Yet when land is most abundant, when most productive, and most fertile, it yields no rent; and it is only when its powers decay, and less is yielded in return for labour, that a share of the original produce of the more fertile portions is set apart for rent. It is singular that this quality in the land, which should have been noticed as an imperfection compared with the natural agents by which manufacturers are assisted, should have been pointed out as constituting its peculiar pre-eminence. If air, water, the elasticity of steam, and the pressure of the atmosphere were of various qualities; if they could be appropriated, and each quality existed only in moderate abundance, they, as well as the land, would afford a rent, as the successive qualities were brought into use. With every worse quality employed, the value of the commodities in the manufacture of which they were used would rise, because equal quantities of labour would be less productive. Man would do more by the sweat of his brow and nature perform less; and the land would be no longer pre-eminent for its limited powers.

If the surplus produce which land affords in the form of rent be an advantage, it is desirable that, every year, the machinery newly constructed should be less efficient than the old, as that would undoubtedly give a greater exchangeable value to the goods manufactured, not only by that machinery but by all the other machinery in the kingdom; and a rent would be paid to all those who possessed the most productive machinery.¹

¹ "In agriculture, too," says Adam Smith, "nature labours along with man; and though her labour costs no expense, its produce has its value, as well as that of the most expensive workman." The labour of nature is paid, not because she does much, but because she does little. In proportion as she becomes niggardly in her gifts she exacts a greater price for her work. Where she is munificently beneficent she always works gratis.

"The labouring cattle employed in agriculture not only occasion, like the workmen in manufactures, the reproduction of a value equal to their own consumption, or to the capital which employs them, together with its owner's profits, but of a much greater value. Over and above the capital of the farmer and all its profits, they regularly occasion the reproduction of the rent of the landlord. This rent may be considered as the produce of those powers of nature, the use of which the landlord lends to the farmer. It is greater or smaller according to the supposed extent of those powers, or, in other words, according to the supposed natural or improved fertility of the land. It is the work of nature which remains, after deducting or compensating everything which can be regarded as the work of man. It

The rise of rent is always the effect of the increasing wealth of the country, and of the difficulty of providing food for its augmented population. It is a symptom, but it is never a cause of wealth; for wealth often increases most rapidly while rent is either stationary, or even falling. Rent increases most rapidly as the disposable land decreases in its productive powers. Wealth increases most rapidly in those countries where the disposable land is most fertile, where importation is least restricted, and where, through agricultural improvements, productions can be multiplied without any increase in the proportional quantity of labour, and where consequently the progress of rent is slow.

If the high price of corn were the effect, and not the cause of rent, price would be proportionally influenced as rents were high or low, and rent would be a component part of price. But that corn which is produced by the greatest quantity of labour

is seldom less than a fourth, and frequently more than a third of the whole produce. No equal quantity of productive labour employed in manufactures can ever occasion so great a reproduction. *In them nature does nothing, man does all*; and the reproduction must always be in proportion to the strength of the agents that occasion it. The capital employed in agriculture, therefore, not only puts into motion a greater quantity of productive labour than any equal capital employed in manufactures, but in proportion, too, to the quantity of the productive labour which it employs it adds a much greater value to the annual produce of the land and labour of the country, to the *real* wealth and revenue of its inhabitants. Of all the ways in which a capital can be employed, it is by far the most advantageous to the society. —Book II. chap. v. p. 15.

Does nature nothing for man in manufactures? Are the powers of wind and water, which move our machinery and assist navigation, nothing? The pressure of the atmosphere and the elasticity of steam, which enable us to work the most stupendous engines—are they not the gifts of nature? To say nothing of the effects of the matter of heat in softening and melting metals, of the decomposition of the atmosphere in the process of dyeing and fermentation. There is not a manufacture which can be mentioned in which nature does not give her assistance to man, and give it, too, generously and gratuitously.

