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Chapter 12
Land-Tax

A land-tax, levied in proportion to the rent of land, and varying with every variation of rent, is in effect a tax on rent; and as such a tax will not apply to that land which yields no rent, nor to the produce of that capital which is employed on the land with a view to profit merely, and which never pays rent, it will not in any way affect the price of raw produce, but will fall wholly on the landlords. In no respect would such a tax differ from a tax on rent. But if a land-tax be imposed on all cultivated land, however moderate that tax may be, it will be a tax on produce, and will therefore raise the price of produce. If No. 3 be the land last cultivated, although it should pay no rent, it cannot, after the tax, be cultivated, and afford the general rate of profit, unless the price of produce rise to meet the tax. Either capital will be withheld from that employment until the price of corn shall have risen, in consequence of demand, sufficiently to afford the usual profit; or if already employed on such land, it will quit it, to seek a more advantageous employment. The tax cannot be removed to the landlord, for by the supposition he receives no rent. Such a tax may be proportioned to the quality of the land and the abundance of its produce, and then it differs in no respect from tithes; or it may be a fixed tax per acre on all land cultivated, whatever its quality may be.

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

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

2. 'The tax which each individual is bound to pay ought to be certain and not arbitrary.

3. 'Every tax ought to be levied at the time, or in the manner in which it is most likely to be convenient for the contributor to pay it.

4. 'Every tax ought to be so contrived as both to take out and to keep out of the pockets of the people as little as possible, over and above what it brings into the public treasury of the State.'

An equal land-tax, imposed indiscriminately and without any regard to the distinction of its quality, on all land cultivated, will raise the price of corn in proportion to the tax paid by the cultivator of the land of the worst quality. Lands of different quality, with the employment of the same capital, will yield very different quantities of raw produce. If on the land which yields a thousand quarters of corn with a given capital, a tax of £100 be laid, corn will rise 2s. per quarter to compensate the farmer for the tax. But with the same capital on land of a better quality, 2,000 quarters may be produced, which at 2s. a quarter advance, would give £200; the tax, however, bearing equally on both lands will be £100 on the better as well as on the inferior, and consequently the consumer of corn will be taxed, not only to pay the exigencies of the State, but also to give to the cultivator of the better land, £100 per annum during the period of his lease, and afterwards to raise the rent of the landlord to that amount. A tax of this description then would be contrary to the fourth maxim of Adam Smith, it would take out and keep out of the pockets of the people more than what it brought into the treasury of the State. The taille in France before the Revolution, was a tax of this description; those lands only were taxed, which were held by an ignoble tenure, the price of raw produce rose in proportion to the tax, and therefore they whose lands were not taxed, were benefited by the increase of their rent. Taxes on raw produce, as well as tithes, are free from this objection: they raise the price of raw produce, but they take from each quality of land a contribution in proportion to its actual produce, and not in proportion to the produce of that which is the least productive.

From the peculiar view which Adam Smith took of rent, from his not having observed that much capital is expended in every country, on the land for which no rent is paid, he concluded that all taxes on the land, whether they were laid on the land itself in the form of land-tax or tithes, or on the produce of the land, or were taken from the profits of the farmer, were all invariably paid by the landlord, and that he was in all cases the real contributor, although the tax was, in general, nominally advanced by the tenant. 'Taxes upon the produce of the land,' he says, 'are in reality taxes upon the rent; and though they may be originally advanced by the farmer, are finally paid by the landlord. When a certain portion of the produce is to be paid away for a tax, the farmer computes as well as he can, what the value of this portion is, one year with another, likely to amount to, and he makes a proportionable abatement in the rent which he agrees to pay to the landlord. There is no farmer who does not compute beforehand what the church-tithe, which is a land-tax of this kind is, one year with another, likely to amount to.' It is undoubtedly true, that the farmer does calculate his probable outgoings of all descriptions, when agreeing with his landlord for the rent of his farm; and if for the tithe paid to the church, or for the tax on the produce of the land, he were not compensated by a rise in the relative value of the produce of his farm, he would naturally endeavour to deduct them from his rent. But this is precisely the question in dispute: whether he will eventually deduct them from his rent, or be compensated by a higher price of produce. For the reasons which have been already given, I cannot have the least doubt but that they would raise the price of produce, and consequently that Adam Smith has taken an incorrect view of this important question.

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

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

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

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

If the tax be shifted by the tenant not on the landlord but on the consumer, then if it be not unequal at first, it can never become so; for the price of produce has been at once raised in proportion to the tax, and will afterwards vary no more on that account. It may offend, if unequal, as I have attempted to shew that it will, against the fourth maxim above mentioned, but it will not offend against the first. It may take more out of the pockets of the people than it brings into the public treasury of the State, but it will not fall unequally on any particular class of contributors. M. Say appears to me to have mistaken the nature and effects of the English land-tax, when he says, 'Many persons attribute to this fixed valuation, the great prosperity of English agriculture. That it has very much contributed to it there can be no doubt. But what should we say to a Government, which, addressing itself to a small trader, should hold this language: "With a small capital you are carrying on a limited trade, and your direct contribution is in consequence very small. Borrow and accumulate capital; extend your trade, so that it may procure you immense profits; yet you shall never pay a greater contribution. Moreover, when your successors shall inherit your profits, and shall have further increased them, they shall not be valued higher to them than they are to you; and your successors shall not bear a greater portion of the public burdens."

'Without doubt this would be a great encouragement given to manufactures and trade; but would it be just? Could not their advancement be obtained at any other price? In England itself, has not manufacturing and commercial industry made even greater progress, since the same period, without being distinguished with so much partiality? A landlord by his assiduity, economy, and skill, increases his annual revenue by 5,000 francs. If the State claim of him the fifth part of his augmented income, will there not remain 4,000 francs of increase to stimulate his further exertions?'

M. Say supposes, 'A landlord by his assiduity, economy and skill, to increase his annual revenue by 5,000 francs;, but a landlord has no means of employing his assiduity, economy and skill on his land, unless he farms it himself. and then it is in quality of capitalist and farmer that he makes the improvement, and not in quality of landlord. It is not conceivable that he could so augment the produce of his farm by any peculiar skill on his part, without first increasing the quantity of capital employed upon it. If he increased the capital, his larger revenue might bear the same proportion to his increased capital, as the revenue of all other farmers to their capitals.

