

An Inquiry into the Nature and Causes of the Wealth of Nations

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Book I, Chapter V
Of the Real and Nominal Price of Commodities, or of their Price in Labour, and their Price in Money

1.5.1 Every man is rich or poor according to the degree in which he can afford to enjoy the necessaries, conveniencies, and amusements of human life.^{*1} But after the division of labour has once thoroughly taken place, it is but a very small part of these with which a man's own labour can supply him. The far greater part of them he must derive from the labour of other people, and he must be rich or poor according to the quantity of that labour which he can command, or which he can afford to purchase. The value of any commodity, therefore, 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.

1.5.2 The real price of every thing, what every thing really costs to the man who wants to acquire it, is the toil and trouble of acquiring it. What every thing is really worth to the man who has acquired it, and who wants to dispose of it or exchange it for something else, is the toil and trouble which it can save to himself, and which it can impose upon other people. What is bought with money or with goods is purchased by labour,^{*2} as much as what we acquire by the toil of our own body. That money or those goods indeed save us this toil. They contain the value of a certain quantity of labour which we exchange for what is supposed at the time to contain the value of an equal quantity. Labour was the first price, the original purchase-money that was paid for all things. It was not by gold or by silver, but by labour, that all the wealth of the world was originally purchased; and its value, to those who possess it, and who want to exchange it for some new productions, is precisely equal to the quantity of labour which it can enable them to purchase or command.

1.5.3 Wealth, as Mr. Hobbes says, is power.^{*3} But the person who either acquires, or succeeds to a great fortune, does not necessarily acquire or succeed to any political power, either civil or military. His fortune may, perhaps, afford him the means of acquiring both, but the mere possession of that fortune does not necessarily convey to him either. The power which that possession immediately and directly conveys to

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him, is the power of purchasing; a certain command over all the labour, or over all the produce of labour which is then in the market. His fortune is greater or less, precisely in proportion to the extent of this power; or to the quantity either of other men's labour, or, what is the same thing, of the produce of other men's labour, which it enables him to purchase or command. The exchangeable value of every thing must always be precisely equal to the extent of this power which it conveys to its owner.* 4

1.5.4

But though labour be the real measure of the exchangeable value of all commodities, it is not that by which their value is commonly estimated. It is often difficult to ascertain the proportion between two different quantities of labour. The time spent in two different sorts of work will not always alone determine this proportion. The different degrees of hardship endured, and of ingenuity exercised, must likewise be taken into account. There may be more labour in an hour's hard work than in two hours easy business; or in an hour's application to a trade which it cost ten years labour to learn, than in a month's industry at an ordinary and obvious employment. But it is not easy to find any accurate measure either of hardship or ingenuity. In exchanging indeed the different productions of different sorts of labour for one another, some allowance is commonly made for both. It is adjusted, however, not by any accurate measure, but by the higgling and bargaining of the market, according to that sort of rough equality which, though not exact, is sufficient for carrying on the business of common life.* 5

1.5.5

Every commodity besides, is more frequently exchanged for, and thereby compared with, other commodities than with labour. It is more natural therefore, to estimate its exchangeable value by the quantity of some other commodity than by that of the labour which it can purchase. The greater part of people too understand better what is meant by a quantity of a particular commodity, than by a quantity of labour. The one is a plain palpable object; the other an abstract notion, which, though it can be made sufficiently intelligible, is not altogether so natural and obvious.

1.5.6

But when barter ceases, and money has become the common instrument of commerce, every particular commodity is more frequently exchanged for money than for any other commodity. The butcher seldom carries his beef or his mutton to the baker, or the brewer, in order to exchange them for bread or for beer; but he carries them to the market, where he exchanges them for money, and afterwards exchanges that money for bread and for beer. The quantity of money which he gets for them regulates too the quantity of bread and beer which he can afterwards purchase. It is more natural and obvious to him, therefore, to estimate their value by the quantity of money, the commodity for which he immediately exchanges them, than by that of bread and beer, the commodities for which he can exchange them only by the intervention of another commodity; and rather to say that his butcher's meat is worth threepence or fourpence a pound, than that it is worth three or four pounds of bread, or three or four quarts of small beer. Hence it comes to pass, that the exchangeable value of every commodity is more frequently estimated by the quantity of money, than by the quantity either of labour or of any other commodity which can be had in exchange for it.

