Principles of Political Economy
Considered with a View to Their Practical Application

Chapter II
On the Nature, Causes, and Measures of Value

by
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The Rev. T. R. Malthus,
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Chapter II—On the Nature, Causes, and Measures of Value
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Chapter II. On The Nature, Causes, and Measures of Value.

Section I.—On the different sorts of Value.

Most writers in treating of value, have considered it as having two different meanings; one, value in use, and the other, value in exchange. We are not, however, much in the habit of applying the term in the first of these two senses. We do not often hear of the value of air and water, although they are bodies in the highest degree useful, and indeed essentially necessary to the life and happiness of human beings. Yet it may be admitted that the term, taken perhaps in a metaphorical, rather than in a literal sense, may imply, and is sometimes used to imply, whatever is in any way beneficial to us, and in this sense may apply without impropriety to an abundant spring of water, or to a fine air, although no question could arise respecting their value in exchange.

As this meaning therefore of the word value has already been admitted by many writers into the vocabulary of political economy, it may not be worth while to reject it; and it need only be observed, that as the application of the word value in this way, is very much less frequent than in the other, it should never appear alone, but should always be marked by the addition *in use*.

Value in exchange is the relation of one object to some other or others in exchange. To determine this relation accurately in any particular case, an actual exchange must take place; and every exchange must imply not only the power and will to give some object in exchange for one more wanted, but a reciprocal desire in the party possessing the commodity wanted, for the commodity or the labour proposed to be exchanged for it.

When this reciprocal desire exists, the rate at which the exchange is made, or the portion of one object which is given for an assigned portion of the other, will depend upon the estimation in which each is held by the parties concerned, founded on the desire to possess, and the difficulty of procuring possession of it.

Owing to the necessary difference of the desires of individuals, and their powers of producing, or purchasing, it is probable that the contracts thus made were, in the first instances, very different from each other. Among some individuals it might be agreed to give six

pounds of bread for a pound of venison, and among others only two. But the man who was ready and willing to give six pounds of bread for a pound of venison, if he heard of a person at a little distance who would take two pounds for the same quantity, would of course not continue to give six; and the man who would consent to give a pound of venison for only two pounds of bread, if he could any where else obtain six, would not continue to make an exchange by which he could obtain only two.

After a certain time it might be expected that a sort of average would be formed, founded on all the offers of bread, compared with all the offers of venison; and thus, as is very happily described by Turgot, a current relative value of all commodities in frequent use would be established.

It would be known not only that a pound of venison was worth four pounds of bread, but that it was also worth perhaps a pound of cheese, a quarter of a peck of wheat, a quart of wine, a certain portion of leather, &c. &c. each of an average quality, the estimation in which each of these several objects was ordinarily held by the society, being determined by the ordinary desires of individuals to possess it, and the ordinary difficulty of procuring possession of it.

Each commodity would in this way measure the relative values of all others, and would in its turn be measured by any one of them. Each commodity would also be a representative of value. The possessor of a quart of wine might consider himself in possession of a value equal to four pounds of bread, a pound of cheese, a certain portion of leather, &c. &c. and thus each commodity would, with more or less accuracy and convenience, possess two essential properties of money, that of being both a representative and a measure of value.

But long before it is conceivable that this general valuation of commodities, with regard to each other should have taken place to any considerable extent, or with any tolerable degree of accuracy, a great difficulty in making exchanges, and in the determination of relative value would be constantly recurring from the want of a reciprocal demand. The possessor of venison might want bread, but the possessor of bread to whom he applied might not want venison, or not that quantity of it which the owner would wish td part with. This want of reciprocal demand would occasion in many instances, and in

places not very remote from each other, the most unequal exchanges, and except in large fairs or markets where a great quantity and variety of commodities were brought together, would seem almost to preclude the possibility of any thing like such a general average valuation as has been just described.

Every man, therefore, in order to secure this reciprocal demand, would endeavour, as is justly stated by Adam Smith, so to carry on his business, as to have by him, besides the produce of his own particular trade, some commodity for which there was so general and constant a demand, that it would scarcely ever be refused in exchange for what he wanted. In order that each individual in a society should be furnished with that share of the whole produce, to which he is entitled, by his wants and powers, it is not only necessary that there should be some measure of this share, but some medium by which he can obtain it in the quantity and at the time best suited to him.

The constantly recurring want of some such medium occasioned the use of various commodities for this purpose in the early periods of society.

Of these, cattle seem to have been the most general. Among pastoral nations, they are not only kept without difficulty or loss by those who obtain them, but as they form the principal possessions and wealth of society in this stage of its progress, they must naturally have been the subject of frequent exchanges, and their exchangeable value in consequence compared with other commodities would be pretty generally known.

It seems to be quite necessary indeed that the commodity chosen for a medium of exchange should, in addition to the other qualities which may fit it for that purpose, be in such frequent use that the estimation in which it was held, founded on the desire to possess it, and the difficulty of obtaining it, should be tolerably well established.

A curious and striking proof of this is, that notwithstanding the peculiar aptitude of the precious metals to perform the functions of a medium of exchange, they had not been used for that purpose in Mexico at the period of its conquest by the Spaniards, although these metals were in some degree of plenty as ornaments, and although the

want of some medium of exchange was clearly evinced by the use of the nuts of cacao for that purpose.[1]

It is probable, that as the practice of smelting and refining the ores of the precious metals had not yet been resorted to, the supply of them was not sufficiently steady, nor was the use of them sufficiently general, or the degree of difficulty with which they were obtained sufficiently known, to fit them for the purpose required.

In Peru, where the precious metals were found by the Spaniards in much greater abundance, the practice of smelting and refining the richest ores had begun to prevail, although no shafts had been sunk to any depth in the earth.[2] But in Peru the state of property was so peculiar, and there was so little commerce of any kind, that a medium of exchange seems not to have been called for; at least there is no account of the use of either of the precious metals, or of any other commodity in the capacity of money.

In the old world the art of smelting and refining the ores of gold, silver, and copper, seems to have been known to some of the most improved nations of which we have accounts, from the earliest ages; and as soon as the means used to obtain these metals, and a certain accumulation of them had rendered their supply in the market steady, and they had been introduced into common use in the shape of ornaments and utensils, their other peculiar and appropriate qualities, such as their durability, divisibility, uniformity of substance, and great value in a small compass would naturally point them out as the best commodity that could be selected to answer the purpose of a medium of exchange, and measure of value.

But when they were adopted as the general measure of value, it would follow, of course, that all other commodities would be most frequently compared with this measure. The nominal value of a commodity is strictly speaking its value in any one commodity named; but as the precious metals are on almost all occasions the commodity named, or intended to be named, the nominal value of a commodity, when no object is specifically referred to, is always understood to mean its value in exchange for the precious metals.

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[1] Robertson's *America*, Vol. iii. Book vii. page 215.

[2] Ibid, page 252.

This sort of value has been usefully designated by the name of price. It is, properly speaking, another term for nominal value; and as such we may apply it to any particular commodity named, and say price in corn, price in cloth, or price in any other article, with which we wish to compare any given object; but whenever it occurs without the above additions, it is always understood to mean the value of a commodity estimated in the precious metals, or in the currencies of different countries which profess to represent them.

The introduction of a measure which determined the nominal and relative values of commodities with a medium which would be readily accepted by all persons, was a most important step in the progress of society, and tended to facilitate exchanges and stimulate production to an extent which, without such an instrument, would have been perfectly impossible.

It is very justly observed by Adam Smith, that it is the nominal value of goods, or their prices only, which enter into the consideration of the merchant.[1] It matters very little to him whether a hundred pounds, or the goods which he purchases with this sum, will command more or less of the labour, or of the necessaries and conveniences of life in Bengal than in London. What he wants is an instrument by which he can obtain the commodities in which he deals, and estimate the relative values of his sales and purchases. His returns come to him wherever he lives; and whether it be in London or Calcutta, or whether they come to him in goods, bills, or bullion, his gain will be in proportion to the excess of their money value above the amount which he has expended to obtain them. The variations which may take place in the value of money during the short period of a mercantile transaction will, in general, be so inconsiderably that they may safely be neglected.

But though the precious metals are an accurate and unexceptionable measure of value at the same place, and nearly at the same time; and in those parts of the world where they are in general use answer the important purpose of determining the rate at which the products of the most distant countries shall exchange with each other, when brought to the same spot, and thus give the greatest encouragement to the production and distribution of wealth throughout the commer-

[1] Book I, ch. V. p. 55; 6th edit.

cial world; yet we know from experience, that at different periods and in different countries, they are liable to great changes of value owing to the greater or less fertility of the mines, or the greater or less facility of purchasing them; and that consequently given portions of them will, in many cases express most imperfectly the difficulty of obtaining possession of the numerous objects for which they may be exchanged.

If we are told that a certain quantity of cloth in a particular country will exchange for ten ounces of silver, or that the revenue of a particular sovereign seven or eight hundred years ago, was £400,000 a year, these statements of nominal value do not tell me whether the cloth is obtained with facility or difficulty, or whether the resources of the sovereign are abundant or scanty. Without further information on the subject, we should be quite at a loss to say, whether it would be necessary to sacrifice the worth of ten days labour to obtain the cloth, or a hundred days whether the king in question might be considered at having a very inadequate revenue; or whether the sum mentioned was so great as to be incredible.[1]

It is quite obvious that in cases of this kind, and they are of constant recurrence, the values of commodities or incomes estimated in the precious metals, or in other commodities which are subject to considerable variations in the difficulty of obtaining them, may imply an increase or decrease of value merely in name and would be of little use to us alone.

What we want further to know, is the estimation in which the cloth and money were held in the country, and at the time in question, founded on the desire to possess, and the difficulty of obtaining possession of them.

It is truly stated by Mr. Senior, that in comparing two commodities together, the power of one to purchase the other must depend upon two sets of causes, that is, upon the causes which affect the desire to possess, and the difficulty of obtaining possession of one of them, and the causes which affect the desire to possess, and the difficulty of obtaining possession of the other. The causes which affect the

[1] Hume very reasonably doubts the possibility of William the Conqueror's revenue being £400,000 a year, as represented by an ancient historian, and adopted by subsequent writers.

desire to possess, and the difficulty of obtaining possession of any one commodity, may with propriety be denominated the intrinsic causes of its power of purchasing; because the more these causes increase, the greater power will the commodity possess of purchasing all those objects which continue to be obtained with the same facility. The causes which affect the desire to possess, and the difficulty of obtaining possession of' all the different commodities with which the first commodity might be exchanged, may with propriety be denominated the extrinsic causes of its power of purchasing; because while the desire to possess, and the difficulty of obtaining possession of the first commodity remains precisely the same, its power of purchasing other commodities may vary in any degree, owing to the variations in the desire to possess, and the difficulty of obtaining possession of all the other commodities with which it might be exchanged, that is, owing to causes extrinsic to those which operate on the first commodity.

Now it is obvious that these extrinsic causes must, from their nature, and the variety of commodities to which they would apply, be almost innumerable; and though it would certainly be desireable to have some measure of the power of purchasing the mass of commodities, or at least the principal necessaries and conveniences of life, as it would enable us to form an estimate of the wealth of those persons who were in possession of particular commodities, or of certain revenues in money, yet when we consider what such a measure implies, we must feel assured that no one object exists, or can be supposed to exist with such qualities as would fit it to become a standard measure of this kind. It would imply steadiness in the desire to possess, and the difficulty of obtaining possession, not merely of one object, but of a great variety of objects, which is contrary to all theory and experience.

But even if such a measure were attainable, though it might be very desireable as a measure of wealth, it would not be a measure of value according to the most general use of the term.

When it is said that the exchangeable value of a commodity is proportioned to its general power of purchasing,[1] if the expression has any definite meaning, it must imply that while a commodity continues to purchase the same quantity of the mass of commodities, it continues of the same exchangeable value. If it will purchase more, it rises proportionally in value, if it will purchase less, it falls proportionally in value.

Now let us suppose, what is continually occurring, that from improvements in machinery, the fall of profits, and the increase of skill both in manufactures and agriculture, a large mass of manufactured articles can be obtained with much greater facility than before, while the increase of skill in agriculture prevents any increase in the difficulty of obtaining raw produce, can it be asserted with any semblance of correctness, that an object which under these changes would command the same quantity of agricultural and manufactured products of the same kind, and each in the same proportion as before, would be practically considered by the society as of the same exchangeable value. On the supposition here made, no person would hesitate for a moment to say, that cottons had fallen in value, that linen had fallen in value, that silks had fallen in value, that cloth had fallen in value, &c. and it would be a direct contradiction in terms, to add that an object which would purchase only the same quantity of all these articles, which had confessedly fallen in value, had not itself fallen in value.

The general power of purchasing, therefore, possessed by a particular commodity, cannot with any sort of propriety be considered as representing the variations in its exchangeable value, according to the most usual meaning attached to the term. The exchangeable value of a commodity can only be proportioned to its general power of purchasing so long as the commodities with which it is exchanged continue to be obtained with the same facility. But as it is known by experience that no considerable mass of commodities ever continues to be obtained with the same facility, it is observable that when we speak of the variations in the exchangeable value of a particular

[1] Adam Smith defines the value of an object in exchange to be, "the power of purchasing other goods, which the possession of that object conveys." Book I. ch. iv. p. 42; 6th edit.

commodity, we refer almost invariably to its power of purchasing arising from intrinsic causes.

That this is so, is incontrovertibly proved by the manner in which we practically estimate the variations of value by money. In the same places, and for short periods, money is universally considered as a correct measure of value in the ordinary sense in which the term is used. If from any cause whatever the members of the society are willing and able to make a greater sacrifice in money, in order to obtain a particular commodity, we say that it has risen in value, without stopping to inquire into the state of other commodities. If corn be dear, on account of a deficient supply, we say that corn has risen in value; but if we still pay the same money for our coats, shirts, and shoes, we never think of saying that they have fallen in value, although on account of the rise in a great mass of raw produce, they will have diminished most essentially in their general power of purchasing. The corn is said to have risen in exchangeable value, because its power of purchasing has been affected by a cause intrinsic to the article itself, namely, a deficiency of its supply. The coats, shirts, and shoes, are said to have remained of the same value, because their supply, compared with the demand, appears to have remained the same, and nothing has operated to increase or diminish their power of purchasing arising from intrinsic causes. In neither case do we trouble ourselves about the extrinsic causes of their power of purchasing. During the short periods in which we consider the value of money as nearly constant, we invariably refer to the power of particular commodities to command, at different times, different quantities of money, as expressing distinctly the variations in their exchangeable values. But as a rise or fall of a commodity in money during the periods in which money is considered as constant, cannot indicate any other variations than those which arise from intrinsic causes, it follows necessarily, that when we refer to the variations in the values of commodities, in the ordinary sense in which the term is used, we refer exclusively to their purchasing power arising from intrinsic causes, or to that kind of value which may be denominated their intrinsic value in exchange.

If then we continue to apply the term value in the first sense mentioned, we shall have three sorts oi value:

1. Value in use, which may be defined to be the intrinsic utility of an object.

2. Nominal value in exchange, or price, which, unless something else is specifically referred to, may be defined to be the value of commodities estimated in the precious metals.

3. Intrinsic value in exchange, which may be defined to be the power of purchasing arising from intrinsic causes, in which sense, the value of an object is understood when nothing further is added.[1] This definition is precisely equivalent to—The estimation in which a commodity is held, founded on the desire to possess, and the difficulty of obtaining possession of it; and accords entirely with the definition of the exchangeable value of a commodity, given in my work *On definitions in Political Economy*, namely,—The estimation in which a commodity is held at any place and time, determined in all cases by the state of the supply compared with the demand, and ordinarily by the elementary cost of production.