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

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

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

Speaking of taxes in kind, or a tax of a certain proportion of the produce, which is precisely the same as tithes, M. Say says, 'This mode of taxation appears to be the most equitable; there is, however, none which is less. so. it totally leaves out of consideration the advances made by the producer; it is proportioned to the gross, and not to the net revenue. Two agriculturists cultivate different kinds of raw produce: one cultivates corn on middling land, his expenses amounting annually on an average to 8,000 francs: the raw produce from his lands sells for 12,000 francs; he has then a net revenue of 4,000 francs.

'His neighbour has pasture or wood land, which brings in every year a like sum of 12,000 francs, but his expenses amount only to 2,000 francs. He has therefore on an average a net revenue of 10,000 francs.

'A law ordains that a twelfth of the produce of all the fruits of the earth be levied in kind, whatever they may be. From the first is taken in consequence of this law, corn of the value of 1,000 francs; and from the second, hay, cattle, or wood, of the same value of 1,000 francs. What has happened? From the one, a quarter of his net income, 4,000 francs, has been taken; from the other, whose income was 10,000 francs, a tenth only has been taken. Income is the net profit which remains after replacing the capital exactly in its former state. Has a merchant an income equal to all the sales which he makes in the course of a year? certainly not; his income only amounts to the excess of his sales above his advances, and it is on this excess only that taxes on income should fall.'

M. Say's error in the above passage lies in supposing that because the value of the produce of one of these two farms, after reinstating the capital, is greater than the value of the produce of the other, on that account the net income of the cultivators will differ by the same amount. The net income of the landlords and tenants together of the wood land, may be much greater than the net income of the landlords and tenants of the corn land; but it is on account of the difference of rent, and not on account of the difference in the rate of profit. M. Say has wholly omitted the consideration of the different amount of rent, which these cultivators would have to pay. There cannot be two rates of profit in the same employment, and therefore when the value of produce is in different proportions to capital, it is the rent which will differ, and not the profit. Upon what pretence would one man with a capital of 2,000 francs, be allowed to obtain a net profit of 10,000 francs from its employment, whilst another, with a capital of 8,000 francs, would only obtain 4,000 francs? Let M. Say make a due allowance for rent; let him further allow for the effect which such a tax would have on the prices of these different kinds of raw produce, and he will then perceive that it is not an unequal tax, and further that the producers themselves will no otherwise contribute to it, than any other class of consumers.

Chapter 13

Taxes on Gold

The rise in the price of commodities, in consequence of taxation or of difficulty of production, will in all cases ultimately ensue; but the duration of the interval, before the market price will conform to the natural price, must depend on the nature of the commodity, and on the facility with which it can be reduced in quantity. If the quantity of the commodity taxed could not be diminished, if the capital of the farmer or of the hatter for instance, could not be withdrawn to other employments, it would be of no consequence that their profits were reduced below the general level by means of a tax; unless the demand for their commodities should increase, they would never be able to elevate the market price of corn and of hats up to their increased natural price. Their threats to leave their employments, and remove their capitals to more favoured trades, would be treated as an idle menace which could not be carried into effect; and consequently the price would not be raised by diminished production. Commodities, however, of all descriptions can be reduced in quantity, and capital can be removed from trades which are less profitable to those which are more so, but with different degrees of rapidity. In proportion as the supply of a particular commodity can be more easily reduced, without inconvenience to the producer, the price of it will more quickly rise after the difficulty of its production has been increased by taxation, or by any other means. Corn being a commodity indispensably necessary to every one, little effect will be produced on the demand for it in consequence of a tax, and therefore the supply would not probably be long excessive, even if the producers had great difficulty in removing their capitals from the land. For this reason, the price of corn will speedily be raised by taxation, and the farmer will be enabled to transfer the tax from himself to the consumer.

If the mines which supply us with gold were in this country, and if gold were taxed, it could not rise in relative value to other things, till its quantity were reduced. This would be more particularly the case, if gold were used exclusively for money. It is true that the least productive mines, those which paid no rent, could no longer be worked, as they could not afford the general rate of profits till the relative value of gold rose, by a sum equal to the tax. The quantity of gold, and, therefore, the quantity of money would be slowly reduced: it would be a little diminished in one year, a little more in another, and finally its value would be raised in proportion to the tax; but in the interval, the proprietors or holders, as they would pay the tax, would be the sufferers, and not those who used money. If out of every 1,000 quarters of wheat in the country, and every 1,000 produced in future, Government should exact 100 quarters as a tax, the remaining 900 quarters would exchange for the same quantity of other commodities that 1,000 did before; but if the same thing took place with respect to gold, if of every £1,000 money now in the country, or in future to be brought into it, Government could exact £100 as a tax, the remaining £900 would purchase very little more than £900 purchased before. The tax would fall upon him, whose property consisted of money, and would continue to do so till its quantity were reduced in proportion to the increased cost of its production caused by the tax.

This, perhaps, would be more particularly the case with respect to a metal used for money, than any other commodity; because the demand for money is not for a definite quantity, as is the demand for clothes, or for food. The demand for money is regulated entirely by its value, and its value by its quantity. If gold were of double the value, half the quantity would perform the same functions in circulation, and if it were of half the value, double the quantity would be required. If the market value of corn be increased one tenth by taxation, or by difficulty of production, it is doubtful whether any effect whatever would be produced on the quantity consumed, because every man's want is for a definite quantity, and, therefore, if he has the means of purchasing, he will continue to consume as before: but for money, the demand is exactly proportioned to its value. No man could consume twice the quantity of corn, which is usually necessary for his support, but every man purchasing and selling only the same quantity of goods, may be obliged to employ twice, thrice, or any number of times the same quantity of money.

The argument which I have just been using, applies only to those states of society in which the precious metals are used for money, and where paper credit is not established. The metal gold, like all other commodities, has its value in the market ultimately regulated by the comparative facility or difficulty of producing it; and although from its durable nature, and from the difficulty of reducing its quantity, it does not readily bend to variations in its market value, yet that difficulty is much increased from the circumstance of its being used as money. If the quantity of gold in the market for the purpose of commerce only, were 10,000 ounces, and the consumption in our manufactures were 2,000 ounces annually, it might be raised one fourth, or 25 per cent in its value, in one year, by withholding the annual supply; but if in consequence of its being used as money, the quantity employed were 100,000 ounces, it would not be raised one fourth in value in less than ten years. As money made of paper may be readily reduced in quantity, its value, though its standard were gold, would be increased as rapidly as that of the metal itself would be increased, if the metal, by forming a very small part of the circulation, had a very slight connexion with money.