1.5.7

Gold and silver, however, like every other commodity, vary in their value, are sometimes cheaper and sometimes dearer, sometimes of easier and sometimes of more difficult purchase. The quantity of labour which any particular quantity of them can purchase or command, or the quantity of other goods which it will exchange for, depends always upon

the fertility or barrenness of the mines which happen to be known about the time when such exchanges are made. The discovery of the abundant mines of America reduced, in the sixteenth century, the value of gold and silver in Europe to about a third of what it had been before.^{*6} As it cost less labour to bring those metals from the mine to the market, so when they were brought thither^{*7} they could purchase or command less labour; and this revolution in their value, though perhaps the greatest, is by no means the only one of which history gives some account. But as a measure of quantity, such as the natural foot, fathom, or handful, which is continually varying in its own quantity, can never be an accurate measure of the quantity of other things; so a commodity which is itself continually varying in its own value, can never be an accurate measure of the value of other commodities. Equal quantities of labour, at all times and places, may be said to be^{*8} of equal value to the labourer. In his ordinary state of health, strength and spirits; in the ordinary degree of his skill and dexterity,^{*9} he must always lay down the same portion of his ease, his liberty, and his happiness. The price which he pays must always be the same, whatever may be the quantity of goods which he receives in return for it. Of these, indeed, it may sometimes purchase a greater and sometimes a smaller quantity; but it is their value which varies, not that of the labour which purchases them. At all times and places that is dear which it is difficult to come at, or which it costs much labour to acquire; and that cheap which is to be had easily, or with very little labour. Labour alone, therefore, never varying in its own value, is alone the ultimate and real standard by which the value of all commodities can at all times and places be estimated and compared. It is their real price; money is their nominal price only.

1.5.8

But though equal quantities of labour are always of equal value to the labourer, yet to the person who employs him they appear sometimes to be of greater and sometimes of smaller value. He purchases them sometimes with a greater and sometimes with a smaller quantity of goods, and to him the price of labour seems to vary like that of all other things. It appears to him dear in the one case, and cheap in the other. In reality, however, it is the goods which are cheap in the one case, and dear in the other.

1.5.9

In this popular sense, therefore, labour, like commodities, may be said to have a real and a nominal price. Its real price may be said to consist in the quantity of the necessaries and conveniences of life which are given for it; its nominal price, in the quantity of money. The labourer is rich or poor, is well or ill rewarded, in proportion to the real, not to the nominal price of his labour.

1.5.10

The distinction between the real and the nominal price of commodities and labour, is not a matter of mere speculation, but may sometimes be of considerable use in practice. The same real price is always of the same value; but on account of the variations in the value of gold and silver, the same nominal price is sometimes of very different values. When a landed estate, therefore, is sold with a reservation of a perpetual rent, if it is intended that this rent should always be of the same value, it is of importance to the family in whose favour it is reserved, that it should not consist in a particular sum of money.^{*10} Its value would in this case be liable to variations of two different kinds; first, to those which arise from the different quantities of gold and silver which are contained at different times in coin of the same denomination; and, secondly, to those which arise from the different values of equal quantities of gold and silver at different times.

1.5.11

Princes and sovereign states have frequently fancied that they had a

temporary interest to diminish the quantity of pure metal contained in their coins; but they seldom have fancied that they had any to augment it. The quantity of metal contained in the coins, I believe of all nations, has, accordingly, been almost continually diminishing, and hardly ever augmenting.*11 Such variations therefore tend almost always to diminish the value of a money rent.