Section II.—Of Demand and Supply as they affect Exchangeable Value.

The terms demand and supply are so familiar to the ear of every reader, and their application in single instances so fully understood, that in the slight use which has hitherto been made of them, it has not been thought necessary to interrupt the course of the reasoning by definitions and explanations. These terms, however, though in constant use, are by no means applied with precision. And before we proceed further, it may be advisable to clear this part of the ground as much as possible, that we may be certain of the footing on which we stand. This will appear to be the more necessary, as it must be allowed that of all the principles of political economy, there is none which bears so large a share in the phenomena which come under its consideration as the principle of supply and demand.

[1] There has been no more fruitful source of error in the very elements of political economy, than the not distinguishing between the power of purchasing generally, and the power of purchasing arising from intrinsic causes; and it is of the highest importance to be fully aware that, practically, when the rise or fall in the value of a commodity is referred to, its power of purchasing arising from extrinsic causes is always excluded.

It has been already stated, that exchangeable value is the relation of one object to some other or others in exchange. And when, by the introduction of a medium of exchange and measure of value, a distinction has been made between buyers and sellers, the demand for any sort of commodities may be defined to be, the will of persons to purchase them, combined with their general means of purchasing; and supply, the quantity of the commodities for sale, combined with the desire to sell them.[1]

It is further evident, that when the use of the precious metals, as a medium of exchange and measure of value, has become general, and during those periods when their value is considered as remaining the same, the demand will be represented and measured by the sacrifice in money which the demanders are willing and able to make in order to satisfy their wants.

In this state of things, the value of commodities in money or their prices are determined by the demand for them, compared with the supply of them. And this law appears to be so general, that probably not a single instance of a change of price can be found which may not be satisfactorily traced to some previous change in the state of the demand or supply.

In examining the truth of this position, we must constantly bear in mind the terms in which it is expressed; and recollect, that when prices are said to be determined by demand and supply, it is not meant that they are determined either by the demand alone, or by the supply alone, but by their relation to each other.

But how is this relation to be determined? It has sometimes been said, that demand is always equal to supply; because no supply of any commodity can take place for which there is not a demand, which will take off all that is offered. In one sense of the terms in which demand and supply have been used, this position may be granted. The actual content of the demand, compared with the actual extent of the supply are always nearly equal to each other. If the sup-

[1] There may be sometimes a comparatively small quantity of certain commodities ready for sale, but if a large supply is soon expected, the desire to sell will be great, and the prices low. On the other hand, there may be a comparatively large quantity of the commodities ready for sale, yet if a future scanty supply is looked forward to, the dealers will not be anxious for an immediate sale, and the prices may be high.

ply be ever so small, the extent of the demand cannot be greater; and if the supply be ever so great, the extent of the demand will in most cases increase in proportion to the fall of price occasioned by the desire to sell, and the consumption will finally equal the production. It cannot, therefore, be in this sense that a change in the proportion of demand to supply takes place; because in this sense demand and supply always bear nearly the same relation to each other. And this uncertainty in the use of these terms, renders it an absolutely necessary preliminary in the present inquiry, clearly to ascertain what is the nature of that change in the relation of demand and supply on which the prices of commodities so entirely depend.

Demand has been defined to be the will to purchase, combined with the means of purchasing.

The greater is the degree of this will, and of these means of purchasing when directed to any particular commodity wanted, the greater or the more intense may be said to be the demand for it. But, however great this will and these means may be among the demanders of a commodity, none of them will be disposed to give a high price for it, if they can obtain it at a low one; and as long as the means and competition of the sellers continue to bring the quantity wanted to market at a low price, the whole intensity of the demand will not show itself.

If a given number of commodities attainable by labour alone, were to become more difficult of acquisition, as they would evidently not be obtained unless by means of increased exertion, we might merely consider such increased exertion, if applied, as an evidence of a greater intensity of demand, or of a will and power to make a greater sacrifice in order to obtain them.

In the same manner, if while money is considered as of the same value, certain commodities, either from scarcity, or the greater cost of production become more difficult of acquisition, as they will certainly not be acquired except by those who are willing and able to sacrifice a greater amount of money in order to obtain them, such sacrifice, if made, must be considered as an evidence of greater intensity of demand.

In fact, it may be said, that the giving a greater price for a commodity, while the difficulty of obtaining money remains the same, necessarily implies a greater intensity of demand; and that the real

question is, what are the causes which determine the increase or diminution of this intensity of demand, which shows itself in a rise or fall of prices.

It has been justly stated that the causes which tend to raise the price of any article estimated in some commodity named, and supposed, for short periods, not essentially to vary in the difficulty of its production, or the state of its supply compared with the demand, are, an increase in the number, wants, and means of the demanders, or a deficiency in the supply; and the causes which lower the price are a diminution in the number, wants, and means of the demanders, or an increased abundance in its supply.

Now the first class of these causes is obviously calculated to call forth the expression of a greater intensity of demand, and the other of a less.

If, for instance, a commodity which had been habitually demanded and consumed by a thousand purchasers, were suddenly to be wanted by two thousand, it is clear that before this increased extent of demand can be supplied, some must go without what they want; and it is scarcely possible to suppose that the intensity of individual demand should not exist in such a degree among a sufficient number of these two thousand demanders, as to take off the whole of the commodity produced at an increased price. At the same time, if we could suppose it possible, that the wills and means of the demanders, or the intensity of their demand would not admit of increase, it is quite certain that however the matter might be settled among the contending competitors, no rise of price could take place.[1]

In the same manner, if a commodity were to be diminished one half in quantity, it is scarcely possible to suppose that a sufficient number of the former demanders would not be both willing and able to take off the diminished quantity, at a higher price; but if they really would not or could not do this, the price could not rise.

[1] Sir Edward West seems to think, that a demand *in posse* cannot be called demand; but it does not appear to me that there is any impropriety in so applying the term; and it is quite certain that if there were not a greater intensity of demand *in posse* than *in esse*, no failure of supply could raise prices. In reality prices are determined by the demand *in posse* compared with the supply *in esse*.

On the other hand, if the permanent cost of producing the commodity were doubled, it is evident that such a quantity only could be permanently brought to market, as would supply the wants of those who were both able and willing to make a sacrifice for the attainment of their wishes, equal to double of what they did before. The quantity of the commodity which would be brought to market under these circumstances might be extremely different. It might be reduced to the supply of a single individual, or might remain precisely the same as before. If it were reduced to the supply of a single individual, it would be a proof that only one of all the former purchasers was both able and willing to make an effectual demand for it at the advanced price. If the supply remained the same, it would be a proof that all the purchasers were in this state, but that the expression of this intensity of demand had not before been rendered necessary on account of the facility with which the article had been previously produced, and the competition of the sellers. In the latter case there would be exactly the same quantity of the commodity supplied, and exactly the same effectual demand for it in regard to extent. But there would be a much greater intensity of demand called forth, the value brought to market to exchange for the commodity in question would have greatly increased; and this may be fairly said to be a most important change in the relation between the demand and the supply of the commodity. Without the increased intensity of demand, which in this case takes place, the commodity would cease to be produced, that is, the failure of the supply would be contingent Upon the failure of the will or power to make a greater sacrifice for the object sought.[1]

[1] Adam Smith says, that "when the quantity of any commodity which is brought to market falls short of the effectual demand, all those who are willing to pay the whole value of the rent, wages, and profits, which must be paid in order to bring it thither, cannot be supplied with the quantity which they want. Rather than want it altogether some of them will be willing to give more." Now this willingness, on the part of some of the demanders, to make a greater sacrifice than before, in order to satisfy their wants, is what I have called a greater intensity of demand. As no increase of price can possibly take place, unless the commodity be of such a nature as to excite in a certain number of purchasers this species of demand, and as this species of demand must always be implied whenever we speak of demand and supply as determining prices, I have thought that it ought to have a name. It is essentially different from effectual demand, which, as defined by Adam Smith, is the quantity wanted by those who are willing and able to pay the natural price; and this demand

Upon the same principles, if, owing to an unusual supply, a commodity were to become much more abundant compared with the former number of purchasers, this increased supply could not be all sold, unless the price were lowered. Each seller wishing to dispose of that part of the commodity which he possessed under the fear of its remaining upon his hands, would go on lowering it till he had effected his object; and though the wills and means of the old purchasers might remain undiminished, yet as the commodity could be obtained without the expression of the same intensity of demand as before, this demand would of course not then show itself.

A similar effect would obviously take place from the consumers of a commodity requiring a less quantity of it.

If instead of a temporary abundance of supply compared with the demand, the cost of producing any particular commodity were greatly diminished, the fall of price would in the same manner be occasioned by an increased abundance of supply, either actual or contingent. In almost all practical cases it would be an actual and permanent increase; because the competition of the sellers would lower the price, and it very rarely happens that a fall of price does not occasion an increased consumption. On the supposition however, of the very rare case that a definite quantity of the commodity only was required, whatever might be its price, it is obvious that from the competition of the producers, a greater quantity would be brought to market than could be consumed, till the price was reduced in proportion to the increased facility of production; and this temporary excess of supply would be always contingent upon the circumstance of the price being at any time higher than that which would return average profits. In this case of a fall of prices, as in the other of a rise of prices, the actual quantity of the commodity supplied and consumed may possibly, after a short struggle, be the same as before; yet it cannot be said that no change has taken place in the demand. It may

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will of course generally be the greatest when the natural price is the least. Bat the increased intensity of demand, when actually called forth, uniformly implies an increased value offered, compared with the quantity of the commodity supplied, and is equally applicable to an article which is accidentally scarce, and one which has increased in its natural price. It is invariably and exclusively the intensity of demand, and not the effectual demand, which is referred to, when it is said, and correctly, that the prices of commodities vary as the demand directly, and the supply inversely.

indeed exist latently in the same degree, and the actual consumers of the commodity might be perfectly ready to give what they gave before rather than go without it; but such has been the alteration in the means of supply, compared with the former demand, that the competition of the producers renders the making of the same sacrifice no longer necessary to effect the supply required; and not being necessary, it is of course not made, and the price falls.

It is evidently, therefore, not merely the extent of actual demand, nor even the extent of actual demand compared with the extent of the actual supply, which raises prices, but such a change in the relation between demand and supply, as renders necessary the expression of a greater intensity of demand, or the offer of a greater value compared with the quantity supplied, in order either peaceably to divide an actual produce, or to prevent the future produce of the same kind from failing.

And in the same manner, it is not merely the extent of actual supply, nor the extent of the actual supply compared with the extent of the actual demand, (which are generally nearly equal) that lowers prices; but such a change in the relation of the supply compared with the demand as renders a fall of price necessary, in order to take off a temporary abundance, or to prevent a constant excess of supply contingent upon a diminution in the costs of production, without a proportionate diminution in the price of produce.

If the terms demand and supply be understood, and used in the way here described, there is no case of price, whether temporary or permanent, which they will not determine; and in every instance of bargain and sale, it will be perfectly correct to say, that the prices of commodities will depend upon the relation of the demand to the supply; or will vary as the demand (that is, the money ready to be offered) directly, and the supply inversely.

I wish it to be particularly observed, that in this discussion, I have not given a meaning to the terms demand and supply different from that in which they have been most frequently applied before. In the use which I have made of the words intense and intensity as applied to demand, my purpose has been to explain the meaning which has hitherto always been attached to the terms demand, when it is said to raise prices. Mr. Ricardo, in his chapter "*On the influence of demand and supply on prices*" observes, that "the demand for a commodity

cannot be said to increase, if no additional quantity of it be purchased or consumed." But it is obvious, as I have before remarked, that it is not in the sense of mere extent of consumption that demand raises prices, because it is almost always when prices are the lowest, that the extent of demand and consumption is the greatest. This, therefore, cannot be the meaning hitherto attached to the term demand, when it is said to raise prices. Mr. Ricardo, however, subsequently quotes Lord Lauderdale's statements respecting value, and allows them to be true, as applied to monopolized commodities, and to the market prices of all other commodities, for a limited period. He would allow, therefore, that a deficiency in the usual quantity of an article in a market would occasion a greater demand for it compared with the supply, and raise its price, although in this case less than usual of the article must be purchased by the consumers. Demand in this sense is obviously quite different from the sense in which Mr. Ricardo had before used the term. The one is a demand in regard to extent, the increase of which implies a greater quantity of the commodity purchased; the other is demand in regard to intensity, the increase of which implies the will and power to make a greater sacrifice in order to obtain the object wanted. It is in this latter sense, I think, that the term is most frequently applied; at any rate, it is in this latter sense alone that demand raises prices.[1] It is in the nature of things absolutely impossible that any demand, in regard to extent, should raise prices, unaccompanied by a will and power on the part of the demanders to make a greater sacrifice, in order to satisfy their wants. And my object is to shew that, whenever we talk of demand and supply as determining prices, whether market, or natural, the terms must always be understood in the sense in which Mr. Ricardo, and every other person, has hitherto understood them, when speaking of commodities bought and sold in a market.

[1] Of course it must often happen that an increased intensity of demand, and an increased extent of demand go together. In fact, an increased intensity of demand, when not occasioned by increased difficulty of production, is the greatest encouragement to an increase of produce and consumption.

Section III.—Of the Cost of Production as affected by the Demand and Supply, and on the mode of representing Demand.

It may be said, perhaps, that even according to the view given of demand and supply in the preceding section, the permanent prices of the great mass of commodities will be determined by the ordinary cost of their production. This is unquestionably true, if we include all the component parts of price stated by Adam Smith. Yet, still it is true, that in all transactions of bargain and sale, there is a principle in constant operation, which can determine, and does actually determine, the prices of commodities, independently of any considerations of cost, or of the ordinary wages, profits, and rent expended in their production. And this is found to operate, not only permanently upon that class of commodities which may be considered as monopolies, but temporarily and immediately upon all commodities, and strikingly and pre-eminently so upon all sorts of raw produce.

It has never been a matter of doubt, that the principle of demand and supply determines exclusively, and very regularly and accurately, the prices of monopolized commodities, without reference to the ordinary cost of their production; and our daily and uniform experience shows us that the prices of raw products, particularly those which are most affected by the seasons, are at the moment of their sale determined always by the higgling of the market, and differ widely in different years, and at different times, while the outgoings required to produce them, may have been very nearly the same, and the general rate of profits has not varied.

With regard, therefore, to a class of commodities of the greatest extent, it is acknowledged that the existing market prices are, at the moment they are fixed, determined upon a principle distinct from the cost of production, and that these prices are in reality almost always different from what they would have been, if this cost had exclusively regulated them.

There is indeed another class of commodities, such as manufactures, particularly those in which the raw material is cheap, where the existing market prices much more frequently coincide with the costs of production, and may appear therefore to be exclusively determined by them. Even here, however, our familiar experience shews us, that any alteration in the proportion of the demand to the supply quite overcomes for a time the influence of these costs; and further,

when we come to examine the subject more closely, we find that the cost of production itself only influences the prices of these commodities, as the payment of this cost is the necessary condition of their continued supply in proportion to the extent of the effectual demand for them.

But if this be true, it follows that the great law of demand and supply is called into action to determine what Adam Smith calls natural prices, as well as what he calls market prices.

It has been shown that no change can take place in the market prices of commodities, without some previous change in the relation of the demand to the supply; and the question is, whether the same position is true in reference to natural prices? This question must of course be determined by attending carefully to the nature of the change which an alteration in the cost of production occasions in the state of the demand and supply, and particularly to the specific and immediate cause by which the change of price which takes place is effected.