In remarking on the passage which I have copied from Adam Smith, Mr. Buchanan observes, "I have endeavoured to show, in the observations on productive and unproductive labour, contained in the fourth volume, that agriculture adds no more to the national stock than any other sort of industry. In dwelling on the reproduction of rent as so great an advantage to society, Dr. Smith does not reflect that rent is the effect of high price, and that what the landlord gains in this way he gains at the expense of the community at large. There is no absolute gain to the society by the reproduction of rent; it is only one class profiting at the expense of another class. The notion of agriculture yielding a produce, and a rent in consequence, because nature concurs with human industry in the process of cultivation, is a mere fancy. It is not from the produce, but from the price at which the produce is sold, that the rent is derived; and this price is got not because nature assists in the production, but because it is the price which suits the consumption to the supply."

is the regulator of the price of corn; and rent does not and cannot enter in the least degree as a component part of its price.¹ Adam Smith, therefore, cannot be correct in supposing that the original rule which regulated the exchangeable value of commodities, namely, the comparative quantity of labour by which they were produced, can be at all altered by the appropriation of land and the payment of rent. Raw material enters into the composition of most commodities, but the value of that raw material, as well as corn, is regulated by the productiveness of the portion of capital last employed on the land and paying no rent; and therefore rent is not a component part of the price of commodities.

We have been hitherto considering the effects of the natural progress of wealth and population on rent in a country in which the land is of variously productive powers, and we have seen that with every portion of additional capital which it becomes necessary to employ on the land with a less productive return rent would rise. It follows from the same principles that any circumstances in the society which should make it unnecessary to employ the same amount of capital on the land, and which should therefore make the portion last employed more productive, would lower rent. Any great reduction in the capital of a country which should materially diminish the funds destined for the maintenance of labour, would naturally have this effect. Population regulates itself by the funds which are to employ it, and therefore always increases or diminishes with the increase or diminution of capital. Every reduction of capital is therefore necessarily followed by a less effective demand for corn, by a fall of price, and by diminished cultivation. In the reverse order to that in which the accumulation of capital raises rent will the diminution of it lower rent. Land of a less unproductive quality will be in succession relinquished, the exchangeable value of produce will fall, and land of a superior quality will be the land last cultivated, and that which will then pay no rent.

The same effects may, however, be produced when the wealth and population of a country are increased, if that increase is accompanied by such marked improvements in agriculture as shall have the same effect of diminishing the necessity of cultivating the poorer lands, or of expending the same amount of capital on the cultivation of the more fertile portions.

¹ The clearly understanding this principle is, I am persuaded, of the utmost importance to the science of political economy.

If a million of quarters of corn be necessary for the support of a given population, and it be raised on land of the qualities of No. 1, 2, 3; and if an improvement be afterwards discovered by which it can be raised on No. 1 and 2, without employing No. 3, it is evident that the immediate effect must be a fall of rent; for No. 2, instead of No. 3, will then be cultivated without paying any rent; and the rent of No. 1, instead of being the difference between the produce of No. 3 and No. 1, will be the difference only between No. 2 and 1. With the same population, and no more, there can be no demand for any additional quantity of corn; the capital and labour employed on No. 3 will be devoted to the production of other commodities desirable to the community, and can have no effect in raising rent, unless the raw material from which they are made cannot be obtained without employing capital less advantageously on the land, in which case No. 3 must again be cultivated.

It is undoubtedly true that the fall in the relative price of raw produce, in consequence of the improvement in agriculture, or rather in consequence of less labour being bestowed on its production, would naturally lead to increased accumulation; for the profits of stock would be greatly augmented. This accumulation would lead to an increased demand for labour, to higher wages, to an increased population, to a further demand for raw produce, and to an increased cultivation. It is only, however, after the increase in the population that rent would be as high as before; that is to say, after No. 3 was taken into cultivation. A considerable period would have elapsed, attended with a positive diminution of rent.

But improvements in agriculture are of two kinds: those which increase the productive powers of the land and those which enable us, by improving our machinery, to obtain its produce with less labour. They both lead to a fall in the price of raw produce; they both affect rent, but they do not affect it equally. If they did not occasion a fall in the price of raw produce they would not be improvements; for it is the essential quality of an improvement to diminish the quantity of labour before required to produce a commodity; and this diminution cannot take place without a fall of its price or relative value.