If gold were the produce of one country only, and it were used universally for money, a very considerable tax might be imposed on it, which would not fall on any country, except in proportion as they used it in manufactures, and for utensils; upon that portion which was used for money, though a large tax might be received, nobody would pay it. This is a quality peculiar to money. All other commodities of which there exists a limited quantity, and which cannot be increased by competition, are dependent for their value, on the tastes, the caprice, and the power of purchasers; but money is a commodity which no country has any wish or necessity to increase: no more advantage results from using twenty millions, than from using ten millions of currency. A country might have a monopoly of silk, or of wine, and yet the prices of silks and wine might fall, because from caprice or fashion, or taste, cloth and brandy might be preferred, and substituted; the same effect might in a degree take place with gold, as far as its use is confined to manufactures: but while money is the general medium of exchange, the demand for it is never a matter of choice, but always of necessity. you must take it in exchange for your goods, and, therefore, there are no limits to the quantity which may be forced on you by foreign trade, if it fall in value; and no reduction to which you must not submit, if it rise. You may, indeed, substitute paper money, but by this you do not, and cannot lessen the quantity of money, for that is regulated by the value of the standard for which it is exchangeable; it is only by the rise of the price of commodities, that you can prevent them from being exported from a country where they are purchased with little money, to a country where they can be sold for more, and this rise can only be effected by an importation of metallic money from abroad, or by the creation or addition of paper money at home. If then the King of Spain, supposing him to be in exclusive possession of the mines, and gold alone to be used for money, were to lay a considerable tax on gold, he would very much raise its natural value; and as its market value in Europe is ultimately regulated by its natural value in Spanish America, more commodities would be given by Europe for a given quantity of gold. But the same quantity of gold would not be produced in America, as its value would only be increased in proportion to the diminution of quantity consequent on its increased cost of production. No more goods then would be obtained in America, in exchange for all their gold exported, than before; and it may be asked, where then would be the benefit to Spain and her Colonies? The benefit would be this, that if less gold were produced, less capital would be employed in producing it; the same value of goods from Europe would be imported by the employment of the smaller capital, that was before obtained by the employment of the larger; and, therefore, all the productions obtained by the employment of the capital withdrawn from the mines, would be a benefit which Spain would derive from the imposition of the tax, and which she could not obtain in such abundance, or with such certainty, by possessing the monopoly of any other commodity whatever. From such a tax, as far as money was concerned, the nations of Europe would suffer no injury whatever; they would have the same quantity of goods, and consequently the same means of enjoyment as before, but these goods would be circulated with a less quantity, because a more valuable money.

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

A tax on raw produce from the surface of the earth, will, as we have seen, fall on the consumer, and will in no way affect rent; unless, by diminishing the funds for the maintenance of labour, it lowers wages, reduces the population, and diminishes the demand for corn. But a tax on the produce of gold mines must, by enhancing the value of that metal, necessarily reduce the demand for it, and must therefore necessarily displace capital from the employment to which it was applied. Notwithstanding then, that Spain would derive all the benefits which I have stated from a tax on gold, the proprietors of those mines from which capital was withdrawn would lose all their rent. This would be a loss to individuals, but not a national loss; rent being not a creation, but merely a transfer of wealth: the King of Spain, and the proprietors of the mines which continued to be worked, would together receive not only all that the liberated capital produced, but all that the other proprietors lost.

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

The account of Spain would stand thus:

Formerly produced:

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

Now produced:

By the two capitalists who quitted the mines, the same value as 140 pounds of gold formerly exchanged for; equal to... 5,600 yards of cloth

By the capitalist who works the mine, No. 1, thirty pounds of gold, increased in value, as 1 to 2 1/2, and therefore now of the value of... 3,000 yards of cloth.

Tax to the King seventy pounds, increased also in value as 1 to 2 1/2, and therefore now of the value of... 7,000 yards of cloth.

15,600

Of the 7,000 received by the King, the people of Spain would contribute only 1,400, and 5,600 would be pure gain, effected by the liberated capital.

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

Taxes on gold are of two kinds, one on the actual quantity of gold in circulation, the other on the quantity that is annually produced from the mines. Both have a tendency to reduce the quantity, and to raise the value of gold; but by neither will its value be raised till the quantity is reduced, and therefore such taxes will fall for a time, until the supply is diminished, on the proprietors of money, but ultimately that part which will permanently fall on the community, will be paid by the owner of the mine in the reduction of rent, and by the purchasers of that portion of gold, which is used as a commodity contributing to the enjoyments of mankind, and not set apart exclusively for a circulating medium.

Chapter 14

Taxes on Houses

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

Taxes on houses are of this description; though laid on the occupier, they will frequently fall by a diminution of rent on the landlord. The produce of the land is consumed and reproduced from year to year, and so are many other commodities; as they may therefore be speedily brought to a level with the demand, they cannot long exceed their natural price. But as a tax on houses may be considered in the light of an additional rent paid by the tenant, its tendency will be to diminish the demand for houses of the same annual rent, without diminishing their supply. Rent will therefore fall, and a part of the tax will be paid indirectly by the landlord.

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

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

The payment of this tax, then, would ultimately fall on the occupier and ground landlord, but, 'in what proportion, this final payment would be divided between them,' says Adam Smith, 'it is not perhaps very easy to ascertain. The division would probably be very different in different circumstances, and a tax of this kind might, according to those different circumstances, affect very unequally both the inhabitant of the house, and the owner of the ground.'(25*)

Adam Smith considers ground rents as peculiarly fit subjects for taxation. 'Both ground rents, and the ordinary rent of land,' he says, 'are a species of revenue, which the owner in many cases enjoys, without any care or attention of his own. Though a part of this revenue should be taken from him, in order to defray the expenses of the State, no discouragement will thereby be given to any sort of industry. The annual produce of the land and labour of the society, the real wealth and revenue of the great body of the people, might be the same after such a tax as before. Ground rents, and the ordinary rent of land are, therefore, perhaps, the species of revenue, which can best bear to have a peculiar tax imposed upon them.' It must be admitted that the effects of these taxes would be such as Adam Smith has described; but it would surely be very unjust, to tax exclusively the revenue of any particular class of a community. The burdens of the State should be borne by all in proportion to their means: this is one of the four maxims mentioned by Adam Smith, which should govern all taxation. Rent often belongs to those who, after many years of toil, have realised their gains, and expended their fortunes in the purchase of land or houses; and it certainly would be an infringement of that principle which should ever be held sacred, the security of property, to subject it to unequal taxation. It is to be lamented, that the duty by stamps, with which the transfer of landed property is loaded, materially impedes the conveyance of it into those hands, where it would probably be made most productive. And if it be considered, that land, regarded as a fit subject for exclusive taxation, would not only be reduced in price, to compensate for the risk of that taxation, but in proportion to the indefinite nature and uncertain value of the risk, would become a fit subject for speculations, partaking more of the nature of gambling, than of sober trade, it will appear probable, that the hands into which land would in that case be most apt to fall, would be the hands of those, who possess more of the qualities of the gambler, than of the qualities of the sober-minded proprietor, who is likely to employ his land to the greatest advantage.