We all allow that when the cost of production diminishes, a fall of price is almost universally the consequence; but what is it, specifically, which forces down the price of the commodity. It has been shown in the preceding section, that it is an actual or contingent excess of supply.

We all allow that when the cost of production increases, the prices of commodities rise. But what is it specifically which forces up the price? It has been shown that it is an actual or contingent failure of supply. Remove these actual or contingent variations of the supply; that is, let the extent of the supply remain exactly the same, without excess or failure, whether the cost of production rises or falls; and there is not the slightest ground for supposing that any variation of price would take place.

If, for instance, all the commodities which are produced in this country, whether agricultural or manufactured, could be produced during the next ten years without labour, but could only be supplied exactly in the same quantities as they would be in the actual state of things; then, supposing the wills and means of the purchasers to remain the same, there cannot be a doubt that all prices would also remain the same. But if this be allowed, it follows that the relation of the supply to the demand is the dominant principle in the determina-

tion of prices whether market or natural, and that the cost of production can do nothing but in subordination to it, that is, merely as it affects the ordinary relation which the supply bears to the demand.

It is not, however, necessary to resort to imaginary cases in order to fortify this conclusion. Actual experience shows the principle in the clearest light.

In the well known instance noticed by Adam Smith of the insufficient pay of curates, notwithstanding all the efforts of the legislature to raise it, a striking proof is afforded that the permanent price of an article is determined by the demand and supply, and not by the cost of production. The real cost of the education would in this case be more likely to be increased than diminished by the subscriptions of benefactors; but a large part of it being paid by these benefactors, and not by the individuals themselves, it does not regulate and limit the supply; and this supply, on account of such encouragement, becoming and continuing abundant, the price is naturally low, whatever may be the real cost of the education given.

The effects of the poor-rates, in lowering the wages of independent labour, present another practical instance of the same kind. It is not probable that public money should be more economically managed than the income of individuals. Consequently the cost of rearing a family cannot be supposed to be diminished by parish assistance; but a part of the expense being borne by the public, and applied more largely to labourers with families, than to single men, a fair and independent price of labour, adequate to the maintenance of a certain family, is no longer a necessary condition of a sufficient supply. As by means of parish rates so applied, this supply can be obtained without such wages, the real costs of supplying labour no longer regulate the ordinary wages of independent labour.

In fact, in every kind of bounty upon production, the same effects must necessarily take place; and just in proportion that such bounties tend to lower prices, they show that prices depend upon the supply compared with the demand, and not upon the costs of production.

But the most striking instance which can well be conceived to show that the cost of production only influences the prices of commodities, as it influences their supply compared with the demand, is continually before our eyes in the artificial value which is given to bank-notes by limiting their amount. Mr. Ricardo's admirable and

efficient plan for this purpose proceeded upon the just principle, that if you can limit the supply of notes, so that they shall not exceed the quantity of gold which would have circulated if the currency had been metallic, you will keep the notes always of the same value as gold. And I am confident he would have allowed, that if this limitation could be completely effected without the paper being exchangeable for gold, the value of the notes would not be altered, while the same demand for a circulating medium continued. But if an article which costs comparatively nothing, though it performs the most important function of gold, can be kept to the value of gold, by being supplied in the same quantity; it is the clearest of all possible proofs that the value of gold itself no further depends upon the cost of its production, than as this cost influences the supply compared with the demand: and that if the cost were to cease, provided the supply were not increased compared with the demand, the value of gold in this country would still remain the same.

It does not, however, in any degree follow from what has been said, that the costs of production have not a most powerful effect upon prices. But the true way of considering these costs is as the necessary condition of the supply of the objects wanted.

Although at the time of the actual purchase of a commodity, no circumstance affects it but the relation of the supply to the demand; yet as almost all the objects of human desire are obtained by the instrumentality of human exertion, it is clear that the supply of these objects must be regulated—First, by the quantity, skill, and direction of this exertion; Secondly, by the assistance which it may receive from previous accumulations; and Thirdly, by the abundance or scarcity of the materials on which it has to work, and of the food of the labourer. It is of importance therefore to consider the different conditions which must be fulfilled, in order that any commodity should continue to be brought to market in the quantity wanted to supply the effectual demand.

The first condition is, that the labour expended upon it should be so remunerated in the quantity of desirable objects given in exchange for it, as to encourage the exertion of a sufficient quantity of industry in the direction required, as without such adequate remuneration, the supply of the commodity must necessarily fail. If this labour should be of a very severe kind, few comparatively would be willing or able

to engage in it; and upon the common principles of exchangeable value before explained it would rise in price. If the work were of a nature to require an uncommon degree of dexterity and ingenuity, a rise of price would take place in a greater degree; but not merely on account of the esteem which men have for such talents, as stated by Adam Smith, but on account of their rarity, and the consequent rarity of the effects produced by them. In all these cases the remuneration will be regulated, not by the intrinsic qualities, or utility of the commodities produced, but by the state of the demand for them, compared with the supply; and of course by the demand and supply of the sort of labour which produced them. If the commodities have been produced by manual labour exclusively, aided at least only by the unappropriated bounties of nature, and brought to market immediately, the whole remuneration will of course belong to the labourer, and the usual money price of this remuneration in the existing state of the society would be the usual price of the commodity.

The second condition to be fulfilled is, that the assistance which may have been given to the labourer, by the previous accumulation of objects which facilitate future production, should be so remunerated as to continue the application of this assistance to the production of the commodities required. If by means of certain advances to the labourer of machinery, food and materials previously collected, he can execute eight or ten times as much work as he could without such assistance, the person furnishing them might appear at first to be entitled to the difference between the powers of unassisted labour, and the powers of labour so assisted. But the prices of commodities do not depend upon their intrinsic utility, but upon the supply and demand. The increased powers of labour would naturally produce an increased supply of commodities; their prices would consequently fall, and the remuneration for the capital advanced would soon be reduced to what was necessary in the existing state of the society, to encourage the application of such capital to the production in question, in the quantity required by the effectual demand. With regard to the labourers employed, as neither their exertions, nor their skill would necessarily be greater than if they had worked unassisted, their remuneration in money would be nearly the same as before, and would depend entirely upon the kind of labour employed, estimated in the usual way, by the money demand compared with the supply.

But the price of labour so determined would, under the influence of good machinery, give the labourer a greater quantity than before of the produce obtained, though not necessarily a greater proportion of it. It is not, therefore, correct to represent, as Adam Smith does, the profits of capital as a deduction from the produce of labour. They are only a fair remuneration for that part of the production contributed by the capitalist, estimated exactly in the same way as the contribution of the labourer.

The third condition to be fulfilled is, that the prices of commodities should be such as to effect the continued supply of the food and raw materials used by the labourers and capitalists; and we know that this price cannot be paid without yielding a rent to the landlord on almost all the land actually in use. In speaking of the landlords, Adam Smith's language is again exceptionable. He represents them, rather invidiously, as loving to reap where they have not sown, and as obliging the labourer to pay for a license to obtain those natural products which, when land was in common, cost only the trouble of collecting.[1] But he would himself be the first to acknowledge, that if land were not appropriated, its produce would be very much less abundant compared with the demand, and that consequently the producers and consumers would be much worse off; and if it be appropriated, some persons or other must necessarily be the proprietors. It matters not to the society, whether these persons are the same or different from the actual cultivators of the land. The price of the produce will be determined by the general supply compared with the general money demand, and will be the same, or very nearly so, whether the cultivator pays a rent, or uses the land without rent. The only difference would be, that, in the latter case, what remains of this price after paying the necessary labour and profits, will go to the same person that advanced the capital, which is equivalent to saying that the farmer would be better off if he were also the possessor of land, a fact not to be disputed; but it cannot imply, that the labourer or farmer, who in the lottery of human life has not drawn a prize of land, suffers any hardship or injustice in being obliged to give something in exchange for the use of what belongs to another. The possessors of land, whoever they may be, conduct themselves, with regard

[1] *Wealth of Nations*, B. I. ch. vii. p. 74, 6th edit.

to their possessions, exactly in the same way as the possessors of labour and of capital, and let out or exchange what they have for as much money as the demanders are willing to give them for it.

The three conditions, therefore, above specified, must necessarily be fulfilled in every society, in order to obtain the continued supply of by far the greater part of the commodities which it wants; and the compensation which fulfils these conditions, or the ordinary price of any exchangeable commodity, may be considered as consisting of three parts; that which pays the wages of the labourers employed in its production; that which pays the profits of the capital, including the advances to the labourers, by which such production has been facilitated; and that which pays the rent of land,[1] or the compensation for the use of those powers attached to the soil which are in the possession of the landlord; the price of each of these component parts being determined exactly by the same causes as those which determine the price of the whole.

The price which fulfils these conditions is precisely what Adam Smith calls the natural price; and when a commodity is sold at this price, he says it is sold for precisely what it is worth. But here I think he has used the term *worth* in an unusual and improper sense. Commodities are continually said to be worth more than they have cost, ordinary profits included; and according to the customary and proper use of the term worth, we could never say that a given quantity of claret, of corn, or of any other article, was not worth more when it was scarce, although the cost of its production, on the supposition of ordinary profits, had remained the same. The worth of a commodity, in the place where it is estimated, is its market price, not its natural price. It is its intrinsic value in exchange, determined by the state of the supply compared with the demand at the time, and not its ordinary cost. It need hardly be observed, that the payment of taxes of any kind, where required, is an incidental condition of the supply of

[1] Though it is quite true, as will appear in the next chapter, that rent has little effect in determining the prices of raw produce, yet, in almost all commodities, a part of the price is resolvable into rent. The reason is, that the same kinds of products which sell for exactly the same prices, have a very different quantity and value of rent in them; but the greater is the value of the rent, the less is the value of the labour and profits; and therefore the varying value of rent in commodities has but little effect on their prices.

commodities which contributes to increase their cost of production and limit their quantity.

But if it appear generally that the ordinary cost of production only determines the usual prices of commodities, as the payment of this cost is the necessary condition of their supply; and that the component parts of this cost are themselves determined by the same causes which determine the whole, it is obvious that we cannot get rid of the principle of demand and supply, by referring to the cost of production.[1] Natural and necessary prices appear to be regulated by this principle, as well as market prices; and the only difference is, that the former are regulated by the ordinary and average relation of the supply to the demand; and the latter, when they differ from the former, are determined by the extraordinary and accidental relations of the supply to the demand.

It has sometimes been said that there is no such thing as natural price; but explained as Adam Smith has explained it, it is not only a very intelligible, but a very useful term. If the natural price of a commodity be considered as made up of all the money wages which have been paid in the various parts of the process of its production for the specific kinds of labour required, of all the ordinary money profits of the other capitals employed during the periods of various lengths for which they have been advanced, and of all the money rent concerned in the necessary materials and food obtained by the assistance of those powers of nature which are attached to the soil, then supposing things to be in their ordinary and average state and untaxed, it is quite certain that this price, and the ordinary and average prices of commodities, will be found to agree. To this price, which may fairly and usefully be called the natural, necessary, or ordinary price, the market prices are always tending. And this price determines the rate at which commodities usually exchange for each other. So understood, nothing can be more simple, or more generally applicable. The natural price of an acre of copse wood, or of a hun-

[1] One of the two main elements of the cost of production, namely, the rate of profits, is peculiarly variable and pre-eminently dependent on supply and demand. Under the greatest variations in the rates of wages, we may suppose many commodities still to require in their production the same quantities of labour of the same kind; but under great variations in the rate of profits, we cannot suppose that any commodities should still require for their production the same amount of profits.

dred sheep from the highlands of Scotland, which in a country generally well cultivated must be composed chiefly of rent, is as easily explicable as the natural price of corn on the last land taken into cultivation, where rent is quite inconsiderable. And the natural price of those sorts of goods where a large proportion of fixed capital is employed, and the returns of the circulating capital are unusually slow, and where consequently the price must consist chiefly of profits, may be as satisfactorily accounted for as the price of a straw bonnet, or piece of Brussels lace. Where the materials are of scarcely any value, the capital required is quite inconsiderable, and the expense of production must consist almost entirely of labour.

It is obvious that when, from any cause whatever, the money cost of producing a commodity increases, without some increased facility of obtaining money, the estimation in which such a commodity is ordinarily held, or its exchangeable value arising from intrinsic causes, proportionally increases.

In explaining the effects of demand and supply on the values of commodities, whether arising from temporary causes, or from the ordinary costs of production, I have thought that the subject would be best illustrated by referring first to those periods in which the value of money is practically considered as constant; and it is allowed that during such periods, it is the uniform practice of society to represent demand by money. But it is evident that we cannot extend these periods to any considerable length. We well know, that although the precious metals, from their durability, and the consequent steadiness of their supply, are subject to slow changes of value; yet that at distant periods, and in different countries, their value has been, and is, essentially different.

It is absolutely necessary, therefore, to consider how a demand may be represented and measured under any changes which may take place in the value of money.

An effectual demand for a commodity, is such a demand as will fulfil the natural and necessary conditions of the supply; or, as it has been defined, it is the sacrifice which the demanders must make in order to effectuate the continued supply of the commodity in the quantity required under the actual circumstances.

Now it is obvious, that if money varies essentially, as compared with the natural and necessary conditions of the supply of commodi-

ties, a given amount of money cannot possibly represent a given demand, or a given sacrifice.

In every country there are a few commodities obtained by labour alone; and, if the advance of a certain quantity of labour be the necessary condition of the supply of a particular commodity, then the money which will command such labour will represent the effectual demand for the commodity; that is, a demander able and willing to make such a sacrifice as will effectuate the supply. But if, subsequently, money falls in value in relation to the required labour, the same quantity of money obviously ceases to represent the same demand. No one, I apprehend, would venture to affirm that an ounce of pure silver, applied as a demand, would at the present time effectuate the supply of the same quantity of a commodity produced by labour alone, as an equal weight of silver would have effectuated under similar circumstances in the reign of Edward III.; since which period the value of silver, as compared with labour, has fallen five or six times.

Under any changes, however, which may take place in money, if the conditions of the supply of any commodity, or the elementary costs of its production, require a certain quantity of labour of a given description, the power of setting to work that quantity of labour, whether paid for by a larger or smaller quantity of produce or money, will be an effectual demand for it. Now it is obvious that this cannot be said of any product of labour whatever.

In the first place, there is no product of labour which is the sole condition of the supply of any one commodity. Consequently, while the necessary conditions of the supply of any commodity are a given quantity of labour of a certain description, no given quantity of any product of labour can continue, like a given quantity of labour itself, always to represent the same effectual demand for such commodity.

Secondly, there is no product of labour, which, applied directly, enters, as labour itself does, into the composition of all commodities that have value, and constitutes the chief element in the conditions of their supply. Consequently there is no product of labour which can represent the most important condition of the supply of all commodities, namely the quantity of labour absolutely necessary to their production; and we cannot say that a definite quantity of money, a definite quantity of corn, a definite quantity of cloth, or a definite quan-

tity of any product of labour, subject, as they all are, to variations in their relation to labour, can continue to afford an effectual demand for that definite quantity of labour, without which the mass of commodities cannot by possibility be produced.

But if, when commodities are selling at their natural prices, the quantity of labour directly applied to the production of a particular article were to absorb exactly one half, three fourths, or any definite proportion of the whole value, as the demand for this proportion, whatever it might be, the half we will suppose, might be represented and measured by an amount of labour equal in quantity and quality to that which had been actually employed upon the commodity, it is obvious that an equivalent to double the quantity of such labour would be an effectual demand for the whole article produced, involving profits, rent, taxes, or any other accession to the difficulty of bringing the commodity to market, besides that which is occasioned by the necessary quantity of labour to be advanced.