The improvements which increased the productive powers of the land are such as the more skilful rotation of crops or the better choice of manure. These improvements absolutely enable us to obtain the same produce from a smaller quantity of land. If, by the introduction of a course of turnips, I can

feed my sheep besides raising my corn, the land on which the sheep were before fed becomes unnecessary, and the same quantity of raw produce is raised by the employment of a less quantity of land. If I discover a manure which will enable me to make a piece of land produce 20 per cent. more corn, I may withdraw at least a portion of my capital from the most unproductive part of my farm. But, as I before observed, it is not necessary that land should be thrown out of cultivation in order to reduce rent: to produce this effect, it is sufficient that successive portions of capital are employed on the same land with different results, and that the portion which gives the least result should be withdrawn. If, by the introduction of the turnip husbandry, or by the use of a more invigorating manure, I can obtain the same produce with less capital, and without disturbing the difference between the productive powers of the successive portions of capital, I shall lower rent; for a different and more productive portion will be that which will form the standard from which every other will be reckoned. If, for example, the successive portions of capital yielded 100, 90, 80, 70; whilst I employed these four portions, my rent would be 60, or the difference between

$$\left. \begin{array}{r} 70 \text{ and } 100 = 30 \\ 70 \text{ and } 90 = 20 \\ 70 \text{ and } 80 = 10 \end{array} \right\} \text{whilst the produce would be } 340$$

$$\left. \begin{array}{r} 100 \\ 90 \\ 80 \\ 70 \end{array} \right\} 340$$

and while I employed these portions, the rent would remain the same, although the produce of each should have an equal augmentation. If, instead of 100, 90, 80, 70, the produce should be increased to 125, 115, 105, 95, the rent would still be 60, or the difference between

$$\left. \begin{array}{r} 95 \text{ and } 125 = 30 \\ 95 \text{ and } 115 = 20 \\ 95 \text{ and } 105 = 10 \end{array} \right\} \text{whilst the produce would be}$$

$$\left. \begin{array}{r} 125 \\ 115 \\ 105 \\ 95 \end{array} \right\} \text{increased to } 440$$

$$\left. \begin{array}{r} 125 \\ 115 \\ 105 \\ 95 \end{array} \right\} 440$$

But with such an increase of produce, without an increase of demand,¹ there could be no motive for employing so much

¹ I hope I am not understood as undervaluing the importance of all sorts of improvements in agriculture to landlords—their immediate effect is to lower rent; but as they give a great stimulus to population, and at the same time enable us to cultivate poorer lands with less labour, they are ultimately of immense advantage to landlords. A period, however, must elapse during which they are positively injurious to him.

capital on the land; one portion would be withdrawn, and consequently the last portion of capital would yield 105 instead of 95, and rent would fall to 30, or the difference between

$$\left. \begin{array}{l} 105 \text{ and } 125 = 20 \\ 105 \text{ and } 115 = 10 \end{array} \right\} \begin{array}{l} \text{whilst the produce will be still} \\ \text{adequate to the wants of the popula-} \\ \text{tion, for it would be 345 quarters,} \end{array} \left\{ \begin{array}{l} 125 \\ 115 \\ 105 \\ \hline 345 \end{array} \right.$$

or

the demand being only for 340 quarters.—But there are improvements which may lower the relative value of produce without lowering the corn rent, though they will lower the money rent of land. Such improvements do not increase the productive powers of the land, but they enable us to obtain its produce with less labour. They are rather directed to the formation of the capital applied to the land than to the cultivation of the land itself. Improvements in agricultural implements, such as the plough and the thrashing machine, economy in the use of horses employed in husbandry, and a better knowledge of the veterinary art, are of this nature. Less capital, which is the same thing as less labour, will be employed on the land; but to obtain the same produce, less land cannot be cultivated. Whether improvements of this kind, however, affect corn rent, must depend on the question whether the difference between the produce obtained by the employment of different portions of capital be increased, stationary, or diminished. If four portions of capital, 50, 60, 70, 80, be employed on the land, giving each the same results, and any improvement in the formation of such capital should enable me to withdraw 5 from each, so that they should be 45, 55, 65, and 75, no alteration would take place in the corn rent; but if the improvements were such as to enable me to make the whole saving on that portion of capital which is least productively employed, corn rent would immediately fall, because the difference between the capital most productive and the capital least productive would be diminished; and it is this difference which constitutes rent.

