Chapter 4
On Natural and Market Price

In making labour the foundation of the value of commodities, and the comparative quantity of labour which is necessary to their production, the rule which determines the respective quantities of goods which shall be given in exchange for each other, we must not be supposed to deny the accidental and temporary deviations of the actual or market price of commodities from this, their primary and natural price.

4.1
In the ordinary course of events, there is no commodity which continues for any length of time to be supplied precisely in that degree of abundance, which the wants and wishes of mankind require, and therefore there is none which is not subject to accidental and temporary variations of price.

4.2
It is only in consequence of such variations, that capital is apportioned precisely, in the requisite abundance and no more, to the production of the different commodities which happen to be in demand. With the rise or fall of price, profits are elevated above, or depressed below their general level, and capital is either encouraged to enter into, or is warned to depart from the particular employment in which the variation has taken place.

4.3
Whilst every man is free to employ his capital where he pleases, he will naturally seek for it that employment which is most advantageous; he will naturally be dissatisfied with a profit of 10 per cent, if by removing his capital he can obtain a profit of 15 per cent. This restless desire on the part of all the employers of stock, to quit a less profitable for a more advantageous business, has a strong tendency to equalize the rate of profits of all, or to fix them in such proportions, as may in the estimation of the parties, compensate for any advantage which one may have, or may appear to have over the other. It is perhaps very difficult to trace the steps by which this change is effected: it is probably effected, by a manufacturer not absolutely changing his employment, but only lessening the quantity of capital he has in that employment. In all rich countries, there is a number of men forming what is called the monied class; these men are engaged in no trade, but live on the interest of their money, which is employed in discounting bills, or in loans to the more industrious part of the community. The bankers too employ a large capital on the same objects. The capital so employed forms a circulating capital of a large amount, and is employed, in larger or smaller proportions, by all the different trades of a country. There is perhaps no manufacturer, however rich, who limits his business to the extent that his own funds alone will allow: he has always some portion of this floating capital, increasing or diminishing according to the activity of the demand for his commodities. When the demand for silks increases, and that for cloth diminishes, the clothier does not remove with his capital to the silk trade, but he dismisses some of his workmen, he discontinues his demand for the loan from bankers and monied men; while the case of the silk manufacturer is
the reverse: he wishes to employ more workmen, and thus his motive for borrowing is increased: he borrows more, and thus capital is transferred from one employment to another, without the necessity of a manufacturer discontinuing his usual occupation. When we look to the markets of a large town, and observe how regularly they are supplied both with home and foreign commodities, in the quantity in which they are required, under all the circumstances of varying demand, arising from the caprice of taste, or a change in the amount of population, without often producing either the effects of a glut from a too abundant supply, or an enormously high price from the supply being unequal to the demand, we must confess that the principle which apportions capital to each trade in the precise amount that it is required, is more active than is generally supposed.

4.4
A capitalist, in seeking profitable employment for his funds, will naturally take into consideration all the advantages which one occupation possesses over another. He may therefore be willing to forego a part of his money profit, in consideration of the security, cleanliness, ease, or any other real or fancied advantage which one employment may possess over another.

4.5
If from a consideration of these circumstances, the profits of stock should be so adjusted, that in one trade they were 20, in another 25, and in another 30 per cent, they would probably continue permanently with that relative difference, and with that difference only; for if any cause should elevate the profits of one of these trades 10 per cent either these profits would be temporary and would soon again fall back to their usual station, or the profits of the others would be elevated in the same proportion.

4.6
The present time appears to be one of the exceptions to the justness of this remark. The termination of the war has so deranged the division which before existed of employments in Europe, that every capitalist has not yet found his place in the new division which has now become necessary.

4.7
Let us suppose that all commodities are at their natural price, and consequently that the profits of capital in all employments are exactly at the same rate, or differ only so much as, in the estimation of the parties, is equivalent to any real or fancied advantage which they possess or forego. Suppose now that a change of fashion should increase the demand for silks, and lessen that for woollens; their natural price, the quantity of labour necessary to their production, would continue unaltered, but the market price of silks would rise, and that of woollens would fall; and consequently the profits of the silk manufacturer would be above, whilst those of the woollen manufacturer would be below, the general and adjusted rate of profits. Not only the profits, but the wages of the workmen, would be affected in these employments. This increased demand for silks would however soon be supplied, by the transference of capital and labour from the woollen to the silk manufacture; when the market prices of silks and woollens
would again approach their natural prices, and then the usual profits would be obtained by the respective manufacturers of those commodities.

4.8
It is then the desire, which every capitalist has, of diverting his funds from a less to a more profitable employment, that prevents the market price of commodities from continuing for any length of time either much above, or much below their natural price. It is this competition which so adjusts the exchangeable value of commodities, that after paying the wages for the labour necessary to their production, and all other expenses required to put the capital employed in its original state of efficiency, the remaining value or overplus will in each trade be in proportion to the value of the capital employed.

4.9
In the 7th chap. of the Wealth of Nations, all that concerns this question is most ably treated. Having fully acknowledged the temporary effects which, in particular employments of capital, may be produced on the prices of commodities, as well as on the wages of labour, and the profits of stock, by accidental causes, without influencing the general price of commodities, wages, or profits, since these effects are equally operative in all stages of society, we will leave them entirely out of our consideration, whilst we are treating of the laws which regulate natural prices, natural wages and natural profits, effects totally independent of these accidental causes. In speaking then of the exchangeable value of commodities, or the power of purchasing possessed by any one commodity, I mean always that power which it would possess, if not disturbed by any temporary or accidental cause, and which is its natural price.

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."

20.1
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, and a country is rich or poor, according as its commodities will exchange for more or less corn. There are others again, who consider a country rich or poor, according to the quantity of labour that it can purchase. But why should gold, or corn, or labour, be the standard measure of value, more than coals or iron;—more than cloth, soap, candles, and the other necessaries of the labourer?—why, in short, should 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.

20.2
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.

20.3
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.

20.4
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.
20.5
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.

20.6
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.

20.7
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.

20.8
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 reproducitively; 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.

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.

20.11
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.

20.12
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."

20.13
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."

20.14
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. 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.

20.15
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.

Footnotes:
1. In the exchange of two products, we only in fact exchange the productive services which have served to create 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 its production which limits the extent of its demand. When its 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 everything 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. 2 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 its 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

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*

21.1 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.

21.3
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.

21.4
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.

21.5
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.

21.7
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."

21.8
"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?

21.9
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."

21.10
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."

21.11
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.

21.12
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.

21.13
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 3½, 4, and 4½ per cent.

21.14
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.

21.15
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 5¼ per cent, the other but little more than 4¼; a certain quantity of these exchequer bills is required as a safe and marketable investment for bankers; if they were increased much beyond this demand, they would probably be as much depreciated as the 5 per cent stock. A stock paying 3 per cent per annum will always sell at a proportionally greater price than stock paying 5 per cent, for the capital debt of neither can be discharged but at par, or £100 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.