Having this πδ στω, this foundation to go upon, in all commodities, namely, the quantity of immediate labour actually worked up in them, the above conclusion seems to follow necessarily; that is, if a certain quantity of labour will represent and measure the demand for an aliquot part of the value of a commodity, the proper multiple of that quantity of labour must represent and measure the demand for the whole; and as there is no object but labour which can represent and measure the demand for that aliquot of the value of a commodity which consists of immediate labour, it follows necessarily that there is no object but labour which can represent and measure the demand for the whole of a commodity, the value of which is made up of various ingredients besides labour.

When, therefore, owing to changes in the value of money, relatively to labour, we can no longer represent a given demand by a given quantity of money, it appears that we may with accuracy represent such demand by a given quantity of labour.

It follows, therefore, that the power of commanding a given quantity of labour of a given character, together with the will to advance it, represents a given demand. It should be particularly observed, however, that this power is never possessed by the labourers themselves, but by those employers of labour who are both able and will-

ing to pay the quantity of money or of commodities, whether great or small, which is necessary in the actual circumstances of the society to command the required quantity of labour.

Section IV.—Of the Labour which has been employed on a Commodity considered as a Measure of its Exchangeable Value.

In the two last sections, the causes which affect and determine the exchangeable values of commodities have been investigated; and these appear to consist of every circumstance which contributes in any degree to enhance the difficulty of obtaining them: such as, the necessity of paying the wages of a certain quantity of labour, without which the commodity cannot be produced, the necessity of certain advances of other capital, which no one will continue to make without the ordinary remuneration in the shape of profits, and tbe frequent necessity of further payments owing to rents, tithes, taxes, natural and artificial monopolies, and temporary deficiencies of supply, arising from accident, or the state of the seasons. These are all sources of difficulty, which, in proportion to the degree in which they prevail, must raise the exchangeable value of commodities arising from intrinsic causes; and it has further appeared, that the result of all these causes of value is expressed in the state of the supply compared with the intensity of the demand.

We come now to inquire more particularly into the measures of value—an inquiry obviously not identical with an inquiry into the causes of value, as it is only in a very few cases that they can properly be represented by the same object.[1]

A measure of value is wanted for two most important purposes.

First, to measure easily and conveniently the relative values of all commodities, compared one with another, and to enable all dealers to estimate the profits which they make upon their sales. This purpose is completely answered by money.

Secondly, to measure the difficulty with which a commodity is obtained, including all the conditions of its supply; and when two or more commodities have in the course of time altered in their ex-

[1] The labour worked up in a commodity is the principal cause of its value, but it will appear in this chapter that it is not a measure of it. The labour which a commodity will command is not the cause of its value, but it will appear in the next chapter to be the measure of it.

changeable relations to each other, to enable us to ascertain in which, and to what extent in each, the change has taken place.[1] This is most important information, particularly in reference to commodities of the same country, at different times; but it is evident, that as money, in periods of some length, is liable to alter greatly in its exchangeable value, arising from intrinsic causes, it is impossible that, applied as a measure, it can give the information required.

It remains, therefore, to be considered whether any other object can perform the functions of a general measure of value, and answer the purposes above described.

Adam Smith, in his chapter[2] on the real and nominal price of commodities, in which he considers labour as a universal and accurate measure of value, has introduced some confusion into his inquiry, by not adhering strictly to the same mode of applying the labour which he proposes for a measure.

Sometimes he speaks of the value of a commodity as being measured by the quantity of labour which its production has cost, and sometimes by the quantity of labour which it will command in exchange.

It is in the latter sense, however, in which he applies it much the most frequently, and on which he evidently lays the chief stress. "The value of any commodity," he says, "to the person who possesses it, and who means not to use or consume it himself, but to exchange it for other commodities, is equal to the quantity of labour which it enables him to purchase or command. Labour, therefore, is the real measure of the exchangeable value of all commodities."[3] Other expressions in the same chapter apply labour as a measure of value in the same way;[4] and on another occasion, in his digression on the value of silver during the four last centuries, he takes an opportunity to say, "Labour, be it remembered, and not any commodity, or

[1] Nothing appears to me more essential, in an *Inquiry into the nature and causes of the Wealth of Nations*, than to have the means of distinguishing between the rise of one commodity and the fall of another.

[2] Book I. ch. v.

[3] P. 17, 3rd edit.

[4] Book I. ch. v. p. 44, 6th edit.

mass of commodities, is the sole measure of the value of silver, and of all other commodities."[1]

These passages may be said to determine the prevailing sense in which he considers labour as a general measure of exchangeable value. It would not then be worth while to inquire how far labour may be considered as a measure of value, when applied in the way which Adam Smith has practically rejected in reference to the more advanced stages of society, if this mode of applying it had not been adopted by some distinguished modern writers as the foundation of a new theory of value. But as this is the case, the inquiry seems to be called for; and it should be particularly noticed, that the question embraces not merely the propriety of a definition, but the truth of a proposition. It is not merely what should be the definition and the measure of value in exchange, but a question of fact, whether the labour worked up in commodities either determines or measures the rate at which they exchange with each other; and in no stage of society with which we are acquainted does it do this. At a very early period profits will be found to enter largely into the question of exchangeable value as a necessary condition of the supply. To make even a bow and arrow, it is obviously necessary that the wood and reed should be properly dried and seasoned, and the time which these materials require to be kept by the workman before his work is completed, introduces at once a new element into the computation of value. The varying quickness of the returns is likewise an entirely new element, which has nothing to do with the quantity of labour employed upon the capital; and yet in every period of society, the earliest as well as the latest, it is of the utmost importance in the determination of exchangeable value.

HERTIL

The fixed capital necessary to hollow out a canoe may consist of little more than a few stone hatchets and shell chisels, and the labour necessary to make them might not add much to the labour subsequently employed in the work to which they were applied; but it is likewise necessary that the workman should previously cut down the timber, and employ a great quantity of labour in various parts of the process long before there is a possibility of receiving the returns for

[1] Book I. ch. xi. p. 303.

his exertions, either in the use of the canoe, or in the commodities which he might obtain in exchange for it; and during this time, he must of course advance to himself the whole of his subsistence.

But the providence, foresight, and postponement of present gratification for the sake of future benefit and profit, which are necessary for this purpose, have always been considered as rare qualities in the savage; and it can scarcely admit of a doubt that the articles which were of a nature to require this long preparation would be comparatively very scarce, and would have a great exchangeable value in proportion to the quantity of labour which had been actually employed upon them, and on the capital necessary to their production. On this account it is not improbable that a canoe might in such a state of society possess double the exchangeable value of a number of deer, to produce which successively in the market might have cost precisely the same number of days' labour, including the necessary fixed capital, consisting of the bows and arrows, &c. used for killing them; and the great difference of value in this case would arise from the circumstance, that the returns for the labour of killing each successive deer always came in within a few days after it had been advanced, while the returns for the labour expended upon the canoe were delayed probably beyond the year. Whatever might be the rate of profits, the comparative slowness of these returns must tell proportionally on the price of the article; and, as there is reason to think that among savages, the advances necessary for a work of slow returns would be comparatively seldom made, the profits of capital would be extremely high, and the difference of exchangeable value in different commodities, which had cost in their production and in the production of the necessary capital the same quantity of labour, would be very great.

Mr. Ricardo, speaking of the different implements which might be necessary, in an early stage of society, to kill the beaver and the deer, says,[1] that those who furnished these capitals might, under different circumstances, "have a half, a fourth, or an eighth of the produce obtained, the remainder being paid as wages to those who furnished the labour; yet this division could not affect the relative value of these commodities, since, whether the profits of capital were greater

[1] P. 17, 3rd edit.

or less, whether they were 50, 20, or 10 per cent. or whether the wages of labour were high or low, they would operate equally on both employments." But it is quite obvious from what has been said, that if for the employment of killing a deer, we substitute the employment of making a canoe, which would not be completed in less than a year, or perhaps two, and suppose what is here supposed with great probability, that profits might be 50 per cent., the difference between the value of such a product, and the value of a deer, which, on account of its being sold almost the next day, could hardly be affected by profits, would, in reference to the same quantity of labour employed upon each, be as much as 50 per cent. Consequently, in the early stages of society, the relative values of commodities is not determined or measured by the relative quantities of labour employed upon them.

In countries advanced in civilization, it is obvious that the same cause of variation in the exchangeable value of commodities, independent of the labour which has been employed upon them, must prevail as in the early periods of society; and, as might be expected, some others. The profits of capital, indeed, are not so high, and consequently the slowness or quickness of the returns will not, as far as the rate of profits is concerned, produce the same proportionate difference of prices; but to make up for this, the difference in the quantity of fixed capital employed is prodigious, and scarcely the same in any two commodities, and the difference in the returns of capital varies from two or three days, to two or three years, and in some cases many more.

The proposition of Mr. Ricardo, which states that a rise in the price of labour lowers the price of a large class of commodities, has undoubtedly a very paradoxical air; but it is, nevertheless, true, and the appearance of paradox would vanish, if it were stated more naturally and correctly.

Mr. Ricardo has allowed, that the effect he contemplated and attributed to a rise in the wages of labour is produced by a fall of profits, which he considers as the same thing;[1] and undoubtedly no one

[1] "Every rise of wages, therefore, or, which is the same thing, every fall of profits,would lower the relative value of those commodities which were produced with a capital of a durable nature." P. 37, 3rd edit.

could have thought the proposition paradoxical, or even in the slightest degree improbable, if he had stated that a fall of profits would occasion a fall of price in those commodities, where, from the quantity of fixed capital employed, the profits of that capital had before formed the principal ingredient in the cost of production. But this is what he has in substance said. In a particular case which he has taken to illustrate his proposition, he supposes the application of a very durable machine worth £20,000, which requires very little labour either to work it, or keep it in constant repair; and, consequently, the price of the yearly produce of this machine would be composed almost entirely of the ordinary profits of the £20,000 which it had cost.[1] Now it is quite certain, that if, from any cause whatever, the ordinary profits of stock should fall, the price of the commodity so produced would fall nearly in proportion. A fall of profits from 20 to 10 per cent, would reduce its price nearly one half.[2] This is sufficiently obvious. But the effects arising from an opposite supposition were not at first considered, and the general result was overlooked.

The state of the case, in a general view of it, seems to be this. There is a very large class of commodities, in the production of which a great quantity of fixed capital is used, and a long time elapses before the returns of the capital, whether fixed or circulating, come in. In such commodities, the proportion which the capital bears to the quantity of labour which it yearly employs, is in various degrees very considerable: and, in all these cases, it is natural to suppose that the fall of price, arising from the fall of profits, should in various degrees more than counterbalance the rise of price, which would naturally be occasioned by a rise in the price of labour. Consequently, on the supposition of a rise in the price of labour, and a fall in the rate of profits, all these commodities will, in various degrees, naturally fall in price.

On the other hand, there is a large class of commodities, where, from the absence of fixed capital, and the rapidity of the returns of

[1] P. 37, 3rd edit.

[2] In a case of this kind brought forward in the first edition^ Mr. Ricardo distinctly allows that a change in the relative values of two commodities might take place to the extent of 68 per cent, from the fall of profits, without any change having taken place in ^e relative quantities of labour employed on each.

the circulating capital, the proportion which the capital bears to the quantity of labour it employs is very small. A capital of a hundred pounds, which was returned every week, could employ as much labour annually as £2,600, the returns of which came in only at the end of the year; and if the capital were returned nearly every day, as it is practically in some few cases, the advance of little more than the wages of a man for a single day might pay above three hundred days' labour in the course of a year. Now it is quite evident, that out of the profits of these trifling capitals, it would not only be absolutely impossible to take a rise in the price of labour of 7 per cent., but it would.be impossible to take a rise of i per cent. On the first supposition, a rise of only h per cent, would, if the price of the produce continued the same, absorb more than all the profits of the £100; and, in the other case, much more than all the capital advanced. If, therefore, the prices of commodities, where the proportion of labour is very great compared with the capital which employs it, do not rise upon an advance in the price of labour, the production of such commodities must at once be given up. But they certainly would not be given up. Consequently, upon a rise in the money price of labour and fall of profits, there will be a large class of commodities which will rise in price.

There will undoubtedly, however, be a class of commodities which, from the effects of these two opposite causes, will remain stationary in price; but, from the very nature of the case, this class must theoretically form little more than a line. Wherever this line may be placed, it can embrace but a small class of objects; and upon a rise in the price of labour and fall of profits, all the rest will either fall or rise io price, although exactly the same quantity of labour continues to be employed upon them.[1]

What then becomes of the doctrine that the exchangeable value of commodities is proportioned to the labour which has been employed upon them? Instead of their remaining of the same value while the

[1] In this discussion, I have assumed money to be obtained in the way suggested by Mr. Ricardo; in which case the results will be as I have described, and as he has allowed in his third edition (p. 45); but his money, as we shall see, is not so constituted as to be a proper measure of value. In reality, all commodities obtained by the same quantity of labour fall with a fall of profits.

same quantity of labour is employed upon them, it appears that from well-known causes of constant and universal operation, the prices of all commodities, with very few exceptions, vary with the variations in the rate and quantity of profits.

There are other causes practically in operation which prevent the exchangeable value of commodities from being proportioned to the quantity of labour which has been employed upon them. But as those which have been already more particularly adverted to, are so very powerful, and so completely decisive of the question, it is not necessary to refer specifically to others. It is scarcely possible, indeed, to take up two commodities of different kinds, which will be found to exchange with each other in proportion to the quantity of labour worked up in each. Nothing, indeed, could make such a rate of exchange, in reference to commodities generally, approach towards the truth, but the assumption that profits are the wages of accumulated labour, and that, therefore, profits may be called labour. But profits are altogether different from wages, and are regulated by quite different principles, as most justly stated by Adam Smith.[1] Such an assumption is so completely unphilosophical, so calculated to defeat all the useful purposes of a just nomenclature, and to create confusion in the ordinary language of political economy, that it cannot for a moment be admitted.[2] We might just as correctly call rent labour.

It may be safely affirmed, then, that however curious and desirable it may be to know the exact quantity of labour, accumulated and immediate, which has been employed in the production of commodities, it is certainly not this labour alone which either determines or measures their relative values in exchange at the same place, and at the same time.

But if, at the same place and at the same time, the relative values of commodities are not measured by the labour which they have cost in production, including the labour employed on the capitals con-

[1] Book I. ch. 6.

[2] We may measure the value which the element of profits gives to a commodity by labour, as I have said in another place; but how we can say that more labour has been employed upon a commodity, merely because it must be kept longer before it is brought to market, is what I cannot understand.

cerned, it is quite clear that such labour cannot measure their relative values at different places and at different times.

In regard to intrinsic value in exchange, it is still more clear that the value of the labour actually employed in the production of a commodity, never represents or is proportioned to the value of the completed commodity, except in the rare case when labour alone is employed, and the produce is brought to market immediately. In the vast majority of cases, there are other intrinsic causes of value, acting sometimes with great power, which increase the difficulty of obtaining the object desired, in addition to the labour actually employed. The slightest attention to what is passing around us, at any one period, and in any one place, must convince us of this truth; and, at different periods, and in different places, the labour actually employed upon a commodity, considered as a measure of its value, must partake of all the inaccuracies which necessarily belong to it at the same time and place.