Without multiplying instances, I hope enough has been said to show that whatever diminishes the inequality in the produce obtained from successive portions of capital employed on the same or on new land tends to lower rent; and that whatever increases that inequality, necessarily produces an opposite effect, and tends to raise it.

In speaking of the rent of the landlord, we have rather con-

sidered it as the proportion of the produce, obtained with a given capital on any given farm, without any reference to its exchangeable value; but since the same cause, the difficulty of production, raises the exchangeable value of raw produce, and raises also the proportion of raw produce paid to the landlord for rent, it is obvious that the landlord is doubly benefited by difficulty of production. First, he obtains a greater share, and, secondly, the commodity in which he is paid is of greater value.¹

¹ To make this obvious, and to show the degrees in which corn and money rent will vary, let us suppose that the labour of ten men will, on land of a certain quality, obtain 180 quarters of wheat, and its value to be £4 per quarter, or £720; and that the labour of ten additional men will, on the same or any other land, produce only 170 quarters in addition; wheat would rise from £4 to £4 4s. 8d. for 170: 180: : £4: £4 4s. 8d.; or, as in the production of 170 quarters, the labour of 10 men is necessary in one case, and only of 9.44 in the other, the rise would be as 9.44 to 10, or as £4 to £4 4s. 8d. If 10 men be further employed, and the return be

160	the price will rise to	£4	10	0	
150	"	"	4	16	0
140	"	"	5	2	10

Now, if no rent was paid for the land which yielded 180 quarters, when corn was at £4 per quarter, the value of 10 quarters would be paid as rent when only 170 could be procured, which at £4 4s. 8d. would £42 7s. 6d.

20 quarters	when 160 were produced, which at £4 10 0 would be	£90	0	0		
30 quarters	"	150	4	16	0	
40 quarters	"	140	"	5	2	10

Corn rent would increase in the proportion of $\left\{ \begin{array}{l} 100 \\ 200 \\ 300 \\ 400 \end{array} \right\}$ and money rent in the proportion of $\left\{ \begin{array}{l} 100 \\ 212 \\ 340 \\ 485 \end{array} \right\}$

CHAPTER VII ON FOREIGN TRADE

No extension of foreign trade will immediately increase the amount of value in a country, although it will very powerfully contribute to increase the mass of commodities, and therefore the sum of enjoyments. As the value of all foreign goods is measured by the quantity of the produce of our land and labour which is given in exchange for them, we should have no greater value if, by the discovery of new markets, we obtained double the quantity of foreign goods in exchange for a given quantity of ours. If by the purchase of English goods to the amount of it £1000 a merchant can obtain a quantity of foreign goods, which he can sell in the English market for £1200, he will obtain 20 per cent profit by such an employment of his capital; but neither his gains, nor the value of the commodities imported, will be increased or diminished by the greater or smaller quantity of foreign goods obtained. Whether, for example, he imports twenty-five or fifty pipes of wine, his interest can be no way affected if at one time the twenty-five pipes, and at another the fifty pipes, equally sell for £1200. In either case his profit will be limited to £200, or 20 per cent on his capital; and in either case the same value will be imported into England. If the fifty pipes sold for more than £1200, the profits of this individual merchant would exceed the general rate of profits, and capital would naturally flow into this advantageous trade, till the fall of the price of wine had brought everything to the former level.