Chapter 15

Taxes on Profits

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

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

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

If money be not taxed, and therefore be permitted to preserve its value, whilst every thing else is taxed, and is raised in value, the hatter, the farmer, and clothier, each employing the same capitals, and obtaining the same profits, will pay the same amount of tax. If the tax be £100, the hats, the cloth, and the corn, will each be increased in value £100. If the hatter gains by his hats £1,100, instead of £1,000, he will pay £100 to Government for the tax; and therefore will still have £1,000 to lay out on goods for his own consumption. But as the cloth, corn, and all other commodities, will be raised in price from the same cause, he will not obtain more for his £1,000 than he before obtained for £910, and thus will he contribute by his diminished expenditure to the exigencies of the State; he will, by the payment of the tax, have placed a portion of the produce of the land and labour of the country at the disposal of Government, instead of using that portion himself. If instead of expending his £1,000, he adds it to his capital, he will find in the rise of wages, and in the increased cost of the raw material and machinery, that his saving of £1,000 does not amount to more than a saving of £910 amounted to before.

If money be taxed, or if by any other cause its value be altered, and all commodities remain precisely at the same price as before, the profits of the manufacturer and farmer will also be the same as before, they will continue to be £1,000; and as they will each have to pay £100 to Government, they will retain only £900, which will give them a less command over the produce of the land and labour of the country, whether they expend it in productive or unproductive labour. Precisely what they lose, Government will gain. In the first case the contributor to the tax would, for £1,000, have as great a quantity of goods as he before had for £910; in the second, he would have only as much as he before had for £900, for the price of goods would remain unaltered, and he would have only £900 to expend. This proceeds from the difference in the amount of the tax; in the first case it is only an eleventh of his income, in the second it is a tenth; money in the two cases being of a different value.

But although, if money be not taxed, and do not alter in value, all commodities will rise in price, they will not rise in the same proportion; they will not after the tax bear the same relative value to each other which they did before the tax. In a former part of this work, we discussed the effects of the division of capital into fixed and circulating, or rather into durable and perishable capital, on the prices of commodities. We shewed that two manufacturers might employ precisely the same amount of capital, and might derive from it precisely the same amount of profits, but that they would sell their commodities for very different sums of money, according as the capitals they employed were rapidly, or slowly, consumed and reproduced. The one might sell his goods for £4,000, the other for £10,000, and they might both employ £10,000 of capital, and obtain 20 per cent profit or £2,000. The capital of one might consist for example, of £2,000 circulating capital, to be reproduced, and £8,000 fixed, in buildings and machinery; the capital of the other, on the contrary, might consist of £8,000 of circulating, and of only £2,000 fixed capital in machinery and buildings. Now, if each of these persons were to be taxed ten per cent on his income, or £200, the one, to make his business yield him the general rate of profit, must raise his goods from £10,000 to £10,200; the other would also be obliged to raise the price of his goods from £4,000 to £4,200. Before the tax, the goods sold by one of these manufacturers were 2 1/2 times more valuable than the goods of the other; after the tax they will be 2.42 times more valuable: the one kind will have risen two per cent; the other five per cent: consequently a tax upon income, whilst money continued unaltered in value, would alter the relative prices and value of commodities. This would be true also, if the tax instead of being laid on the profits, were laid on the commodities themselves: provided they were taxed in proportion to the value of the capital employed on their production, they would rise equally, whatever might be their value, and therefore they would not preserve the same proportion as before. A commodity, which rose from ten to eleven thousand pounds, would not bear the same relation as before, to another which rose from 2 to £3,000. If under these circumstances, money rose in value, from whatever cause it might proceed, it would not affect the prices of commodities in the same proportion. The same cause which would lower the price of one from £10,200 to £10,000 Or less than two per cent would lower the price of the other from £4,200 to £4,000 or 4 3/4 per cent. If they fell in any different proportion, profits would not be equal; for to make them equal, when the price of the first commodity was £10,000, the price of the second should be £4,000; and when the price of the first was £10,200, the price of the other should be £4,200.

The consideration of this fact will lead to the understanding of a very important principle, which, I believe, has never been adverted to. It is this; that in a country where no taxation subsists, the alteration in the value of money arising from scarcity or abundance will operate in an equal proportion on the prices of all commodities; that if a commodity of £1,000 value rise to £1,200, or fall to £800, a commodity of £10,000 value will rise to £1 2,000 or fall to £8,000; but in a country where prices are artificially raised by taxation, the abundance of money from an influx, or the exportation and consequent scarcity of it from foreign demand, will not operate in the same proportion on the prices of all commodities; some it will raise or lower 5, 6, or 12 per cent, others 3, 4, or 7 per cent. If a country were not taxed, and money should fall in value, its abundance in every market would produce similar effects in each. If meat rose 20 per cent, bread, beer, shoes, labour, and every commodity, would also rise 20 per cent; it is necessary they should do so, to secure to each trade the same rate of profits. But this is no longer true when any of these commodities is taxed; if in that case they should all rise in proportion to the fall in the value of money, profits would be rendered unequal; in the case of the commodities taxed, profits would be raised above the general level, and capital would be removed from one employment to another, till an equilibrium of profits was restored, which could only be, after the relative prices were altered.