It appears, then, that the quantity of labour actually employed in the production of commodities, answers neither of the two great objects of a measure of value. It neither measures the rate at which commodities exchange with each other at the same place and time, like money, nor does it measure the whole of the difficulty to be overcome, or the sacrifice to be made, in obtaining commodities at the same or different times, and in different countries, and enable us to say "when two or more commodities have varied in relation to each other, in which, and to what extent in each, the variations have taken place.[1]

[1] Mr. Ricardo, at the conclusion of the sixth section of his first chapter, has the following passage: "It is necessary for me to remark that I have not said, because one commodity has so much labour employed upon it as will cost £1000, and another so much as will cost £2000, that therefore one would be of the value of £1000, and the other of £2000; but I have said that their value will be to each other as 2 to 1, and that in these proportions they will be exchanged. It is of no importance to the truth of this doctrine, whether one of these commodities sells for £1100, and the other for £2200, or one for £1500, and the other for £3000; into that question I do not at present inquire: I affirm only that their relative values will be governed by the relative quantities of labour bestowed on their production." It is on this view of relative value, that all Mr. Ricardo's calculations in the rest of his book depend, without any modifications, although in two previous sections he had acknowledged that considerable modifications were necessary. My object in the present section has

Section V.—Of the Labour which a Commodity will command considered as a Measure of Value in Exchange.

When we consider labour as a measure of value in the sense in which it is most frequently applied by Adam Smith, that is, when the value of an object is estimated by the quantity of labour of a given description which it can command, it will appear to be a measure essentially distinct from all others, and to approach as near to a standard measure, both of relative and of intrinsic value in exchange, as the nature of the subject will admit.

It is universally allowed that in the same place, and within moderately short periods of time, the precious metals are an unexceptionable measure of the relative values of commodities; but whatever is true of the precious metals with respect to the relative and nominal values of commodities is true of labour applied in the way proposed.

It is obvious, for instance, that in the same place, and at the same time, the different quantities of day labour which different commodities can command, will be exactly in proportion to their relative values in exchange; and if any two of them will purchase the same quantity of labour of the same description, they will invariably exchange with each other.

The merchant might safely regulate his dealings, and estimate his commercial profits by the excess of the quantity of labour which his imports would command, compared with his exports. Whether the value of the commodity had arisen principally from the limitation of its supply, occasioned by a strict or partial monopoly; whether it had arisen principally from the scarcity of the raw material, the peculiar sort of labour required in its construction, or from unusually high profits; whether its value had been increased by an increased cost of production, or diminished by the application of improved machinery; whether its value at the moment depended chiefly upon permanent or

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been to show that the relative values of commodities are not only not governed, but are very far from being governed, by the relative quantities of labour bestowed on their production, as stated in the passage quoted: and, in the passage itself, it is positively denied, that because a commodity has so much labour bestowed upon it as will cost £1000, that therefore it is of the value of £1000. Mr. Ricardo did not fall into the unaccountable error of calling labour profits, and of confounding the accumulated labour actually worked up in fixed capitals and materials with the profits upon such capitals and materials, things totally distinct.

temporary causes—in all cases and under all circumstances, the quantity of labour which it will command, or what comes to the same thing, the quantity of labour's worth which people will give to obtain it, will be a very exact measure of its relative value in exchange. In short, this measure will, in the same place and at the same time, exactly accord with the money prices of commodities.

It will probably be objected, that in the same place, and at the same time, every commodity may be considered as an accurate measure of the relative values of others, and that what has just been said of labour may be said of cloth, cotton, iron, hops, or any other article. Any two commodities, which at the same time and in the same place will purchase or command the same quantity of cloth, cotton, iron, or hops of a given quality, will have the same value, or will exchange even with each other. This is no doubt true, if we take the same time precisely, and if we wish merely to know the relation of one commodity to some other or others in exchange; but the comparison utterly fails if we take different periods, and more especially if we refer to the main characteristic of the value of a commodity, namely, the difficulty of obtaining it, or the limitation of its supply compared with the demand.

One of the most important reasons why practically money makes a much better measure of value than any other commodity is, that its relation to common labour not only changes more slowly than cloth, cotton, iron, hops, &c. but that having been adopted as the almost universal medium of exchange, its relation to labour in any particular place must always be known to the inhabitants of that place; and while such relation is known and remains constant, the money prices of commodities will not only express their relations to each other, but also the difficulty of obtaining them, the conditions of their continued supply, if they are in an ordinary state, and the supply compared with the demand in whatever state they may be, which will include of course their power of purchasing arising from all the intrinsic causes of value which may have operated upon them.

Consequently money, under these circumstances, that is, while its relation to labour is known and remains constant, is a measure both of relative and intrinsic value in exchange.

But if the only cause which prevents money from being such a measure is, that its relation to labour is not constant, it would appear,

that as the labour which commodity will command is necessarily a measure of relative value like money, the substitution of labour so applied instead of money will give the measure we want.

It remains, therefore, to be considered more particularly how far the labour which a commodity will command appears to be an adequate measure of value in exchange at different periods and in different countries, according to the most usual and correct sense in which the term is practically applied; and it will be recollected that I have endeavoured to show, and I trust with success, that this sense is not the general power of purchasing possessed by a particular commodity, but its power of purchasing arising from intrinsic causes, which includes all the causes, of whatever kind they may be, which have contributed to the limitation of its supply compared with the demand.

Keeping in mind, therefore, the meaning attached to the term value of a commodity at a particular time and place, let us compare the values of two commodities, one of which was produced in the time of Edward III. and the other in the time of William IV.

And first let us suppose, for the sake of clearness, that the common agricultural labour of each period, which may be taken as the standard, is exactly of the same degree of strength, and is employed for the same number of hours, and further, that there are some commodities which, both at these periods and during the whole of the interval between them, are produced by this kind of labour alone, and brought to market immediately.

Perhaps these suppositions have not been very far from the truth in this country since the time of Edward III. I should suppose that the physical strength of the men of that period was nearly the same as at present, and that an ordinary day's work of agricultural labour was nearly of the same length; and it is generally allowed that at all times there are a few commodities produced by labour alone.

It is obvious that commodities so produced would, at any particular period, exchange with one another, on an average according to the quantity of labour employed to obtain them; and in comparing the values of commodities so produced at one period with the commodities so produced at the other period, it seems scarcely possible not to allow that those commodities which had been produced at each period with exactly the same quantity of labour of the same

description, and brought to market immediately, would be supplied ordinarily in the same proportion to the demand at each period, and be considered as of the same value. Now in regard to commodities produced by labour alone, and brought to market immediately, it is evident that the labour employed upon them must on an average be precisely the same as the labour which they will command. But it is allowed that the relations of all commodities to one another, however variously composed, are at the same time and place, exactly in proportion to the quantity of labour which they will severally command. Consequently if the values of the commodities produced by labour alone in the time of Edward III. be to the values of commodities produced by labour alone in the time of William IV. as the quantities of labour which at each period they will command, it follows necessarily, that the values of all and each of the commodities in the time of Edward III. however variously composed, must be to the values of all and each of the commodities in the time of William IV. however composed, in the proportion of the quantity of labour which all and each will severally command.

The value, therefore, of any commodity at either period, whether arising from the intrinsic cause of labour alone, or from labour combined in various proportions with profits, rent, and taxes, or affected by temporary scarcity or abundance, will be measured by the quantity of the labour of each period which it will command.

And that the correctness of so measuring the values of commodities, will not be in any degree disturbed by the varying quantity of produce, or the varying wages which the labourer may receive, will be obvious from the following considerations.

Let us suppose, what is probably not far from the truth, that a man who employs himself in shrimping, earns about the same remuneration as the common agricultural labourer, and let us further suppose, that the shrimper in the time of Edward III. could on an average bring home 800 shrimps a day. Now if at a subsequent period of some extent, shrimps were to frequent the shores in greater abundance, so that 1600 might ordinarily be obtained by a day's labour, and the supply of shrimps were doubled, it is quite certain that we should say, and correctly say, that shrimps had proportionably fallen in value, not that labour had proportionably risen. In the same manner, if from a diminished afflux of shrimps to our shores, only 400

could be obtained by a day's labour, it is equally certain that we should say, and correctly say, that shrimps had risen in value, not that labour had fallen.

The value of the shrimps would be determined by the supply compared with the demand. The demand, in this case, for the produce of a day's shrimping would be accurately represented by the power of commanding a day's labour, whether the means of supporting the labourer were abundant or scanty; and the demand being given, the value of a given number of shrimps would be inversely as the supply.

If it would take the same man the same quantity of labour to obtain 100 prawns, as it would to obtain 400 shrimps, and yet he found it advantageous to continue getting prawns, it would be a great absurdity to say that labour was altered in value on account of the difference in the returns; and it would be little less absurd in the case previously supposed, if when the labour advanced was exactly of the same character, and employed for the same time, to say that the difference in the produce obtained, arising from the plenty or scarcity of the article compared with the given demand of a day's labour, would make any kind of difference in the value of the labour advanced.

If the changes were in the quantity of labour employed, not in the quantity of fish obtained, the effects would not be different. Though the whole demand might be increased in the case of an increased population, or diminished in the case of a diminished population, yet the power of commanding a day's labour would still represent a given and unchanged demand in regard to intensity; and if on account of a greater number of competitors in the one case, and a smaller number in the other, each man could obtain in a day a smaller or greater number of fish, the fish would become scanty or abundant as compared with a given demand; and their value would still vary inversely as their supply, and be measured in both cases by the quantity of labour which a certain quantity of them would command.

It appears then that the varying quantity of produce obtained by the same quantity of labour of a given character, where labour alone is concerned, while it implies great alterations in the value of a given portion of the produce, does not alter the value of a given quantity of labour.

And it is equally true that the varying wages, whether in corn or money, paid to the labourer at different periods for labour of the same character, when this labour enters into the composition of commodities combined with profits, rent, taxes, or any other intrinsic causes of value, does not alter the value of the labour itself, or disqualify it from being used as a measure.

In our own country there was a period subsequent to the reign of Edward III. namely from 1444, to the end of the reign of Henry VII. when, as far as the documents on the subject can be trusted, the labourer earned nearly two pecks of wheat a day, while he earned less than a peck in the time of Edward III. and much less than a peck towards the end of the reign of Elizabeth. Now it is quite certain that the labourer could not for so long a time have had his corn wages nearly doubled, if from some cause or other, or probably from a union of different causes, the supply of corn had not become more abundant in relation to the consumers; and whether this was occasioned by the destruction of the population during the civil wars, or by the increased growth of corn on the breaking up of the feudal system, or by a union of both, the effect would be just the same on the supply as compared with the demand. Man, with his wants and powers, it must be always recollected, is the primary source of all demand; and in this respect the increase or decrease of population is distinct from the increase or decrease of any commodity. If the quantity of cotton goods were to be greatly diminished, this would probably create a greater, rather than a less demand for woollen goods, whereas if population be diminished, all the articles before consumed by it will for a time become comparatively redundant, and some perhaps may long continue to be produced with greater facility.

The labourer, therefore, during the period alluded to, was able to command a greater quantity of corn, which was unquestionably an increase of wealth to him; but he obtained this increase of wealth because corn had fallen in value, not because labour had risen in value.

Any object which continues of the same value must necessarily purchase more of an object which has fallen in value.

The same reasoning applies to the labourer's varying money wages. In the time of Edward III. the wages of common labour were about three half-pence a day, which allowing for the difference in the

quantity of metal contained in the same nominal sum would be equal to about four-pence of our money. Consequently, supposing, the present money wages of common labour to be twenty-pence or two shillings, the money price of labour since the time of Edward III. will appear to have risen five or six times. But no person, I conceive, imagines that the value of labour has so risen. We all know very well that the value of money has fallen, and if the labour has remained unchanged in its character, the conditions of the supply of a given quantity of silver, the elementary costs of its production, the average state of its supply as compared with the demand, or its power of purchasing at these different periods arising from intrinsic causes, will be exactly represented by the quantity of labour which the given quantity of silver will command at each period.

If we now consider the values of commodities in different countries at the same period, and suppose the character of the agricultural labour to be of the same kind, the same conclusion will necessarily follow. Yet here an actual exchange is practicable; and it is quite certain that the products of the same quantities of labour of the same character, will, under different circumstances exchange for very different quantities of money, while we well know that money prices regulate the rate at which all actual exchanges are made.

But in cases of this kind, and they are constantly occurring, it is obvious, that the difference in the money price of the products of the same quantity of labour in different countries, arises from the difference in the value of money, and not from the difference in the value of the labour. Metallic money in all countries which have no mines of the precious metals, is only to be obtained by exportable commodities; and the soil, situation, and habits of some countries may occasion a comparatively scanty production of exports, although their labourers work with as much energy, and sometimes in regard to domestic commodities with as much skill, as the great mass of the labourers of those countries, where exportable commodities abound.

If two nations quite unconnected were to employ the same quantity of labour of the same character in working two silver mines, one of which had double the fertility of the other, there can be no doubt that the supply of silver compared with the demand, or its value in exchange arising from intrinsic causes, would be very much lower in the one country than in the other; and we should not hesitate in say-

ing, that the difference in prices so occasioned, was owing to the difference in the value of money, not in the value of the labour.

Nor ought the conclusion, in my opinion, to be different, if the application of excellent machinery in the one case, and very indifferent machinery in the other mines of the same natural fertility, were to produce the same difference in the state of the supply of silver compared with the demand, and the same purchasing power arising from intrinsic causes as in the former case. In the country of machinery, not only the labour of the miner, but all labour would be high in money price; and in comparing the two countries together, the natural and useful language would be, that while the value of the labour was the same in both countries, the value of silver was most essentially different. The same sacrifice of physical force, supposing the profits and other circumstances in both countries to have been the same, had probably produced in one country double the quantity of silver which it had produced in the other.

From all the accounts we have of the Chinese settlers in different parts of the East, it appears that the labouring classes in China, are remarkable for their industry and energy, and even for their skill in making those domestic articles where superior machinery is not required. We cannot therefore justly say that Chinese labour, independent of machinery, or other particular advantages, is not as effective as our own. Yet we well know that the money price of labour is extremely low in China, and this is obviously owing to the small amount of exports compared with the population, and the prodigious extent of territory, including a large part of Tartary, over which the precious metals which are imported into China will be necessarily spread, so as to throw the greatest imaginable obstacles in the way of a fall in their value; the consequence of which naturally is, that they have fallen comparatively but little in value since the discovery of the American mines; and the elementary cost of producing a pound of silver, the quantity of Chinese labour, profits, rent, &c. which must be worked up in the commodities exported to purchase it, are very much greater than in Europe. Under these circumstances it would surely be most preposterous to measure the value of Chinese labour in China by money, instead of measuring the money by the labour.

Yet, still it is perfectly true, that a Chinese commodity carried to Hamburgh would be sold at its China money price, with the addition of the freight, insurance, profits, &c. of the last voyage; and an English merchant purchasing Hamburgh and Chinese goods, would unquestionably estimate their relative values by their cost in money, without the least reference to the very different quantities of labour which had been employed in obtaining them; or if he chanced to hear something about the greater quantity of Chinese labour employed on the articles from China, for which he had paid the same price as for the Hamburgh goods, he would be inclined, and not very unnaturally, to estimate the value of Chinese labour very low. It is most justly observed by Adam Smith, that the merchant, in all his transactions, has only to consider money prices.