1.5.12

The discovery of the mines of America diminished the value of gold and silver in Europe. This diminution, it is commonly supposed, though I apprehend without any certain proof, is still going on gradually,*12 and is likely to continue to do so for a long time. Upon this supposition, therefore, such variations are more likely to diminish, than to augment the value of a money rent, even though it should be stipulated to be paid, not in such a quantity of coined money of such a denomination (in so many pounds sterling, for example), but in so many ounces either of pure silver, or of silver of a certain standard.

1.5.13

The rents which have been reserved in corn have preserved their value much better than those which have been reserved in money, even where the denomination of the coin has not been altered. By the 18th of Elizabeth*13 it was enacted, That a third of the rent of all college leases should be reserved in corn, to be paid, either in kind, or according to the current prices at the nearest public market. The money arising from this corn rent, though originally but a third of the whole, is in the present times, according to Doctor Blackstone, commonly near double of what arises from the other two-thirds.*14 The old money rents of colleges must, according to this account, have sunk almost to a fourth part of their ancient value; or are worth little more than a fourth part of the corn which they were formerly worth. But since the reign of Philip and Mary the denomination of the English coin has undergone little or no alteration, and the same number of pounds, shillings and pence have contained very nearly the same quantity of pure silver. This degradation, therefore, in the value of the money rents of colleges, has arisen altogether from the degradation in the value of silver.

1.5.14

When the degradation in the value of silver is combined with the diminution of the quantity of it contained in the coin of the same denomination, the loss is frequently still greater. In Scotland, where the denomination of the coin has undergone much greater alterations than it ever did in England, and in France, where it has undergone still greater than it ever did in Scotland,*15 some antient rents, originally of considerable value, have in this manner been reduced almost to nothing.

1.5.15

Equal quantities of labour will at distant times be purchased more nearly with equal quantities of corn, the subsistence of the labourer, than with equal quantities of gold and silver, or perhaps of any other commodity. Equal quantities of corn, therefore, will, at distant times, be more nearly of the same real value, or enable the possessor to purchase or command more nearly the same quantity of the labour of other people. They will do this, I say, more nearly than equal quantities of almost any other commodity; for even equal quantities of corn will not do it exactly. The subsistence of the labourer, or the real price of labour, as I shall endeavour to show hereafter,*16 is very different upon different occasions; more liberal in a society advancing to opulence, than in one that is standing still; and in one that is standing still, than in one that is going backwards. Every other commodity, however, will at any particular time purchase a greater or smaller quantity of labour in proportion to the quantity of subsistence which it can purchase at that time. A rent therefore reserved in corn is liable only to the variations in the quantity of labour which a certain quantity of corn can purchase. But a rent

reserved in any other commodity is liable, not only to the variations in the quantity of labour which any particular quantity of corn can purchase, but to the variations in the quantity of corn which can be purchased by any particular quantity of that commodity.

1.5.16

Though the real value of a corn rent, it is to be observed however, varies much less from century to century than that of a money rent, it varies much more from year to year. The money price of labour, as I shall endeavour to show hereafter,^{*17} does not fluctuate from year to year with the money price of corn, but seems to be every where accommodated, not to the temporary or occasional, but to the average or ordinary price of that necessary of life. The average or ordinary price of corn again is regulated, as I shall likewise endeavour to show hereafter,^{*18} by the value of silver, by the richness or barrenness of the mines which supply the market with that metal, or by the quantity of labour which must be employed, and consequently of corn which must be consumed, in order to bring any particular quantity of silver^{*19} from the mine to the market. But the value of silver, though it sometimes varies greatly from century to century, seldom varies much from year to year, but frequently continues the same, or very nearly the same, for half a century or a century together. The ordinary or average money price of corn, therefore, may, during so long a period, continue the same or very nearly the same too, and along with it the money price of labour, provided, at least, the society continues, in other respects, in the same or nearly in the same condition. In the mean time the temporary and occasional price of corn may frequently be double, one year, of what it had been the year before, or fluctuate, for example, from five and twenty to fifty shillings the quarter.^{*20} But when corn is at the latter price, not only the nominal, but the real value of a corn rent will be double of what it is when at the former, or will command double the quantity either of labour or of the greater part of other commodities; the money price of labour, and along with it that of most other things, continuing the same during all these fluctuations.