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

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

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

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

His landlord, however, would be differently situated, he would be benefited by the tax on his tenant's profits, as he would be compensated for the additional price at which he would purchase his manufactured commodities, if they rose in price; and he would have the same money revenue, if in consequence of a rise in the value of money, commodities sold at their former price. A tax on the profits of the farmer, is not a tax proportioned to the gross produce of the land, but to its net produce, after the payment of rent, wages, and all other charges. As the cultivators of the different kinds of land, No. 1, 2 and 3, employ precisely the same capitals, they will get precisely the same profits, whatever may be the quantity of gross produce, which one may obtain more than the other. and consequently they will be all taxed alike. Suppose the gross produce of the land of the quality No. 1 to be 180 qrs., that of No. 2, 170 qrs., and of No. 3, 160, and each to be taxed 10 quarters, the difference between the produce of No. 1, No. 2 and No. 3, after paying the tax, will be the same as before; for if No. 1 be reduced to 170, No. 2 to 160, and No. 3 to 150 qrs; the difference between 3 and 1 will be as before, 20 qrs.; and of No. 3 and No. 2, 10 qrs. If, after the tax, the prices of corn and of every other commodity should remain the same as before, money rent as well as corn rent, would continue unaltered; but if the price of corn, and every other commodity should rise in consequence of the tax, money rent will also rise in the same proportion. If the price of corn were £4 per quarter, the rent of No. 1 would be £80, and that of No. 2, £40; but if corn rose five per cent, or to £4 4s., rent would also rise five per cent, for twenty quarters of corn would then be worth £84, and ten quarters £42; so that in every case the landlord will be unaffected by such a tax. A tax on the profits of stock always leaves corn rent unaltered, and therefore money rent varies with the price of corn; but a tax on raw produce, or tithes, never leaves corn rent unaltered, but generally leaves money rent the same as before. In another part of this work I have observed, that if a land-tax of the same money amount, were laid on every kind of land in cultivation, without any allowance for difference of fertility, it would be very unequal in its operation, as it would be a profit to the landlord of the more fertile lands. It would raise the price of corn in proportion to the burden borne by the farmer of the worst land; but this additional price being obtained for the greater quantity of produce yielded by the better land, farmers of such land would be benefited during their leases, and afterwards, the advantage would go to the landlord in the form of an increase of rent. The effect of an equal tax on the profits of the farmer is precisely the same; it raises the money rent of the landlords, if money retains the same value; but as the profits of all other trades are taxed as well as those of the farmer, and consequently the prices of all goods, as well as corn, are raised, the landlord loses as much by the increased money price of the goods and corn on which his rent is expended, as he gains by the rise of his rent. If money should rise in value, and all things should, after a tax on the profits of stock, fall to their former prices, rent also would be the same as before. The landlord would receive the same money rent, and would obtain all the commodities on which it was expended at their former price; so that under all circumstances he would continue untaxed.(26*)

This circumstance is curious. By taxing the profits of the farmer you do not burthen him more than if you exempted his profits from the tax, and the landlord has a decided interest that his tenants' profits should be taxed, as it is only on that condition that he himself continues really untaxed.

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

If it be agreed, that by taxing the profits of one manufacturer only, the price of his goods would rise, to put him on an equality with all other manufacturers; and that by taxing the profits of two manufacturers, the prices of two descriptions of goods must rise, I do not see how it can be disputed, that by taxing the profits of all manufacturers, the prices of all goods would rise, provided the mine which supplied us with money, were in this country, and continued untaxed. But as money, or the standard of money, is a commodity imported from abroad, the prices of all goods could not rise; for such an effect could not take place without an additional quantity of money,(27*) which could not be obtained in exchange for dear goods, as was shewn on page 124. If, however, such a rise could take place, it could not be permanent, for it would have a powerful influence on foreign trade. In return for commodities imported, those dear goods could not be exported, and therefore we should for a time continue to buy, although we ceased to sell; and should export money, or bullion, till the relative prices of commodities were nearly the same as before. It appears to me absolutely certain, that a well regulated tax on profits, would ultimately restore commodities both of home and foreign manufacture, to the same money price which they bore before the tax was imposed.

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

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

Chapter 16

Taxes on Wages

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

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

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

In this argument of Mr Buchanan, there appears to me to be a great mixture of truth and error. Because a high price of provisions is sometimes occasioned by a deficient supply, Mr Buchanan assumes it as a certain indication of deficient supply. He attributes to one cause exclusively, that which may arise from many. It is undoubtedly true, that in the case of a deficient supply, a smaller quantity will be shared among the same number of consumers, and a smaller portion will fall to each. To distribute this privation equally, and to prevent the labourer from consuming subsistence so freely as before, the price rises. It must, therefore, be conceded to Mr Buchanan, that any rise in the price of provisions, occasioned by a deficient supply, will not necessarily raise the money wages of labour, as the consumption must be retarded; which can only be effected by diminishing the power of the consumers to purchase. But, because the price of provisions is raised by a deficient supply, we are by no means warranted in concluding, as Mr Buchanan appears to do, that there may not be an abundant supply, with a high price; not a high price with regard to money only, but with regard to all other things.

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

With respect to the second point, whether a tax on the wages of labour would raise the price of labour, Mr Buchanan says, 'After the labourer has received the fair recompense of his labour, how can he have recourse on his employer, for what he is afterwards compelled to pay away in taxes? There is no law or principle in human affairs to warrant such a conclusion. After the labourer has received his wages, they are in his own keeping, and he must, as far as he is able, bear the burthen of whatever exactions he may ever afterwards be exposed to: for he has clearly no way of compelling those to reimburse him, who have already paid him the fair price of his work.' Mr Buchanan has quoted, with great approbation, the following able passage from Mr Malthus's work on population, which appears to me completely to answer his objection. ' The price of labour, when left to find its natural level, is a most important political barometer, expressing the relation between the supply of provisions, and the demand for them, between the quantity to be consumed, and the number of consumers; and, taken on the average, independently of accidental circumstances, it further expresses, clearly, the wants of the society respecting population; that is, whatever may be the number of children to a marriage necessary to maintain exactly the present population, the price of labour will be just sufficient to support this number, or be above it, or below it, according to the state of the real funds, for the maintenance of labour, whether stationary, progressive, or retrograde. Instead, however, of considering it in this light, we consider it as something which we may raise or depress at pleasure, something which depends principally on his Majesty's justices of the peace.

When an advance in the price of provisions already expresses that the demand is too great for the supply, in order to put the labourer in the same condition as before, we raise the price of labour, that is, we increase the demand, and are then much surprised, that the price of provisions continues rising. In this, we act much in the same manner, as if, when the quicksilver in the common weather glass, stood at stormy, we were to raise it by some forcible pressure to settled fair, and then be greatly astonished that it continued raining.'

'The price of labour will express, clearly, the wants of the society respecting population;, it will be just sufficient to support the population, which at that time the state of the funds for the maintenance of labourers, requires. If the labourer's wages were before only adequate to supply the requisite population, they will, after the tax, be inadequate to that supply, for he will not have the same funds to expend on his family. Labour will, therefore, rise, because the demand continues, and it is only by raising the price, that the supply is not checked.