To a merchant, therefore, living in London and purchasing goods at Hamburgh, Chinese labour, if estimated at all, would necessarily be estimated at a low value. But he would fall into a gross error if he were to infer that it was therefore low in China. When the value of money, or of any other article in China is spoken of, it would imply a gross perversion of language to suppose that the person speaking meant the value of Chinese money, Chinese goods, or Chinese labour in Hamburgh or London. The expression in China, cannot mean in Hamburgh, or in London. What alone can be correctly meant by the value of money, or of any other commodity in China is, the estimation in which such money is held in China, determined at all times by the state of the supply compared with the demand, and ordinarily by the elementary costs of its production in China, or what comes to the same thing, the value of money in China, is its power of purchasing in China, arising from intrinsic causes. And as it is obvious, that the quantity of Chinese labour which a pound of silver will command, must measure its power of purchasing in China, arising from intrinsic causes; it follows, that the value of money or of any other commodity in China, is measured by the quantity of Chinese labour which a given portion of it will command.

It is thought by some persons, that the cheap food and small quantity of it which is supposed to be earned by the Chinese labourer, must imply a low value of labour; but if things are in their natural state, what it really implies, is, that this food, however low in value it may appear to us, is of high value in China. The great demanders of

the commonest sort of food in all countries are the labouring classes; and if a labourer in ordinary employment, and working with ordinary energy and skill, can, on an average, only obtain a comparatively small quantity of such food, it is a proof that its permanent supply compared with the demand is very scanty, and on the common principle of supply and demand, it must be of high value there.

To come to an instance nearer home. There is reason to believe that the common labourer of the Netherlands is as strong, and works for as many hours in the day as the English labourer. In the great business of agriculture, in which so large a part of the population of every country is employed, he is supposed to be peculiarly skilful, and in many manufactures he has been generally considered as excelling the workmen of most of the countries of Europe. Yet his wages measured in money are decidedly lower than in England. Is this owing to the lower value of labour in the Netherlands, or the higher value of money? To the latter most assuredly; and the cause of it unquestionably is, that though the great mass of the labourers in the Netherlands may work with as much energy and skill as the great mass of English labourers; yet a certain proportion of the latter, assisted by superior machinery, more abundant capitals and cheaper fuel, are able to produce a large quantity of exportable manufactures at a lower money price than they can be produced in the Netherlands; which, together with some superiority in colonial products, enables England to maintain her exchanges, although she pays a higher money price for her labour, the difference in profits being inconsiderable.

It will be said, perhaps, that the higher money price of corn and labour in England is entirely owing to the corn laws, which prevent the money price of English corn from falling to the price of corn in the Netherlands. It is indeed nearly certain, that if the corn laws were repealed, English labour and the general scale of English prices would be lower. But it is still more certain, that no possible corn laws could prevent the prices of our corn and labour from falling to the level of the rest of Europe, if we possessed no natural or artificial advantages in regard to our exportable commodities. Supposing the price of English common labour to be twenty-pence or two shillings, and of continental labour fourteen or sixteen-pence, each bearing the same relation in each country to manufacturing labour, with no more

difference of profits than at present prevails, it is quite obvious, that without some peculiar advantages to balance the price of our labour, we could not possibly maintain our exchanges, and could not, in fact, export a single yard of cloth or calico, till the exchanges had continued against us a sufficient time to raise the value of money and lower the money prices of labour and corn to the level of the principal countries with which we were connected in commerce.

An instance of somewhat a different kind will tend further to illustrate this subject.

It is generally considered that labour is very scarce, and of very high value in the United States of America, and that in consequence the agricultural labourer is paid much higher both in wheat and money than in England. In wheat it is supposed that he earns 18 or 20 quarters in the year, while the English labourer only earns 9 or 10. But is it properly the American labour which is of so much higher value than the English labour; or the American wheat which is of so much lower value in America, than the English wheat in England? It is in the nature of things quite impossible, as we have said before, that the labourers of any country can continue to be paid an amount of products of so high a value as the value of what they are themselves able to produce for their employers; because if they were so paid, their employers would always be losing by so employing them. Consequently the American labourers, paid as above stated, must be able to produce considerably more than 18 or 20 quarters; because, we know that profits are high in the United States; while it may fairly be presumed that on lands in England which yield the least rent, the English labourer produces a less excess above the 9 or 10 quarters than the American labourer above the 18 or 20 quarters. Can any thing show more clearly that the difference is in the lower value of the corn, and not in the higher value of the labour. And this difference is obviously occasioned by the great abundance of fertile land in America, and the consequent facility with which corn is obtained.

But the American labourer is also paid higher in bullion, in the currency of the commercial world; and how comes it that bullion should be obtained with more facility in the United States than in England, when it is well known that the English labourer works for as many hours in the day, with as much strength, and with at least as much skill as the American labourer?

The lower value of money in England compared with the value of money in most of the states of Europe, has appeared to arise principally from the cheapness of our exportable manufactures, derived from our superior machinery, skill, and capital. The still lower value of money in the United States is occasioned by the cheapness and abundance of her raw products derived from the advantages of her soil, climate, and situation. Notwithstanding the scarcity of labour in the United States, it would be obviously impossible for the country to maintain the money price which she actually pays for her labour, if, in spite of such price, she were not able from her situation, and the state of her soil, to produce raw cotton, tobacco, corn, timber, &c. in large quantities at a lower money price than most of her competitors in the European markets. The state of the demand in these markets for corn, tends to raise the price of the American corn, which is exported towards the level of the money prices in Europe. The price of the American corn which is exported naturally raises the money price of American corn in general; and the very great demand for labour in America compared with corn, by awarding to the labourer a large quantity of it, necessarily makes the money wages of labour high; while the abundant exports of other raw products obtained with great facility, afford the means of maintaining the exchanges under so high a bullion price of labour.

As a matter of unquestionable fact, the elementary cost of obtaining a pound of silver in the United States is less than in any country of Europe. A much smaller quantity of labour, of a character and quality hardly equal to that of England, is employed, with other outgoings estimated in the same kind of labour, to produce the articles which purchase it; and neither the difference in profits, nor the difference in the price of j labour, is such as to counterbalance this facility of production, and prevent the abundance of exports.

Unquestionably the American labourer is richer, and much better off than the English labourer. He obtains the command of a quantity of food more than sufficient to maintain the largest family; and from the high bullion price of his labour, he can afford in general to purchase a fair quantity both of home and foreign manufactured goods. But he evidently does not purchase what he obtains by a greater sacrifice than the English labourer. He does not give more for what he receives, but receives more for what he gives; and unless we mean to

make quantity of products the measure of value, which would lead us into the most absurd and inextricable difficulties, we must measure the value of what the labourer receives in the United States by the labour which he gives for it. We must make the proper distinction between value and riches, and say that he is rich, not because he possesses a greater value to give in exchange for what he wants, but because what he wants, or the main articles which constitute his riches, are obtained with much more facility, and are really more abundant and cheaper than they are in Europe.

In those numerous cases, therefore, where the great mass of the day labour of different countries is of the same character in regard to physical strength and duration, such labour must be a measure of value exactly of the same kind as the labour of the same country at different periods. And while we avoid the gross error of confounding the value of money, or of any other commodity in one country with the value of the same quantity of money, or of any other commodity in another country, or in the general market of Europe, it will appear that the labour of each country for which any commodity will exchange, must measure its exchangeable value in that country, or its power of purchasing in that country arising from intrinsic causes.

Hitherto we have assumed that the labour of the same description in different periods and countries, is of the same character as to strength, skill, and duration. It remains to be considered, whether in different countries at the same period, where it is known that the character of the labour is essentially different, and in the same country at different periods, when it may be supposed that the character of the labour has changed, the proposed measure may still be considered as correct.

And here it is probable that the measure will not be considered so satisfactory as in those cases where the labour is exactly of the same character. Yet, while it is obvious that the relative values of all commodities in every country may be accurately measured by the labour which they will command in that country, it must be allowed that there is no other way of approximating towards the other great object of a measure of the values of commodities, namely, a knowledge of the desire to possess, and the difficulty of obtaining possession of them, or the limitation of their supply compared with the demand, than by comparing them with the labour of the country in which they

are produced or exchanged, whatever may be its character. And it appears, that if we adhere to that definition of the value of a commodity, which on other grounds has been shown to be the most useful and correct, such labour will measure it: and as no other object or objects will approach to such a measure, it may with propriety be considered as the standard.

The definition of the value of a commodity at a particular place and time, is stated to be "the estimation in which it is held at that place and time, determined in all cases by the state of the supply compared with the demand, and, ordinarily, by the elementary costs of its production, which regulate that state;" or what comes to the same thing, its power of purchasing at that place and time, arising from intrinsic causes.

Now supposing that in India the labourers do not work either with so much strength, or for so many tours in the day, as the English labourers, what will be the result? Will not every article produced by labour be more scantily supplied compared with the numbers and wants of the population? And to obtain such an article must not a greater number of days labour, with the necessary wages to support the labourer for the greater number of days, be unavoidably sacrificed? That is, every such article will be of higher value, as determined by the state of the supply compared with the demand, and ordinarily by the elementary costs of production. But it has been shown that in every place at any one time, the value of a commodity produced by labour alone is to the value of a commodity however complicated in its mode of production, as the quantity of labour which the simple commodity will command to the quantity of labour that the complicated commodity will command. Consequently, if a certain piece of muslin in England commands five days English labour, and a piece of muslin in India, the same in quantity and quality, will command thirty days Indian labour, the natural inference is that the piece of muslin in India is held there in six times greater estimation than in England, founded on the limitation of its supply compared with the demand, and the greater elementary costs of its production; or, in other words, that its purchasing power in India, arising from intrinsic causes, is six times greater, which, according to the definition, is the same as saying, that the values of two similar pieces

of muslin in the two different places, is measured by the quantity of labour in each place which they will respectively command.

But the value of money at any particular place and time can only be determined and measured exactly in the same way as the value of any other commodity. Consequently, the value of money at any particular place and time in India will be there and then determined by the state of its supply compared with the demand, and ordinarily by the elementary costs of its production, and will be measured by the quantity of the standard labour of the country which it will command.

It follows, as a necessary consequence, that the money prices of all commodities produced in different countries, at the same elementary costs, and existing in the same state of the supply compared with the demand, will, when brought to a common market in Europe, be proportioned inversely to the value of money in the country where they are produced. And this, I believe, is the rate at which all foreign commodities practically sell for in any common mart of Europe, after the money expenses and profits of the last voyage are allowed for.

Recollecting then always, that I have not been inquiring for some object which approximates to a standard measure of value in exchange, on the supposition that the proper definition of the value of a commodity is its power of purchasing generally, but upon the supposition that the most usual, the most useful, and therefore the most correct[1] interpretation of the term, is its power of purchasing arising from intrinsic causes, we may safely consider labour as the object which will answer the purpose required; and say, that the value of a commodity at any time, and at any place, may be measured by the quantity of the standard labour of that time and place, which it will exchange for or command.

[1] I cannot help thinking, that if a certain interpretation of a particular term is at once the most usual, and the most useful, it may justly be considered as the most correct, and the one which ought to be adopted in a proper nomenclature.

In all the successful instances of entirely new nomenclatures in any science, it is their obvious and pre-eminent utility, which makes up for the disadvantage of their novelty.

Section VI.— Of the Practical Application of the Measure of Value, and its general Use and Advantages.

The practical application of the measure of value proposed, will not in general be difficult. In this respect it has a prodigious superiority over the general power of purchasing, a measure which it is impossible practically to apply with any approach towards precision. But when we confine our view to the power of purchasing arising from intrinsic causes, we are able to measure the variations in this power, by the varying quantity of a specific object for which it will exchange; and the practical application of this object is rendered easy, by referring to the money prices of commodities and labour.

Thus, if the relations of two or three commodities in exchange, such as cloth, silver, and corn, for instance, have altered in this country, since the time of Henry VII., and we wish to know, in which, and to what extent in each, a change of value has taken place, we must begin by inquiring what were the money prices of cloth, wheat, and of common labour in the time of Henry VII. compared with what they are now.

It appears from a statute passed in the fourth of Henry VII. that the ordinary price of a broad yard of the finest scarlet grained, or other grained cloth of the finest make, was 16 shillings, and 16 shillings at that time contained the same quantity of silver as 24 of our shillings, before the late new coinage. At present there is reason to believe that cloth of the same, or probably of superior quality, could be obtained for 20 shillings. But the proportion between 24 and 20 would express merely the relation between cloth and silver at these different periods, and would give us no sort of information as to the relative difficulty with which each of these objects was obtained, or the degree in which one or both had altered in value. For this purpose we must refer to the money prices of standard labour. The money price of common agricultural labour in the time of Henry VII. was 4 pence a day, containing as much silver as 6 pence of our present money. If we take the present money wages of common labour at 10 shillings a week, or 20 pence a day, and compare the price of cloth with this price of labour, it will appear that a yard of fine cloth in the time of Henry VII. would command 48 days labour, and a yard of fine cloth at the present time 12 days labour; from which we may safely infer, that supposing these prices to have been what Adam Smith calls

natural prices, the difficulty of obtaining cloth of the same quality, or the ordinary supply of cloth compared with the demand, had increased four times.

Comparing in the same manner silver with labour, it appears that as in the time of Henry VII. 6 pence would command the same quantity of labour of the same character, as 20 pence at the present time, silver will appear to have fallen in value 3i times. And further, if we compare corn and labour at these two periods, it will appear that wheat, instead of falling in value like cloth and money, had risen very considerably. In the time of Henry VII. the price of labour as before stated was 4 pence a day, and the average price of the quarter of wheat was 6s. 3¼ d. from which it appears that a quarter of wheat would only purchase $18^{4}/_{5}$ days labour, whereas taking labour at 20 pence a day, and the present price of wheat at 60 shillings a quarter, the quarter will command 36 days labour. The labourer in the time of Henry VII. could purchase a peck and $^{1}/_{10}$ of a peck by a day's labour; at present he can only purchase $^{8}/_{9}$ of a peck; and altogether the value of wheat has risen in the proportion of 10 to above 19, or has nearly doubled.[1]

We must of course proceed in the same manner in estimating the values, and the changes in the values of commodities in different countries.

It is proper, however, to mention, that in taking the average money price of labour in different countries, and at different times, a caution is necessary similar to that which is given by Adam Smith, in speaking of the general equality of wages. He very justly observes, that they must be in their natural and ordinary state, and the sole or principal support of the labourer; and particularly remarks, that the labour of cotters will often be cheaper in appearance than it is in reality. In the cotter system, the labourers receive a certain portion of land from a landlord or farmer, which is paid for in labour, at a very low additional remuneration when that labour is called for. During

[1] The reader should be aware that this refers only to a particular period, from about 1444 to 1509, when wheat seems to have been unusually plentiful, and low in value. Taking a century earlier, wheat was of about the same value as at present, and a century later it was of much higher value, and the labourer was much worse off than at present.

the greater part of the year, however, their labour is not wanted, and the cultivation of their own little portion of land not being sufficient to occupy the time which is left at their own disposal, they are generally willing to offer their labour for a very small recompense to any body who will employ them. But it is evident that the daily or weekly recompense which such labourers receive in money, either from their proper masters or others, is not the whole price of their labour, though, as Adam Smith observes, it has been considered as the whole of it by many writers; and in consequence the wages of labour have been in these cases represented as much below the truth. This was the state of things not long since in Scotland; and it still prevails very generally in Ireland.

A similar observation applies in those cases where the wages of labour are paid in part out of the Parish rates. The money which the labourer receives from his employer is not the whole of what goes to the maintenance of himself and his family. It would not fulfil the necessary conditions of the supply of such labour, and cannot therefore be considered as its natural remuneration in the district in which it is employed.