It has indeed been contended that the great profits which are sometimes made by particular merchants in foreign trade will elevate the general rate of profits in the country, and that the abstraction of capital from other employments, to partake of the new and beneficial foreign commerce, will raise prices generally, and thereby increase profits. It has been said, by high authority, that less capital being necessarily devoted to the growth of corn, to the manufacture of cloth, hats, shoes, etc., while the demand continues the same, the

price of these commodities will be so increased, that the farmer, hatter, clothier, and shoemaker will have an increase of profits as well as the foreign merchant.²⁰

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

For, first, I deny that less capital will necessarily be devoted to the growth of corn, to the manufacture of cloth, hats, shoes etc., unless the demand for these commodities be diminished, and if so, their price will not rise. In the purchase of foreign commodities, either the same, a larger, or a less portion of the produce of the land and labour of England will be employed. If the same portion be so employed, then will the same demand exist for cloth, shoes, corn, and hats as before, and the same portion of capital will be devoted to their production. If, in consequence of the price of foreign commodities being cheaper, a less portion of the annual produce of the land and labour of England is employed in the purchase of foreign commodities, more will remain for the purchase of other things. If there be a greater demand for hats, shoes, corn, etc., than before, which there may be, the consumers of foreign commodities having an additional portion of their revenue disposable, the capital is also disposable with which the greater value of foreign commodities was before purchased; so that with the increased demand for corn, shoes, etc., there exists also the means of procuring an increased supply, and therefore neither prices nor profits can permanently rise. If more of the produce of the land and labour of England be employed in the purchase of foreign commodities, less can be employed in the purchase of other things, and therefore fewer hats, shoes, etc., will be required. At the same time that capital is liberated from the production of shoes, hats, etc., more must be employed in manufacturing those commodities with which foreign commodities are purchased; and, consequently, in all cases the demand for foreign and home commodities together, as far as regards value, is limited by the revenue and capital of the country. If one increases the other must diminish. If the quantity of wine imported in exchange for the same

quantity of English commodities be doubled, the people of England can either consume double the quantity of wine that they did before, or the same quantity of wine and a greater quantity of English commodities. If my revenue had been £1000 with which I purchased annually one pipe of wine for £100, and a certain quantity of English commodities for £900; when wine fell to £50 per pipe, I might lay out the £50 saved, either in the purchase of an additional pipe of wine or in the purchase of more English commodities. If I bought more wine, and every wine-drinker did the same, the foreign trade would not be in the least disturbed; the same quantity of English commodities would be exported in exchange for wine, and we should receive double the quantity, though not double the value of wine. But if I, and others, contented ourselves with the same quantity of wine as before, fewer English commodities would be exported, and the wine-drinkers might either consume the commodities which were before exported, or any others for which they had an inclination. The capital required for their production would be supplied by the capital liberated from the foreign trade.

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

If, by the introduction of machinery, the generality of the

commodities on which revenue was expended fell 20 per cent in value, I should be enabled to save as effectually as if my revenue had been raised 20 per cent; but in one case the rate of profits is stationary, in the other it is raised 20 per cent. If by the introduction of cheap foreign goods, I can save 20 per cent from my expenditure, the effect will be precisely the same as if machinery had lowered the expense of their production, but profits would not be raised.

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

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

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

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

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

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

Under a system of perfectly free commerce, each country naturally devotes its capital and labour to such employments as are most beneficial to each. This pursuit of individual advantage is admirably connected with the universal good of the whole. By stimulating industry, by rewarding ingenuity, and by using most efficaciously the peculiar powers bestowed by nature, it distributes labour most effectually and most economically: while, by increasing the general mass of productions, it diffuses general benefit, and binds together, by one common tie of interest and intercourse, the universal society of nations throughout the civilised world. It is this principle which determines that wine shall be made in France and Portugal, that corn shall be grown in America and Poland, and that hardware and other goods shall be manufactured in England.

In one and the same country, profits are, generally speaking, always

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

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

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

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

To produce the wine in Portugal might require only the labour of 80 men for one year, and to produce the cloth in the same country might require the labour of 90 men for the same time. It would therefore be advantageous for her to export wine in exchange for cloth. This exchange might even take place notwithstanding that the commodity imported by Portugal could be produced there with less labour than in England. Though she could make the cloth with the labour of 90 men, she would import it from a country where it required the labour of men to produce it, because it would be advantageous to her rather to employ her capital in the production of wine, for which she would obtain more cloth from England, than she could produce by diverting a portion of her capital from the cultivation of vines to the manufacture of cloth.