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

It is undoubtedly true, that a taxed commodity will not rise in proportion to the tax, if the demand for it diminish, and if the quantity cannot be reduced. If metallic money were in general use, its value would not for a considerable time be increased by a tax, in proportion to the amount of the tax, because at a higher price, the demand would be diminished, and the quantity would not be diminished; and unquestionably the same cause frequently influences the wages of labour; the number of labourers cannot be rapidly increased or diminished in proportion to the increase or diminution of the fund which is to employ them; but in the case supposed, there is no necessary diminution of demand for labour, and if diminished, the demand does not abate in proportion to the tax. Mr Buchanan forgets that the fund raised by the tax, is employed by Government in maintaining labourers, unproductive indeed, but still labourers. If labour were not to rise when wages are taxed, there would be a great increase in the competition for labour, because the owners of capital, who would have nothing to pay towards such a tax, would have the same funds for employing labour; whilst the Government who received the tax would have an additional fund for the same purpose. Government and the people thus become competitors, and the consequence of their competition is a rise in the price of labour. The same number of men only will be employed, but they will be employed at additional wages. If the tax had been laid at once on the people of capital, their fund for the maintenance of labour would have been diminished in the very same degree that the fund of Government for that purpose had been increased; and therefore there would have been no rise in wages; for though there would be the same demand, there would not be the same competition. If when the tax were levied, Government at once exported the produce of it as a subsidy to a foreign State, and if therefore these funds were devoted to the maintenance of foreign, and not of English labourers, such as soldiers, sailors, &c. &c.; then, indeed, there would be a diminished demand for labour, and wages might not increase, although they were taxed; but the same thing would happen if the tax had been laid on consumable commodities, on the profits of stock, or if in any other manner the same sum had been raised to supply this subsidy. less labour could be employed at home. In one case wages are prevented from rising, in the other they must absolutely fall. But suppose the amount of a tax on wages were, after being raised on the labourers, paid gratuitously to their employers, it would increase their money fund for the maintenance of labour, but it would not increase either commodities or labour. It would consequently increase the competition amongst the employers of labour, and the tax would be ultimately attended with no loss either to master or labourer. The master would pay an increased price for labour; the addition which the labourer received would be paid as a tax to government, and would be again returned to the masters. It must, however, not be forgotten, that the produce of taxes is generally wastefully expended, they are always obtained at the expense of the people's comforts and enjoyments, and commonly either diminish capital or retard its accumulation.

By diminishing capital they tend to diminish the real fund destined for the maintenance of labour. and therefore to diminish the real demand for it. Taxes then, generally, as far as they impair the real capital of the country, diminish the demand for labour, and therefore it is a probable, but not a necessary, nor a peculiar consequence of a tax on wages, that though wages would rise, they would not rise by a sum precisely equal to the tax.

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

'A direct tax upon the wages of labour, therefore,, says Adam Smith, 'though the labourer might perhaps pay it out of his hand, could not properly be said to be even advanced by him; at least if the demand for labour and the average price of provisions remained the same after the tax as before it. In all such cases, not only the tax but something more than the tax, would in reality be advanced by the person who immediately employed him. The final payment would in different cases fall upon different persons. The rise which such a tax might occasion in the wages of manufacturing labour, would be advanced by the master manufacturer, who would be entitled and obliged to charge it with a profit, upon the price of his goods. The rise which such a tax might occasion in country labour, would be advanced by the farmer, who, in order to maintain the same number of labourers as before, would be obliged to employ a greater capital. In order to get back this greater capital, together with the ordinary profits of stock, it would be necessary that he should retain a larger portion, or what comes to the same thing, the price of a larger portion, of the produce of the land, and consequently that he should pay less rent to the landlord. The final payment of this rise of wages would in this case fall upon the landlord, together with the additional profits of the farmer who had advanced it. In all cases a direct tax upon the wages of labour must, in the long run, occasion both a greater reduction in the rent of land, and a greater rise in the price of manufactured goods, than would have followed, from the proper assessment of a sum equal to the produce of the tax, partly upon the rent of land, and partly upon consumable commodities.' Vol. iii. p. 337. In this passage it is asserted that the additional wages paid by farmers will ultimately fall on the landlords, who will receive a diminished rent; but that the additional wages paid by manufacturers will occasion a rise in the price of manufactured goods, and will therefore fall on the consumers of those commodities.

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

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

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

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

All the effects which are produced on the profits of stock and the wages of labour, by a rise of rent and a rise of necessaries, in the natural progress of society, and increasing difficulty of production, will equally follow from a rise of wages. in consequence of taxation; and, therefore, the enjoyments of the labourer, as well as those of his employers, will be curtailed by the tax; and not by this tax particularly, but by every other which should raise an equal amount, as they would all tend to diminish the fund destined for the maintenance of labour.

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

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

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

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

This principle of the division of the produce 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.(28*)

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, 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 from par, in the same proportion 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 to £40 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 of his money, he could purchase a bill which would enable him to pay a debt of £40 in England. In the same manner if he exported a commodity which cost £20 at home, and which sold in England for £40 he would only receive £20, for £40 in England would only purchase a bill for £20 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 1 millions of good pounds, fresh from the mint, 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 given by Adam Smith, that they would have such an effect were well founded, they would be in no degree injurious on that account. They would be objectionable for no other reason than those which might be justly urged against taxes of any other description.

The landlords, as such, would be exempted from the burden of the tax; but as far as they directly employed labour in the expenditure of their revenues, by supporting gardeners, menial servants, &c. they would be subject to its operation.

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,(29*) 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 saltmaker, the soap-maker, and the candle-maker consume, while employed in their service.'

Now as Dr Smith does not contend that the tanner, the saltmaker, 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 to 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 and that he would pay it directly, if the tax were laid on income, on wine, or no any other luxury; he would injury if by the taxation of necessaries, he should be only called upon for the payment of £25, 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, but his whole argument is founded in error, for the prices of commodities would not be raised by such taxes.

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 profit 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, an evil sufficiently great without overcharging it. If my income is £1,000 per annum, and I am called upon for £100 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 per annum more for my corn, and to the same amount abate in my demand for wine, furniture, or any other luxury.(30*) Less capital will consequently be employed in the 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.(31*)

Without calling in question the policy, which dictated this alteration of the tax, I have my doubts, 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 on wine, because by paying a tax of that amount I have enabled Government to expend £100 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 £5 for the enjoyment which a horse affords, who would not pay £10 or £20. 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 induced to have recourse to more direct taxes, such as income and property taxes, neglecting the golden maxim of M. Say, 'that 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.'