A further caution to be noticed is, that in estimating the price of agricultural labour in any district, it must be the labour which is actually and with average constancy employed and paid, and not that the price of labour which in a temporary deficiency or excess in the demand for labour, may fall so low, or rise so high, that it cannot be maintained. It must not in short be the average yearly wages of those who are only half employed, or the daily wages of a time of harvest.

When these circumstances, however, have been properly attended to, and the wages we take as the ordinary wages of any particular country or district arc the whole of the natural and necessary conditions of the supply of labour, we may fairly presume, that whether the quantity of money, or of necessaries paid to the labourer be great or small, the value of this quantity will be the same.

In general where the facility of production is great, the labourer will obtain a large quantity of them, as in new colonies favourably circumstanced, and in the United States of America. On the other hand, where from the demand of a greatly increased population, cultivation is pushed upon poor land, and production is difficult, the labourer, though he may obtain a larger proportion of what he pro-

duces, will receive a smaller quantity of produce. But it is obvious that the smaller quantity in the latter case is obtained with just as much difficulty as the greater quantity in the former case.

There are, however, instances where it may at first sight appear that what the labourer receives as wages is produced with facility, and yet the quantity he receives is very small; but it must always be recollected, that the labour actually employed in the production of wages, is never the sole element of their value. Profits are universally another element, and in some cases, taxes and unnatural rents may raise the value of produce in an unusual proportion beyond the labour employed in its production. In those countries where the sovereign is the proprietor of the soil, if he requires an exorbitant proportion of the produce from all the land that is cultivated, he may leave the poor cultivator only what is just sufficient to support him, although the last land taken into cultivation may be fertile. In this case many of the effects of natural exhaustion and barrenness are produced artificially. Much good land is left uncultivated, and the population presses hard against the limits of that quantity of necessaries which can alone be obtained by the labourer. To earn a very scanty support, he must make a great sacrifice; and a small quantity of produce thus becomes of great value, owing to the limitation of the supply compared with the demand, notwithstanding the real facility of production. Some parts of India have unquestionably at times exemplified this state of things;[1] and such instances form no exception to the general rule, that the value of the wages given to the labourer in any country can only be measured by the quantity of the ordinary labour of that country which he gives in exchange for them.

But the Indian labourer receives a smaller quantity of money as well as of necessaries for his day's work; and this is because money also is very difficult of attainment in India, the manufactures sent abroad to purchase it, having cost a great mass of labour, profits, and rent.

[1] It is said that under Hyder Ally and Tippoo Sultan, $^2/_3$ of the produce were often taken as rent. If this were general, much fertile land might be kept out of cultivation, and the labourer might be paid miserably, although the productiveness of labour on the poorest land cultivated was great.

It follows that in measuring the value of money at any time and place, and the rise or fall of this value at different times and in different places, we have only to refer, with the cautions above mentioned, to the money price of common agricultural labour. In every country, this sort of labour, as I have said, may be considered as the standard into which every other kind of labour is resolvable, and no difficulty will arise from the acknowledged fact that a great part of the labour of every country is of a higher value than the standard, If the labour of a common journeyman watchmaker be paid at the rate of ten shillings a day, and that of a common agricultural labourer at twenty-pence, the only effect will be that each day's labour employed on the watch, will communicate to that watch a value in exchange arising from intrinsic causes equivalent to that of six days of the standard labour; and the power of the standard labour to measure the difficulty of obtaining the watch will in no degree be impaired. This observation applies to all commodities by whatever kind of labour they are produced. In short, if we are entitled to assume, as I think we are, from what has been said in the preceding sections, that in the natural and ordinary state of things, a given quantity of standard labour applied to the production of any commodity, communicates to it a given value in exchange arising from intrinsic causes; and if by value in exchange, when nothing else is added to the term, we mean value in exchange arising from intrinsic causes, it follows, that, contrary to the usual impressions on the subject, there must be a measure of the values, of commodities however composed, and that measure can only be labour.

The specific reason, as it appears to me, why it has been generally supposed that there cannot be anything like a standard measure of value, is, that the principal founder of the science of political economy, Adam Smith, has given a definition of value in exchange,[1] not only different from that meaning in which it is practically, and most frequently, applied, but quite inconsistent with the specific measure

[1] "The word value, it is to be observed, has two different meanings, and sometimes expresses the utility of some particular object, and sometimes the power of purchasing other goods, which the possession of that object conveys. The one may be called value in use, the other value in exchange." Book I. ch. iv. p. 12, 6th edition.

of value which he has himself proposed. If by the value of an object in exchange, be meant, as Adam Smith has stated, the power of purchasing other goods which the possession of that object conveys, then, as it is quite certain that such power may increase from the facility of producing other goods as well as from the difficulty of producing the object in question, it is equally certain that there can be no measure of the value of such object; and that when in the same page he speaks of the real measure of this exchangeable value, and afterwards distinctly proposes the labour which a commodity will command at that measure, and enters upon an elaborate inquiry into the value of silver during the four last centuries, he proceeds upon a principle in the application of which he contradicts at every step his first definition. These contradictions were no doubt calculated to produce impressions unfavourable to the existence of a standard measure of value. Such at least were the impressions produced on myself. If, however, he had limited his definition of the exchangeable value of a commodity to its power of purchasing arising from intrinsic causes, or the estimation in which it is held determined by the state of the supply compared with the demand, and, ordinarily, by the elementary costs of its production, which is unquestionably the sense in which he applies it himself, and in which it is most frequently applied by others, the measure he has proposed would have been consistent with his definition, and both would have been just.

The question, therefore, of the existence of a measure of value depends upon the sense in which we understand the term value in exchange; and I have fully given my reasons for thinking, not only that the limited sense just adverted to is the sense in which the term is most frequently applied, but that it is the sense in which it is most useful and important to know the exchangeable value of an object, and the only sense in which we can arrive at any practical conclusions approaching towards distinctness and precision, when we speak of a rise or fall in the values of commodities.

It is not a little discreditable to a branch of knowledge which claims to be called a science, that the meaning of a term which is constantly met with in every work on political economy, and constantly heard in every conversation on the subject, should not yet be settled. But while it is most frequently used in a sense different from that in which it has been most frequently defined, it must be allowed

that the question relating to the most correct and useful definition of it, is still open for discussion; and though it is well known from experience that those who have once publicly supported particular opinions are not likely to change them; yet looking to the future when it is scarcely possible to suppose that the point should not be settled, every effort to contribute to what is conceived to be a just and useful decision on the very elements of the science must be fully warranted.

The language of political economy has been much facilitated, and much indistinctness and unnecessary circumlocution has been prevented by the definite meaning which has been given to the term price or nominal value. Though it is allowable to say price in corn, price in cloth, or price in any other article named; yet, when the term price occurs, as it generally does, without any such adjunct, it is universally understood to mean money price.

A similar advantage would be gained, if, when the term value of a commodity, or its value in exchange, were made use of, as it generally is, without any adjunct, it were universally understood to mean value in exchange arising from intrinsic causes, which value it has been shown may be measured by labour.

It cannot be too often repeated, that for short periods when the value of money is considered as nearly constant, we uniformly measure the variations of value, as well as the variations of price by money; and it is quite certain that money, under these circumstances, can only measure the variations in the value of a commodity arising from intrinsic causes, and has nothing to do with causes which are extrinsic.

It may indeed sometimes be desirable to know how far a particular commodity, or a certain quantity of money may go in the purchase of other goods; but even in this case, if it were possible to conceive an article which would represent the mass of all others, it may be doubted whether the power of commanding such an article would give the information wanted. When such inquiries are made, it is

generally with a view to the power of the incomes of particular classes to enable them to live in the way they wish.[1]

The most interesting and useful inquiry of this kind is to ascertain the amount of necessaries, and of ordinary conveniences and luxuries which can be obtained in different countries by the money wages of labour. But if the value of the money wages received by the labourer could be measured by some article which would represent the mass of all purchasable commodities, as such a measure would be affected by a large quantity of commodities unconnected with the wants of the poorer classes of purchasers, it would not give us the information required respecting the condition of the labourer.

On the other hand, if the inquiry related to the power of an income of three thousand a year in different countries, the prices of many of those commodities which only tended to render the measure incorrect in the former case, would probably be the most important in the latter.

It is obvious, therefore, that a measure representing the mass of commodities, or the general power of purchasing, even if attainable, which, however, is impossible, would not only, as formerly stated, fail entirely in reference to the main characteristic[2] of value, but would be very unsatisfactory in the inquiries above mentioned. And in such cases we ought never to use the term value, or value in exchange by itself, but add specifically the kind of articles, in the purchase of which the incomes would be chiefly spent.

When, therefore, the value of a commodity at any place and time is spoken of, without expressing some object or objects with which it is intended to compare it, we may safely understand by it that value which arises from intrinsic causes; and if labour, applied in the mode proposed, be considered as the measure of such value, it follows necessarily that neither money, nor any other commodity, can ever correctly perform the functions of such a measure, except while it continues to bear the same relation to labour.

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[1] When it is said that the exchangeable value of a commodity determined by its power of purchasing other goods, it may most reasonably be asked, what goods? It would be absolutely impossible to apply all goods as a measure.

[2] The quantity of goods which a commodity will command, does not ascertain the difficulty of getting possession of it.

It has been justly stated by Adam Smith, that corn is a better measure of value from century to century, than money, and the specific reason which he gives for it is, that its relation to labour is more constant than that of any other commodity.[1] But if this be the reason why corn at distant periods may be considered as a better measure of value than any other product of labour, it implies distinctly that it cannot be so good a measure of value as labour itself.

It is not a little surprising that the Marquis de Garnier, M. Say, and some other writers, seeing the impossibility of applying the mass of commodities as a measure of value, and wishing, therefore, to refer to someone object which might make the nearest approach to it, should have preferred referring to corn instead of labour, when it is well known that corn not only varies greatly in the difficulty of obtaining it, from temporary abundance, or scarcity, but that very great alterations may take place for fifty or sixty years together in the same country, and in different countries, at different periods in the progress of cultivation, for a much longer period,

Adam Smith himself, in his "Digression concerning the value of silver during the four last centuries," by referring most unaccountably to the prices of corn, instead of to the measure which he had himself proposed, has fallen into the very gross error of making the value of silver rise in the proportion of from two to three in the interval between the middle of the fourteenth, and the end of the fifteenth century, instead of falling in the proportion of from three to two, which would have been the just conclusion, if he had applied labour as his measure instead of corn; and surely he was bound to do this, after saying "Labour, it must always be remembered, and not any commodity, or set of commodities, is the measure not only of silver, but of all other commodities."[2] In the instance of error to which I have referred, corn had so essentially altered in its relation to labour for fifty or sixty years together, and had fallen so much in value, that a day's labour would purchase nearly two pecks of wheat instead of one. The same quantity of wheat, therefore, instead of representing nearly the same quantity of labour from century to century, as intimated by Adam Smith, represented very little more than the half of

[1] Book I. ch. V. p. 54, 6th edit.
[2] Book I. eh. xi. p. 291, 6th edit.

that quantity, and his inference respecting the rise in the value of silver was quite reversed.

Of the doctrine that the term value of a commodity ought never to be used without at the same time specifying distinctly the article with which it is intended to be compared, and that any one article measures this value as well as any other; it need only be observed that in this case the term value becomes perfectly superfluous and useless. It has exactly the same meaning as price, or nominal value, that is, the value of one commodity in any other commodity named; and if value admits of no other meaning than this, it would certainly be much better to discard it at once from the vocabulary of political economy, as only tending to create confusion. We ought in this case, however, to invent some other term to express what is so much wanted, namely, the relation which commodities bear to the difficulty of obtaining them, or the estimation in which they are held at different times, and in different countries. But as this is the most usual sense in which the term value is now practically applied, we cannot surely do better than retain it in this sense.

Section VII.—On the Variations in the Value of Money in the same and different Countries.

Money is beyond all question the most convenient practical measure of value; and while its relation to labour is known and constant, it fully answers the purpose required. It is, however, subject to variation like all other products; but this variation is for the most part so slow, that for short periods, as we have stated, its value has been considered as nearly constant.

We cannot be surprised therefore, that writers in tracing the causes of the rise or fall of the values of particular commodities in the progress of society, should be inclined, with a view to illustration, to suppose this constancy permanent, in order that they might have a standard to refer to. It was specifically with this view that Mr. Ricardo proposed that gold should be considered as produced always in a particular and uniform manner so as to prevent it from deviating, except in a very trifling degree, from a uniform value.

"If then, (he observes) I may suppose myself to be possessed of a standard so nearly approaching to an invariable one, the advantage is, that I shall be enabled to speak of the variations of other things with-

out embarrassing myself on every occasion with the consideration of the possible alteration in the value of the medium in which price and value are estimated." "To facilitate then the object of this enquiry, although I fully allow that money made of gold is subject to most of the variations of other things, I shall suppose it to be invariable, and therefore all alterations in price to be occasioned by some alterations in the value of the commodity of which I may be speaking,"[1]

But if, as suggested by Mr. Ricardo, we adopt money obtained under such circumstances as to render profits an element of its value, it is obvious that such a measure must vary with the commodities to be measured when profits either rise or fall.

We may reasonably enough suppose, by way of illustration, that a given quantity of bullion is always obtained by the same quantity of labour, while other commodities may require different quantities, because the circumstance of certain commodities in the progress of society requiring more or less labour in their production, does not necessarily prevent a particular commodity from requiring only the same quantity. But this is not true in regard to the rate of profits, which applies to all commodities, and is allowed to be nearly the same in all the different employments of capital. We cannot then make the supposition, that the capitals employed in obtaining the precious metals always yield 10 per cent., while the capitals engaged in other employments of the same country vary from 20 per cent, to 6 per cent. It is quite certain therefore, that an article chosen for a standard measure of value must not consist of profits as one of its elements. Gold obtained by labour alone, without profits would far

[1] Mr. Ricardo, in the first edition of his work (page 11) has given the following description of an invariable measure of value. "If any one commodity could be found, which now, and at all times required precisely the same quantity of labour to produce it, that commodity would be of unvarying value, and would be eminently useful as a standard by which the variations of other things might be measured. Of such a commodity we have no knowledge, and consequently are unable to fix on any standard of value. It is, however, of considerable use towards attaining a correct theory, to ascertain what the essential qualities of a standard are, that we may know the causes of the variations in the relative values of commodities; and that we may be enabled to calculate the degree in which they are likely to operate."

Nothing can be more just and satisfactory than this passage; but unfortunately it was given up.

more completely than on any other supposition, measure the variations in the values of all other commodities.

It may perhaps be dangerous to dwell much upon any supposition respecting a mode of obtaining the precious metals, which is essentially different from the truth, because high and low prices under such a supposition will be different from the high and low prices of common language, yet the same terms being used, it will be extremely difficult to avoid confusion. But as Mr. Ricardo was disposed to overlook this objection, and thought that it would on the whole facilitate inquiry, if he were allowed to consider gold as invariable in value, he was surely bound to adopt such a supposition in regard to the mode of obtaining it, as would make it approach the nearest to the invariability required; and it cannot be doubted that this would be best accomplished by supposing the same quantity of gold always to be obtained by the same quantity of labour, without the aid of any advances but the food of a single day; instead of which he has supposed gold to be "produced with such proportions of the two kinds of capital as approach the nearest to the average quantity employed in the production of most commodities."[1] He is of course compelled to acknowledge in the outset, that a measure so constituted, "would be a perfect measure of value for all things produced under the same circumstances precisely as itself, but for no others." But what a prodigious concession this is! What a full and entire acknowledgment is it at once that the measure can be of no use. It is really almost like proposing a measure of length which will measure no other commodities than those formed of the same materials with itself.[2]

What we want is, something to measure the values of commodities under all the variations to which they may be subject; whether their value consists almost wholly in the profits of fixed capitals, or in the labour employed by circulating capitals, whether the commodity is completed for sale in two or three days, or two or three years:

[1] *Political Economy*, ch. I sec. vi p. 44, 3rd. edition.