1.5.17

Labour, therefore, it appears evidently, is the only universal, as well as the only accurate measure of value, or the only standard by which we can compare the values of different commodities at all times and at all places. We cannot estimate, it is allowed, the real value of different commodities from century to century by the quantities of silver which were given for them. We cannot estimate it from year to year by the quantities of corn. By the quantities of labour we can, with the greatest accuracy, estimate it both from century to century and from year to year. From century to century, corn is a better measure than silver, because, from century to century, equal quantities of corn will command the same quantity of labour more nearly than equal quantities of silver. From year to year, on the contrary, silver is a better measure than corn, because equal quantities of it will more nearly command the same quantity of labour.^{*21}

1.5.18

But though in establishing perpetual rents, or even in letting very long leases, it may be of use to distinguish between real and nominal price; it is of none in buying and selling, the more common and ordinary transactions of human life.

1.5.19

At the same time and place the real and the nominal price of all commodities are exactly in proportion to one another. The more or less money you get for any commodity, in the London market, for example, the more or less labour it will at that time and place enable you to purchase or command. At the same time and place, therefore, money is the exact measure of the real exchangeable value of all commodities. It is

so, however, at the same time and place only.

1.5.20

Though at distant places, there is no regular proportion between the real and the money price of commodities, yet the merchant who carries goods from the one to the other has nothing to consider but their money price, or the difference between the quantity of silver for which he buys them, and that for which he is likely to sell them. Half an ounce of silver at Canton in China may command a greater quantity both of labour and of the necessaries and conveniences of life, than an ounce at London. A commodity, therefore, which sells for half an ounce of silver at Canton may there be really dearer, of more real importance to the man who possesses it there, than a commodity which sells for an ounce at London is to ^{*22} the man who possesses it at London. If a London merchant, however, can buy at Canton for half an ounce of silver, a commodity which he can afterwards sell at London for an ounce, he gains a hundred per cent. by the bargain, just as much as if an ounce of silver was at London exactly of the same value as at Canton. It is of no importance to him that half an ounce of silver at Canton would have given him the command of more labour and of a greater quantity of the necessaries and conveniences of life than an ounce can do at London. An ounce at London will always give him the command of double the quantity of all these, which half an ounce could have done there, and this is precisely what he wants.

1.5.21

As it is the nominal or money price of goods, therefore, which finally determines the prudence or imprudence of all purchases and sales, and thereby regulates almost the whole business of common life in which price is concerned, we cannot wonder that it should have been so much more attended to than the real price.

1.5.22

In such a work as this, however, it may sometimes be of use to compare the different real values of a particular commodity at different times and places, or the different degrees of power over the labour of other people which it may, upon different occasions, have given to those who possessed it. We must in this case compare, not so much the different quantities of silver for which it was commonly sold, as the different quantities of labour which those different quantities of silver could have purchased. But the current prices of labour at distant times and places can scarce ever be known with any degree of exactness. Those of corn, though they have in few places been regularly recorded, are in general better known and have been more frequently taken notice of by historians and other writers. We must generally, therefore, content ourselves with them, not as being always exactly in the same proportion as the current prices of labour, but as being the nearest approximation which can commonly be had to that proportion. I shall hereafter have occasion to make several comparisons of this kind. ^{*23}

1.5.23

In the progress of industry, commercial nations have found it convenient to coin several different metals into money; gold for larger payments, silver for purchases of moderate value, and copper, or some other coarse metal, for those of still smaller consideration. They have always, however, considered one of those metals as more peculiarly the measure of value than any of the other two; and this preference seems generally to have been given to the metal which they happened first to make use of as the instrument of commerce. Having once begun to use it as their standard, which they must have done when they had no other money, they have generally continued to do so even when the necessity was not the same.