Thus England would give the produce of the labour of 100 men for the produce of the labour of 80. Such an exchange could not take place between the individuals of the same country. The labour of 100 Englishmen cannot be given for that of 80 Englishmen, but the produce of the labour of 100 Englishmen may be given for the produce of the labour of 80 Portuguese, 60 Russians, or 120 East Indians. The difference in this respect, between a single country and many, is easily accounted for, by considering the difficulty with which capital moves from one country to another, to seek a more profitable employment, and the activity with which it invariably passes from one province to another in the same country.²¹

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

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

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

purely a trade of barter.

Thus cloth cannot be imported into Portugal unless it sell there for more gold than it cost in the country from which it was imported; and wine cannot be imported into England unless it will sell for more there than it cost in Portugal. If the trade were purely a trade of barter, it could only continue whilst England could make cloth so cheap as to obtain a greater quantity of wine with a given quantity of labour by manufacturing cloth than by growing vines; and also whilst the industry of Portugal were attended by the reverse effects. Now suppose England to discover a process for making wine, so that it should become her interest rather to grow it than import it; she would naturally divert a portion of her capital from the foreign trade to the home trade; she would cease to manufacture cloth for exportation, and would grow wine for herself. The money price of these commodities would be regulated accordingly; wine would fall here while cloth continued at its former price; and in Portugal no alteration would take place in the price of either commodity. Cloth would continue for some time to be exported from this country, because its price would continue to be higher in Portugal than here; but money instead of wine would be given in exchange for it, till the accumulation of money here, and its diminution abroad, should so operate on the relative value of cloth in the two countries that it would cease to be profitable to export it. If the improvement in making wine were of a very important description, it might become profitable for the two countries to exchange employments; for England to make all the wine, and Portugal all the cloth consumed by them; but this could be effected only by a new distribution of the precious metals, which should raise the price of cloth in England and lower it in Portugal. The relative price of wine would fall in England in consequence of the real advantage from the improvement of its manufacture; that is to say, its natural price would fall; the relative price of cloth would rise there from the accumulation of money.

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

Suppose that, after the improvement, wine falls to £45 in England, the cloth continuing at the same price. Every transaction in commerce is an independent transaction. Whilst a merchant can buy cloth in England for £45, and sell it with the usual profit in Portugal, he will continue to export it from England. His business is simply to purchase English cloth, and to pay for it by a bill of exchange, which he purchases with Portuguese money. It is to him of no importance what becomes of this money: he has discharged his debt by the remittance of the bill. His transaction is undoubtedly regulated by the terms on which he can obtain this bill, but they are known to him at the time; and the causes which may influence the market price of bills, or the rate of exchange, is no consideration of his.

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

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

If then this premium for a bill on England should be equal to the profit on importing cloth, the importation would of course cease; but if the premium on the bill were only 2 per cent, it to be enabled to pay a debt in England of £100, £102 should be paid in Portugal, whilst cloth which cost £45 would sell for £50, cloth would be imported, bills

would be bought, and money would be exported, till the diminution of money in Portugal, and its accumulation in England, had produced such a state of prices as would make it no longer profitable to continue these transactions.

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

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

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

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

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

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

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

Beside the improvements in arts and machinery, there are various other causes which are constantly operating on the natural course of trade, and which interfere with the equilibrium and the relative value of money. Bounties on exportation or importation, new taxes on commodities, sometimes by their direct, and at other times by their indirect operation, disturb the natural trade of barter, and produce a consequent necessity of importing or exporting money, in order that prices may be accommodated to the natural course of commerce; and this effect is produced not only in the country where the disturbing cause takes place, but, in a greater or less degree, in every country of the commercial world.

This will in some measure account for the different value of money in different countries; it will explain to us why the prices of home commodities, and those of great bulk, though of comparatively small value, are, independently of other causes, higher in those countries where manufactures flourish. Of two countries having precisely the

same population, and the same quantity of land of equal fertility in cultivation, with the same knowledge too of agriculture, the prices of raw produce will be highest in that where the greater skill and the better machinery is used in the manufacture of exportable commodities. The rate of profits will probably differ but little; for wages, or the real reward of the labourer, may be the same in both; but those wages, as well as raw produce, will be rated higher in money in that country, into which, from the advantages attending their skill and machinery, an abundance of money is imported in exchange for their goods.