[2] The obvious defect of such a measure is, that, whether applied to commodities produced under the same circumstances as itself, or to any others, it can never measure the variations to which they are subject occasioned by the general rise or fall of profits, because it must itself necessarily vary in that respect precisely as they do.—Ed,

whether it is composed in part of other ingredients, such as rents, tythes and taxes, or is made up exclusively of labour and profits; and whether its value is determined by the accidental, or by the ordinary state of the demand and the supply. Now gold obtained by an uniform quantity of labour alone, without capital, would measure all these variations. This then is the measure which Mr. Ricardo, when looking for as near an approximation to a standard measure of value as could be theoretically conceived, should have adopted. And of course, if it seems successful with a view to illustration, to assume that the precious metals are invariable in their value in a particular country; they must be considered as obtained by labour without capital, and as always therefore bearing the same constant relation to labour.

It may be proper however to observe, that this constancy in the money price of labour, can only be a supposition adopted for the sake of illustration; because money is practically obtained by accumulated labour and profits, as well as immediate labour and profits, which render profits a necessary condition of its supply; and consequently if the same quantity of labour continue to be applied, while profits rise or fall, money must rise or fall like all other commodities in the same predicament.

With a view to distinguish the necessary tendency to a fall in the value of money occasioned by the accumulation of capital, the progress of cultivation, and the fall of profits, from the incidental fall occasioned by the varying fertility of the mines, and the possession of an abundance of exportable commodities, it might be useful to distinguish the differences in the value of money into two kinds: first, that which is occasioned by the high or low rate of profit, arising from the progress of capital and cultivation, and which may be denominated the necessary cause of the high or low value of money; and secondly, that which is occasioned by the varying fertility of the mines, the skill with which they are worked, the difficulty or facility of communication with them, and the deficiency or abundance of exportable commodities, which may be denominated the incidental causes of the high or low value of money. These two different kinds of causes will sometimes act in conjunction, and sometimes in opposition, and it may not always be easy to distinguish their separate

effects; but as these effects have really a different origin, it is important to keep them as separate as we can.

The marks which distinguish a fall in the value of the precious metals, arising from what has been called the necessary cause, are, a rise in the money prices of corn, raw produce, and labour, without a general rise in the prices of wrought commodities. All of them, indeed, so far as they are composed of raw products, will have a tendency to rise; but in a large class of commodities, this tendency to rise will be much more than counterbalanced by the effect of the fall of profits. Some, therefore, will rise and some will fall according to the nature of the capitals employed upon them, compared with those which produce money; and while the money prices of corn and labour very decidedly increase, the prices of wrought commodities taken on an average, might possibly remain not far from the same.

On the other hand, when the value of money falls from the incidental causes above noticed, without a fall of profits, there will be a tendency to a proportionate rise of all commodities, as well as corn and labour, though in some cases it may take a considerable time before the proportionate rise of all objects are completed. This was remarked, at the time of the influx of the precious metals, from the discovery of the American mines, and also on the issue of an abundant paper currency, during the war which terminated in 1815.

As a necessary consequence of the distinction above made, it may be of use to recollect, that whenever a fall in the value of money takes place, without a fall in the rate of profits, an event which is generally open to observation, it is to be attributed to the incidental causes affecting the relations of money and labour, and not to that which is connected with the accumulation of capital, and the necessity of taking poorer land into cultivation, without improvements in agriculture.

It is certain, however, that those causes operating upon the value of money in different countries and periods, which I have called incidental, are much more powerful and prominent than those which take place necessarily in the progress of society, from the fall of profits. Even in such a country as the United States, where capital is scarce and profits are comparatively high, the fall of profits, which will certainly occur, in the progress of wealth and population, will probably be more than counterbalanced by the effect of a diminution

in the facility of producing exportable commodities. And in reference to the fuller peopled countries of Europe, there is no room for such a fall of profits as can approach to the effects which have arisen, and may yet arise from the increased fertility of the mines; or the diminished quantity of labour, which in a particular country, owing to superior skill and machinery, is required to purchase the precious metals, while the cost of obtaining them at the mines of America, and the quantity imported into the whole of Europe remain nearly the same.

The effects of this last cause have never been sufficiently appreciated. It is a just and most important observation of Mr. Ricardo, that, "Gold and silver having been chosen for the general medium of circulation, are by the competitions of commerce distributed in such proportions amongst the different countries of the world, as to accommodate themselves to the natural traffic which would take place if no such metals existed, and the trade between countries was purely a trade of barter."[1] This distribution is effected by the varying state of the exchanges. If one country possesses peculiar advantages in regard to its exportable commodities, its exchanges will for a time be steadily in its favour, and an influx of the precious metals will take place till the rise in the money price of labour balances the peculiar advantages, and a trade of barter is restored.[2] On the other hand, if a country loses its advantages in regard to exportable commodities, it will lose a portion of its precious metals by an adverse exchange, and the fall of prices will continue till the reduced money price of labour balances the disadvantages, and the trade of barter returns.

It is on this principle that the different value of money in different countries is accounted for. As Mr. Ricardo most justly observes, "it will explain to us why the prices of home commodities, and those of

[1] *Principles of Political Economy,* ch. vii. p. 143, 3rd edit.

[2] Practically in countries where a large part of the currency consists of paper, the actual influx of bullion is continually checked by an increased issue of bank notes and bills of exchange; but as long as there is no difference between paper and gold, the effect in lowering the value of money is precisely the same. Repeated experience appears to have shewn us that in the case of a brisk demand, no difficulty is ever found in furnishing the means of a considerable rise of prices in some classes of commodities, without any tendency to a fall in others. Currency is always at hand. The important question is, whether the exchanges can be maintained under such prices; and we know too well that they have often risen higher than the exchanges would allow so as to keep paper and gold together.

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

The following passage, which occurs in the same chapter of Mr. Ricardo's work, is so just, and so well calculated to dispel some unfortunate prejudices which at present prevail, that I cannot resist the temptation of bringing it afresh before the public.[1]

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

"This lower value of money will not be indicated by the exchange; bills may be negotiated at par, although the prices of corn and labour should be ten, twenty, or thirty per cent, higher in one country than another.[2]

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[1] I have always considered the first part of Mr. Ricardo's chapter (vii) on foreign trade as essentially erroneous; but the greater part of the chapter is not only new, but unquestionably true, and of the highest importance.

[2] Mercantile men are too apt to measure the value of money in different countries by the difference in the exchanges, which merely measures the rate at which the money of one country exchanges for the money of another, and has little to do with the elementary cost of money, or the difficulty of obtaining it in each country, or even with the power of purchasing the mass of those commodities which are least liable to change in their cost of production. Of all commodities, those which are exported are the most liable to change in the cost of their production, and are therefore the last which should be referred to with any view to a measure of the value of money.

Under the circumstances supposed, such a difference of prices is the natural order of things; and the exchange can only be at par when a sufficient quantity of money is introduced into the country excelling in manufactures, so as to raise the price of its corn and labour.[1]

If this doctrine be true, and I most firmly believe it is, it appears that a rise in the money price of corn and labour is a necessary consequence of commercial prosperity; and though I would distinctly allow, that in reference to our own country at present the corn laws keep the prices of corn and labour higher than they would be, if things were left to take their natural course: yet still it is unquestionable, that the actual prices of corn and labour indicate a low value of money, and not a high value of corn, and that they operate in a totally different way from taxes on the labouring classes.

It is certainly true that the money wages of independent labour, notwithstanding their fall of late years, are higher in this country than in any other country in Europe and there is every reason to believe that the English labourer with his money earnings can purchase as great a quantity of wheat as any European labourer of the same description. If this be so, it is a distinct proof that the higher price of corn in this country, as compared with the continent, is not at present owing lo a greater difficulty of obtaining it, but to a higher scale of money prices, or lower value of money, which operates upon all

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In my first publication on rent in the shape of a pamphlet, which appeared in 1815, two years before the first edition of Mr. Ricardo's work came out, the following passage occurs in a note:

"The precious metals are always tending to a state of rest, or such a state of things as to make their movement unnecessary. But when this state of rest has been nearly attained, and the exchanges of all countries are nearly at par, the value of the precious metals in different countries estimated in corn and labour, or in the mass of commodities, is far indeed from being the same. To be convinced of this, it is only necessary to look at England, France, Poland, Russia, and India, when the exchanges are at par."

In reality, the quantity of money in each country is determined by the quantity wanted to maintain its general exchanges at par; and the greater are the advantages of any country in regard to its exportable commodities, the more money will it retain, and the higher will be the price of its corn and labour, when its exchanges are at par. If England should lose her advantages in this respect, her corn and labour would fall to the level of the rest of Europe, in spite of any corn laws that could be imagined.

[1] Ch. vii. p. 156, 3rd edit.

commodities, though it is more than counterbalanced in that class of commodities where skill and superior machinery have most prevailed, and it is of these that our principal exports will naturally consist.

In all cases it is of the greatest use and importance to distinguish between a rise or fall in the value of money, and a rise or fall in the values of other commodities. As long as the varying prices of other commodities do not affect the money price of the standard labour in any country, we may consider the value of money as remaining the same, and attribute the relative variations between money and commodities to causes delusively affecting the commodities, such as the cheapness of products arising from the improvements in machinery, or their dearness from an increased elementary cost of production. But if the money price of the standard labour rises generally, it is a sign that the elementary cost of obtaining money has fallen, and that a smaller sum of labour, profits, rent, and taxes, is given to obtain a certain quantity of it. If, on the other hand, the money price of labour falls, it is a sign that the elementary cost of obtaining money has risen, and that a greater sum of labour, profits, rent, and taxes, must be given to obtain the same quantity of it. And we should be aware that these effects may he, and frequently are produced by causes operating in the first instance on commodities.

This has been practically exemplified in this country of late years. The raised price of corn, commencing with the year 1796, and continuing, with but few exceptions, till 1813, occasioned necessarily a rise in the money price of labour. Without such a rise, the conditions of the supply of the quantity of labour demanded would not have been fulfilled; and the great relative superiority of our manufacturing industry at that time over the rest of Europe enabled us to maintain our exchanges under such a high money price of labour. While this high price continued in the standard labour of the country, with a price of manufacturing labour generally proportioned to it, it is hardly possible to deny that the elementary cost of obtaining bullion in this country was diminished, whatever may be the case in other countries, or whatever might be the costs of producing bullion at the mouths of the mines from which it was obtained. The fact that the quantity of manufactures which would purchase an ounce of gold would, under the circumstances supposed, purchase a smaller quan-

tity of standard labour than usual, proves at once the fact, that the elements in the cost of obtaining gold in England, consisting of labour, profits, rents, and taxes, were, taken altogether, less in value than before, or, in other words, that the elementary cost of obtaining gold in England had diminished.

On the same principle it follows, that the cost of obtaining gold in England has since decidedly increased. Owing to the great fall in the prices of manufactured goods, a greater quantity of them is required to purchase a given quantity of gold—greater than in proportion to the cheapness arising from increased skill, and improvements in machinery. Consequently, such goods so exchanged for gold contain a greater value of English labour, profits, rents, and taxes; and the cost of obtaining gold in England has unquestionably increased.

How far this increased cost of obtaining bullion may have been aggravated by circumstances, which arc known to have diminished considerably the supplies from the American mines since 1810, it is not easy to calculate. It has been said that, reckoning the dedication at the highest, it would bear so small a proportion to the whole quantity of bullion in the world, that it could hardly be expected to have a perceptible effect. But the annual supplies of bullion, though they would operate slowly, even in those countries which were most in the way of receiving them, would still operate much more powerfully than in the proportion which they might bear to the whole mass of bullion in the world. We have good reason to believe that it was a very long time before even the great discovery of the mines of America began to operate sensibly on India, China, Tartary, and other parts of Asia, where no inconsiderable part of the bullion of the world is either slowly circulating, or is buried in the earth. It cannot be doubted that the active part of the commercial world might be powerfully influenced by the varying supply of the American mines, while central Asia was scarcely sensible of any change.

No very satisfactory conclusion, therefore, can be drawn respecting the cause of the late rise in the value of money in the greater part of Europe, and the United States of America, from the smallness of the defalcation in the mines, as compared with the whole mass of bullion in the world.

On the other hand, it must be owned that the circumstance of gold having increased in the cost of its production about as much as silver,

without our being able to trace an equal defalcation in its supply, seems to indicate that other causes have been more powerful than the state of the mines of gold and silver; and the object of this digression is to shew that such causes are frequently more efficient in altering the value of the precious metals, especially in particular countries, than moderate changes in the state of their annual supply from the mines.

Adam Smith has justly observed, that the natural effect of the increase of wealth is to raise the value of the precious metals; and it is quite certain that a great increase of produce and population, supposing the supplies of the precious metals, and all other circumstances affecting currency, to remain the same, would render bullion scarcer compared with the demand, and occasion the necessity of its being bought at a greater elementary cost.

Now it is well known that since the war which terminated in 1815, there has been a very great increase of produce and population in most of the countries of the commercial world, and from the necessity that has occurred of withdrawing a great part of the paper which was in circulation in these countries during the war, and the frequent failure of credit from overspeculation subsequently, there is reason to think that the great increase of produce and population has not been balanced by a proportionate increase of currency and credit; and under these circumstances a fall in the prices of produce and labour was inevitable.

As long as the price of labour was not affected by these low prices of commodities, the elementary cost of obtaining the precious metals would not be increased. Although more cottons would be given for an ounce of gold, this would be merely giving a larger quantity of an article which had fallen in the cost of obtaining it, and the elementary cost of obtaining gold might remain the same; but as soon as the price of the standard labour began generally to fall, more labour must be given for the same quantity of silver, and the elementary cost of producing the precious metals would necessarily rise; and in the actual state of things it seems almost impossible to deny that such an increase of their value has really taken place.

In all conclusions, however, relating to variations of value, it would be unreasonable to expect that they can be ascertained with the same precision as the variations of length and weight. Neither the

object to be measured, nor the instrument of measurement comes within the pale of that certainty which belongs to the stricter sciences. A given length is the same all over the world; but the estimation in which a commodity is held, its elementary cost of production, and the state of its supply compared with the demand is liable to vary at every different place, and in every different period. The standard labour also in different countries is neither the same in different districts, nor does it at all times bear the same relation to other kinds of labour; and it is not always easy to ascertain its money price, particularly when it is in the act of rising or falling, and the change is not completed. Yet notwithstanding these drawbacks, as great confusion would be occasioned by not distinguishing value from price, as all political economists are constantly in the habit of using the term value; and as we cannot speak of a rise or fall of value with any consistency, without some kind of measure of it, it is surely of the greatest use at once to adopt that measure which beyond all comparison approaches the nearest to accuracy, and which in fact may be said to be conclusively capable of measuring value in the sense in which the term is in practice most frequently applied.

Labour is in this respect entirely distinct from all products of labour, and the selection of it as a measure of the difficulty of obtaining possession of a commodity in the place where such commodity is estimated, seems to be pointed out by the nature of things, and cannot be called arbitrary.

A measure, to whatever it may be applied, must itself increase or decrease according to quantity. The standard labour of a country which is actually employed, and in the district where the demand is made for it, is *the only object the value of which is proportioned to its quantity*, under the greatest differences both in place and time, both in different countries and in different periods of the same country.