1.5.24

The Romans are said to have had nothing but copper money till

within five years before the first Punic war,^{*24} when they first began to coin silver. Copper, therefore, appears to have continued always the measure of value in that republic. At Rome all accounts appear to have been kept, and the value of all estates to have been computed, either in *Asses* or in *Sestertii*. The *As* was always the denomination of a copper coin. The word *Sestertius* signifies two *Asses* and a half. Though the *Sestertius*, therefore, was originally^{*25} a silver coin, its value was estimated in copper. At Rome, one who owed a great deal of money, was said to have a great deal of other people's copper.^{*26}

1.5.25

The northern nations who established themselves upon the ruins of the Roman Empire, seem to have had silver money from the first beginning of their settlements, and not to have known either gold or copper coins for several ages thereafter. There were silver coins in England in the time of the Saxons; but there was little gold coined till the time of Edward III. nor any copper till that of James I. of Great Britain. In England, therefore, and for the same reason, I believe, in all other modern nations of Europe, all accounts are kept, and the value of all goods and of all estates is generally computed in silver: and when we mean to express the amount of a person's fortune, we seldom mention the number of guineas, but the number of pounds sterling^{*27} which we suppose would be given for it.

1.5.26

Originally, in all countries, I believe a legal tender of payment could^{*28} be made only in the coin of that metal,^{*29} which was peculiarly considered as the standard or measure of value. In England, gold was not considered as a legal tender for a long time after it was coined into money. The proportion between the values of gold and silver money was not fixed by any public law or proclamation; but was left to be settled by the market. If a debtor offered payment in gold, the creditor might either reject such payment altogether, or accept of it at such a valuation of the gold as he and his debtor could agree upon. Copper is not at present a legal tender, except in the change of the smaller silver coins. In this state of things the distinction between the metal which was the standard, and that which was not the standard, was something more than a nominal distinction.

1.5.27

In process of time, and as people became gradually more familiar with the use of the different metals in coin, and consequently better acquainted with the proportion between their respective values, it has in most countries, I believe, been found convenient to ascertain this proportion, and to declare by a public law^{*30} that a guinea, for example, of such a weight and fineness, should exchange for one-and-twenty shillings, or be a legal tender for a debt of that amount.^{*31} In this state of things, and during the continuance of any one regulated proportion of this kind, the distinction between the metal which is the standard, and that which is not the standard, becomes little more than a nominal distinction.^{*32}

1.5.28

In consequence of any change, however, in this regulated proportion, this distinction becomes, or at least seems to become, something more than nominal again. If the regulated value of a guinea, for example, was either reduced to twenty, or raised to two-and-twenty shillings, all accounts being kept and almost all obligations for debt being expressed in silver money, the greater part of payments could in either case be made with the same quantity of silver money as before; but would require very different quantities of gold money; a greater in the one case, and a smaller in the other. Silver would appear to be more invariable in its value than gold. Silver would appear to measure the value of gold, and gold would not appear to measure the value of silver. The

value of gold would seem to depend upon the quantity of silver which it would exchange for; and the value of silver would not seem to depend upon the quantity of gold which it would exchange for. This difference, however, would be altogether owing to the custom of keeping accounts, and of expressing the amount of all great and small sums rather in silver than in gold money. One of Mr. Drummond's notes for five-and-twenty or fifty guineas would, after an alteration of this kind, be still payable with five-and-twenty or fifty guineas in the same manner as before. It would, after such an alteration, be payable with the same quantity of gold as before, but with very different quantities of silver. In the payment of such a note, gold would appear to be more invariable in its value than silver. Gold would appear to measure the value of silver, and silver would not appear to measure the value of gold. If the custom of keeping accounts, and of expressing promissory notes and other obligations for money in this manner, should ever become general, gold, and not silver, would be considered as the metal which was peculiarly the standard or measure of value.