Chapter 17

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.(32*) A tax on the manufactured necessaries 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 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.(33*) Whether 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 per annum, might have been obliged to pay £2,000 once for all. It might also have suited his convenience rather to borrow this £2,000, and to pay £100 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 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 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 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 £1,000 to £1,500, but another man's would be lowered from £1,500 to £1,000. These two men's incomes now amount to £2,500, 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 the country is impoverished; every measure, therefore, which is calculated to promote public and private economy, 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 calculated 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, he would endeavour, on being at once called upon for his portion, to save speedily the £10O from his income. By the system of loans, he is called upon to pay only the interest of this £100, or £5 per annum, and considers that he does enough by saving this £5 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, paying him an income of £500, out of which he has to pay £100 per annum towards the interest of the debt, is really worth only £8,000, and would be equally rich, whether he continued to pay £100 per annum, or at once, and for only once, sacrificed £2,000. But where, it is asked, would be the purchaser of the property which he must sell to obtain this £2,000? the answer is plain: the national creditor, who is to receive this £2,000, 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 a payment the stockholders themselves would largely contribute. This 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.(34*)

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 nowhere 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 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 consumer 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.(35*)

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 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(36*) of 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; 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.'

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.'(37*) 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 founded 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 18

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 it 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 per annum for 50 acres of the most fertile land, and the other the same sum of £100 for 1,000 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 to £500. the rate would be equally charged to the consumer; for whether the landlord 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. 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, were not the price of raw produce 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, if it fell with peculiar severity on manufacturers, which it does not, 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.(38*)

Chapter 19

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 employments of £10,000 in the manufacture of cotton goods for exportation, we imported annually 3,000 pair of silk stockings of the value of £2,000, 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 £2,000 provided no part of the capital were destroyed; but instead of having 3,000 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.(39*)

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 becomes 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.(40*) 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 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 £4 per quarter, land of an inferior quality, which may be designated by No. 6, might be cultivated; at £3 10s. No. 5; at £3 No, 4, and so on. If corn, in consequence of permanent abundance, fell to £3 10s., the capital employed on No. 6 would cease to be employed; for it was only when corn was at £4 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 not obtain more corn by purchasing it with a commodity which he manufactured, than he got from the land for which he paid no rent, its price could not be under £4.

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;(41*) 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 10s. 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 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 can 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 be only 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 the value of a part of the existing capital of farmers and manufacturers.(42*)

Agriculture, like all other trades, and particularly in a commercial country, is subject to a reaction, 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 20

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 1,000 pair of stockings, and that by inventions in machinery, the same number of men can produce 2,000 pair, or that they can continue to produce 1,000 pair, and can produce besides 500 hats; then the value of the 2,000 pair of stockings, or of the 1,000 pair of stockings, and 500 hats, will be neither more nor less than that of the 1,000 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 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,(43*) and a country is rich or poor, according as its commodities will exchange for more or less corn.(44*) 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 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 country, 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 200 men; but they will be of twice the value if 200 have been employed on their production.

M. Say, notwithstanding the corrections he has made in the fourth and last edition of his work, 'Traité d'Economie Politique,' appears to me to have been singularly unfortunate in his definition of riches and value. He considers these two terms as synonymous, and that a man is rich in proportion as he increases the value of his possessions, and is enabled to command an abundance of commodities. 'The value of incomes is then increased,' he observes, 'if they can procure, it does not signify by what means, a greater quantity of products.' According to M. Say, if the difficulty of producing cloth were to double, and consequently cloth was to exchange for double the quantity of the commodities for which it exchanged before, it would be doubled in value, to which I give my fullest assent; but if there were any peculiar facility in producing the commodities, and no increased difficulty in producing cloth, and cloth should in consequence exchange as before for double the quantity of commodities, M. Say would still say that cloth had doubled in value, whereas according to my view of the subject, he should say, that cloth retained its former value, and those particular commodities had fallen to half their former value. Must not M.

Say be inconsistent with himself when he says, that by facility of production, two sacks of corn may be produced by the same means that one was produced before, and that each sack will therefore fall to half its former value, and yet maintain that the clothier who exchanges his cloth for two sacks of corn, will obtain double the value he before obtained, when he could only get one sack in exchange for his cloth. If two sacks be of the value that one was of before, he evidently obtains the same value and no more, - he gets, indeed, double the quantity of riches double the quantity of utility - double the quantity of what Adam Smith calls value in use, but not double the quantity of value, and therefore M. Say cannot be right in considering value, riches, and utility to be synonymous. Indeed, there are many parts of M. Say's work to which I can confidently refer in support of the doctrine which I maintain, respecting the essential difference between value and riches, although it must be confessed that there are also various other passages in which a contrary doctrine is maintained. These passages I cannot reconcile, and I point them out by putting them in opposition to each other, that M. Say may, if he should do me the honour to notice these observations in any future edition of his work, give such explanations of his views as may remove the difficulty, which many others, as well as myself, feel in our endeavours to expound them.

1. In the exchange of two products, we only in fact exchange the productive services which have served to creak them... p. 504.

2. There is no real dearness but that which arises from the cost of production. A thing really dear, is that which cost, much in producing.................. 457.

3. The value of all the productive services that must be consumed to create a product, constitute the cost of production of that product................. 505.

4. It is utility which determines the demand for a commodity, but it is the cost of it production which limit the extent of it demand. When it utility does not elevate its value to the level of the cost of production, the thing is not worth what it cost; it is a proof that the productive services might be employed to create a commodity of a superior value. The possessors of productive funds, that is to say, those who have the disposal of

labour, of capital or land, are perpetually occupied in comparing the cost of production with the value of the things produced, or which comes to the same thing, in comparing the value of different commodities with each other; because the cost of production is nothing else but the value of productive services, consumed in forming a production; and the value of a productive service is nothing else than the value of the commodity, which is the result. The value of a commodity, the value of a productive service, the value of the cost of production are all, then, similar values when every thing is left to its natural course.

5. The value of incomes is then increased, if they can procure (it does not signify by what means,) a greater quantity of product.

6. Price is the measure of the value of things, and their value is the measure of their utility. 1 Vol....................p. 4

7. Exchanges made freely, shew at the time, in the place, and in the state of society in which we are, the value which men attach to the things exchanged...... 466.