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

In the former part of this work, we have assumed, for the purpose of argument, that money always continued of the same value; we are now endeavouring to show that, besides the ordinary variations in the value of money, and those which are common to the whole commercial world, there are also partial variations to which money is subject in particular countries; and to the fact that the value of money is never the same in any two countries, depending as it does on relative taxation, on manufacturing skill, on the advantages of climate, natural productions, and many other causes.

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

Profits, it cannot be too often repeated, depend on wages; not on nominal, but real wages; not on the number of pounds that may be annually paid to the labourer, but on the number of days' work necessary to obtain those pounds. Wages may therefore be precisely

the same in two countries; they may bear, too, the same proportion to rent, and to the whole produce obtained from the land, although in one of those countries the labourer should receive ten shillings per week and in the other twelve.

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

Suppose all nations to produce corn, cattle, and coarse clothing only, and that it was by the exportation of such commodities that gold could be obtained from the countries which produced them, or from those who held them in subjection; gold would naturally be of greater exchangeable value in Poland than in England, on account of the greater expense of sending such a bulky commodity as corn the more distant voyage, and also the greater expense attending the conveying of gold to Poland.

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

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

added to that which before existed why gold should be less valuable in England than in Poland, and why corn, cattle, and clothing should be at a higher price in the former country.

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

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

Any improvement in the facility of working the mines, by which the precious metals may be produced with a less quantity of labour, will sink the value of money generally. It will then exchange for fewer

commodities in all countries; but when any particular country excels in manufactures, so as to occasion an influx of money towards it, the value of money will be lower, and the prices of corn and labour will be relatively higher in that country than in any other.

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

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

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

England, or the silver which is in £100, will purchase a bill of £100, or an equal quantity of silver in France, Spain, or Holland.

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

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

In England £100 may purchase a bill, or the right of receiving 3101 in Holland, £102 in France, and £105 in Spain. The exchange with England is, in that case, said to be 1 per cent against Holland, 2 per cent against France, and 5 per cent against Spain. It indicates that the level of currency is higher than it should be in those countries, and the comparative value of their currencies, and that of England, would be immediately restored to par by extracting from theirs or by adding to that of England.

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

By sending 130 good English pounds sterling to Hamburgh, even at an expense of £5, 1 should be possessed there Oo £125; what then could make me consent to give £130 for a bill which would give me £100 in Hamburgh, but that my pounds were not good pounds sterling—they were deteriorated, were degraded in intrinsic value below the pounds sterling of Hamburgh, and if actually sent there, at an expense of £5, would sell only for £100. With metallic pounds

sterling, it is not denied that my £130 would procure me £125 in Hamburg, but with paper pounds sterling I can only obtain £100; and yet it was maintained that £130 in paper was of equal value with £130 in silver or gold.

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

To this standard we must conform till the law is changed, and till some other commodity is discovered by the use of which we shall obtain a more perfect standard than that which we have established. While gold is exclusively the standard in this country money will be depreciated when a pound sterling is not of equal value with 5 dwts and 3 grs of standard gold, and that whether gold rises or falls in general value.

CHAPTER VIII ON TAXES

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

We have already shown how the capital of a country is either fixed or circulating, according as it is of a more or of a less durable nature. It is difficult to define strictly where the distinction between circulating and fixed capital begins; for there are almost infinite degrees in the durability of capital. The food of a country is consumed and reproduced at least once in every year, the clothing of the labourer is probably not consumed and reproduced in less than two years; whilst his house and furniture are calculated to endure for a period of ten or twenty years.

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

If the consumption of the government when increased by the levy of additional taxes be met either by an increased production or by a diminished consumption on the part of the people, the taxes will fall upon revenue, and the national capital will remain unimpaired; but if there be no increased production or diminished unproductive consumption on the part of the people, the taxes will necessarily fall on capital, that is to say, they will impair the fund allotted to productive consumption.²²

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