1.5.29

In reality, during the continuance of any one regulated proportion between the respective values of the different metals in coin, the value of the most precious metal regulates the value of the whole coin.^{*33} Twelve copper pence contain half a pound, avoirdupois, of copper, of not the best quality, which, before it is coined, is seldom worth sevenpence in silver. But as by the regulation twelve such pence are ordered to exchange for a shilling, they are in the market considered as worth a shilling, and a shilling can at any time be had for them. Even before the late reformation of the gold coin of Great Britain,^{*34} the gold, that part of it at least which circulated in London and its neighbourhood, was in general less degraded below its standard weight than the greater part of the silver. One-and-twenty worn and defaced shillings, however, were considered as equivalent to a guinea, which perhaps, indeed, was worn and defaced too, but seldom so much so. The late regulations^{*35} have brought the gold coin as near perhaps to its standard weight as it is possible to bring the current coin of any nation; and the order, to receive no gold at the public offices but by weight, is likely to preserve it so, as long as that order is enforced. The silver coin still continues in the same worn and degraded state as before the reformation of the gold coin. In the market, however, one-and-twenty shillings of this degraded silver coin are still considered as worth a guinea of this excellent gold coin.

1.5.30

The reformation of the gold coin has evidently raised the value of the silver coin which can be exchanged for it.

1.5.31

In the English mint a pound weight of gold is coined into forty-four guineas and a half, which, at one-and-twenty shillings the guinea, is equal to forty-six pounds fourteen shillings and six-pence. An ounce of such gold coin, therefore, is worth 3*l.* 17*s.* 10 $\frac{1}{2}$ *d.* in silver. In England no duty or seignorage is paid upon the coinage, and he who carries a pound weight or an ounce weight of standard gold bullion to the mint, gets back a pound weight or an ounce weight of gold in coin, without any deduction. Three pounds seventeen shillings and tenpence halfpenny an ounce, therefore, is said to be the mint price of gold in England, or the quantity of gold coin which the mint gives in return for standard gold bullion.

1.5.32

Before the reformation of the gold coin, the price of standard gold bullion in the market had for many years been upwards of 3*l.* 18*s.* sometimes 3*l.* 19*s.* and very frequently 4*l.* an ounce; that sum, it is probable, in the worn and degraded gold coin, seldom containing more than an ounce of standard gold. Since the reformation of the gold coin,

the market price of standard gold bullion seldom exceeds *3l. 17s.7d.* an ounce. Before the reformation of the gold coin, the market price was always more or less above the mint price. Since that reformation, the market price has been constantly below the mint price. But that market price is the same whether it is paid in gold or in silver coin. The late reformation of the gold coin, therefore, has raised not only the value of the gold coin, but likewise that of the silver coin in proportion to gold bullion, and probably too in proportion to all other commodities; though the price of the greater part of other commodities being influenced by so many other causes, the rise in the value either of gold or silver coin in proportion to them, may not be so distinct and sensible.

1.5.33

In the English mint a pound weight of standard silver bullion is coined into sixty-two shillings, containing, in the same manner, a pound weight of standard silver. Five shillings and two-pence an ounce, therefore, is said to be the mint price of silver in England, or the quantity of silver coin which the mint gives in return for standard silver bullion. Before the reformation of the gold coin, the market price of standard silver bullion was, upon different occasions, five shillings and four-pence, five shillings and five-pence, five shillings and six-pence, five shillings and seven-pence, and very often five shillings and eight-pence an ounce. Five shillings and seven-pence, however, seems to have been the most common price. Since the reformation of the gold coin, the market price of standard silver bullion has fallen occasionally to five shillings and three-pence, five shillings and four-pence, and five shillings and five-pence an ounce, which last price it has scarce ever exceeded. Though the market price of silver bullion has fallen considerably since the reformation of the gold coin, it has not fallen so low as the mint price.