8. To produce, is to create value, by giving or increasing the utility of a thing, and thereby establishing a demand for it, which is the first cause of it value. Vol. 2............. 487.

9. Utility being created, constitutes a product. The exchangeable value which results, is only the measure of this utility, the measure of the production which has taken place...........490.

10. The utility which people of a particular country find in a product can no otherwise be appreciated than by the price which they give for it..... 502.

11. This price, is the measure of the utility, which it has in the judgment of men; of the satisfaction which they derive from consuming it, because they would not prefer consuming this utility, if for the price which it cost they could acquire a utility which would give them more satisfaction...................506.

12. The quantity of all other commodities which a person can immediately obtain in exchange for the commodity of which he

wishes to dispose, is at all times a value not to be disputed. Vol. 2.................... 4

If there is no real dearness but that which arises from cost of production, (see 2.) how can a commodity be said to rise in value, (see 5.) if its cost of production be not increased? and merely because it will exchange for more of a cheap commodity for more of a commodity the cost of production of which has diminished? When I give 2,000 times more cloth for a pound of gold than I give for a pound of iron, does it prove that I attach 2,000 times more utility to gold than I do to iron? certainly not; it proves only as admitted by M. Say, (see 4.) that the cost of production of gold is 2,000 times greater than the cost of production of iron. If the cost of production of the two metals were the same, I should give the same price for them; but if utility were the measure of value, it is probable I should give more for the iron. It is the competition of the producers 'who are perpetually employed in comparing the cost of production with the value of the thing produced,' (see 4.) which regulates the value of different commodities. If, then, I give one shilling for a loaf, and 21 shillings for a guinea, it is no proof that this in my estimation is the comparative measure of their utility.

In No. 4, M. Say maintains with scarcely any variation, the doctrine which I hold concerning value. In his productive services, he includes the services rendered by land, capital, and labour; in mine I include only capital and labour, and wholly exclude land. Our difference proceeds from the different view which we take of rent: I always consider it as the result of a partial monopoly, never really regulating price, but rather as the effect of it. If all rent were relinquished by landlords, I am of opinion, that the commodities produced on the land would be no cheaper, because there is always a portion of the same commodities produced on land, for which no rent is or can be paid, as the surplus produce is only sufficient to pay the profits of stock.

To conclude, although no one is more disposed than I am to estimate highly the advantage which results to all classes of consumers, from the real abundance and cheapness of commodities, I cannot agree with M. Say, in estimating the value of a commodity, by the abundance of other commodities for which it will exchange; I am of the opinion of a very distinguished writer, M. Destutt de Tracy, who says, that 'To measure any one thing is to compare it with a determinate quantity of that same thing which we take for a standard of comparison, for unity. To measure, then to ascertain a length, a weight, a value, is to find how many times they contain metres, grammes, francs, in a word, unities of the same description.' A franc is not a measure of value for any thing, but for a quantity of the same metal of which francs are made, unless francs, and the thing to be measured, can be referred to some other measure which is common to both. This, I think, they can be, for they are both the result of labour.' and, therefore, labour is a common measure, by which their real as well as their relative value may be estimated. This also, I am happy to say, appears to be M. Destutt de Tracy's opinion.(45*) He says, 'as it is certain that our physical and moral faculties are alone our original riches, the employment of those faculties, labour of some kind, is our only original treasure, and that it is always from this employment, that all those things are created which we call riches, those which are the most necessary, as well as those which are the most purely agreeable. It is certain too, that all those things only represent the labour which has created them, and if they have a value, or even two distinct values, they can only derive them from that of the labour from which they emanate.'

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 capital. 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.(46*) 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 partly 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 constantly overlooks the essential difference that there is between value in use, and value in exchange.

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

Chapter 21

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 alteration 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.(47*)

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.(48*) 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 per annum, he would not lock it up in a chest, but would either increase his expenses by £10,000; 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. If he increased his expenses, his effectual demand might probably be for buildings, furniture, or some such enjoyment. If he employed his £10,000 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.(49*)

Productions are always bought by productions, or by services; 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 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 gratifying 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.'

It follows then from these admissions that there is no limit to demand - no limit to the employment of capital while it yields any profit, and that however abundant capital may become, there is no other adequate reason for a fall of profit but a rise of wages, and further it may be added, that the only adequate and permanent cause for the rise of wages is the increasing difficulty of providing. food and necessaries for the increasing number of workmen.

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 been frequently 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 dependence 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 3 1/2, 4, and 4 1/2 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 capital in 5 per cent stock is selling for £95, an exchequer bill of £100, will be sometimes selling for £100 5s., for which exchequer bill, no more interest will be annually paid than £4 11s. 3d.: one of these securities pays to a purchaser at the above prices, an interest of more than 5 1/4 per cent, the other but little more than 4 1/4; 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 money for £100 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.(50*)

Chapter22

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 per quarter; it could not then be exported to foreign countries where it sold for £3 15s. per quarter. But if a bounty of 10s. per quarter were given on exportation, it could be sold in the foreign market at £3 10s., and consequently the same profit would be afforded to the corn grower, whether he sold it at £3 10s. in the foreign, or at £4 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, or 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 labour. 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 its natural price. If the natural price of cloth were 20s. per yard, a great increase in the foreign demand might raise the price to 25s., 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 20s. 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 reduction. '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.'(51*)

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.'

'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 16s. a bushel, as he was with two bushels, when the price was 8s. per bushel; or with 24s. in money, as he was before with 16s. 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 8s. per bushel, and wages to 16s. 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 would be 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.'(52*) 'It regulates,' says Adam 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 shoemaker, 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, the first sort will rise in relative value. If no more labour than before be required to bring either cloth or 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 will 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,(53*) 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 establishing high duties on the importation, and bounties on the exportation of commodities; their interest is wholly temporary.

A bounty on the exportation of manufactures will, undoubtedly, as Dr Smith contends, raise for a time 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 produce 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, and all advantage from a high market price would cease. It is, then, only during the interval after the rise in the market price of commodities, and till 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 high duties on the importation either of manufactures or of corn, or of a bounty on their exportation, 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 and in France £3 15s. a bounty of 10s. will ultimately reduce it to £3 10s. in France, and maintain it at the same price of £4 in England. For every quarter exported, England pays a tax of 10s. For every quarter imported into France, France gains only 5s., so that the value of 5s. 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.(54*)

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 importations of foreign commodities,) is every where fully 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 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 our portion of 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.(55*)

'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 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.'(56*)
Vol. i. p. 401. I cannot see 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 105 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 7th 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.