1.5.34

In the proportion between the different metals in the English coin, as copper is rated very much above its real value, so silver is rated somewhat below it. In the market of Europe, in the French coin and in the Dutch coin, an ounce of fine gold exchanges for about fourteen ounces of fine silver. In the English coin, it exchanges for about fifteen ounces, that is, for more silver than it is worth according to the common estimation of Europe.*³⁶ But as the price of copper in bars is not, even in England, raised by the high price of copper in English coin, so the price of silver in bullion is not sunk by the low rate of silver in English coin. Silver in bullion still preserves its proper proportion to gold; for the same reason that copper in bars preserves its proper proportion to silver.*³⁷

1.5.35

Upon the reformation of the silver coin in the reign of William III. the price of silver bullion still continued to be somewhat above the mint price. Mr. Locke imputed this high price to the permission of exporting silver bullion, and to the prohibition of exporting silver coin.*³⁸ This permission of exporting, he said, rendered the demand for silver bullion greater than the demand for silver coin. But the number of people who want silver coin for the common uses of buying and selling at home, is surely much greater than that of those who want silver bullion either for the use of exportation or for any other use. There subsists at present a like permission of exporting gold bullion, and a like prohibition of exporting gold coin; and yet the price of gold bullion has fallen below the mint price. But in the English coin silver was then, in the same manner as now, under-rated in proportion to gold; and the gold coin (which at that time too was not supposed to require any reformation) regulated then, as well as now, the real value of the whole coin. As the reformation of the silver coin did not then reduce the price of silver bullion to the mint price, it is not very probable that a like reformation will do so now.

1.5.36

Were the silver coin brought back as near to its standard weight as

the gold, a guinea, it is probable, would, according to the present proportion, exchange for more silver in coin than it would purchase in bullion. The silver coin containing its full standard weight, there would in this case be a profit in melting it down, in order, first, to sell the bullion for gold coin, and afterwards to exchange this gold coin for silver coin to be melted down in the same manner. Some alteration in the present proportion seems to be the only method of preventing this inconveniency.

1.5.37

The inconveniency perhaps would be less if silver was rated in the coin as much above its proper proportion to gold as it is at present rated below it; provided it was at the same time enacted that silver should not be a legal tender for more than the change of a guinea; in the same manner as copper is not a legal tender for more than the change of a shilling. No creditor could in this case be cheated in consequence of the high valuation of silver in coin; as no creditor can at present be cheated in consequence of the high valuation of copper. The bankers only would suffer by this regulation. When a run comes upon them they sometimes endeavour to gain time by paying in six-pences, and they would be precluded by this regulation from this discreditable method of evading immediate payment. They would be obliged in consequence to keep at all times in their coffers a greater quantity of cash than at present; and though this might no doubt be a considerable inconveniency to them, it would at the same time be a considerable security to their creditors. ^{* 39}

1.5.38

Three pounds seventeen shillings and ten-pence halfpenny (the mint price of gold) certainly does not contain, even in our present excellent gold coin, more than an ounce of standard gold, and it may be thought, therefore, should not purchase more standard bullion. But gold in coin is more convenient than gold in bullion, and though, in England, the coinage is free, yet the gold which is carried in bullion to the mint, can seldom be returned in coin to the owner till after a delay of several weeks. In the present hurry of the mint, it could not be returned till after a delay of several months. This delay is equivalent to a small duty, and renders gold in coin somewhat more valuable than an equal quantity of gold in bullion. ^{* 40} If in the English coin silver was rated according to its proper proportion to gold, the price of silver bullion would probably fall below the mint price even without any reformation of the silver coin; the value even of the present worn and defaced silver coin being regulated by the value of the excellent gold coin for which it can be changed.

1.5.39

A small seignorage or duty upon the coinage of both gold and silver would probably increase still more the superiority of those metals in coin above an equal quantity of either of them in bullion. The coinage would in this case increase the value of the metal coined in proportion to the extent of this small duty; for the same reason that the fashion increases the value of plate in proportion to the price of that fashion. The superiority of coin above bullion would prevent the melting down of the coin, and would discourage its exportation. If upon any public exigency it should become necessary to export the coin, the greater part of it would soon return again of its own accord. Abroad it could sell only for its weight in bullion. At home it would buy more than that weight. There would be a profit, therefore, in bringing it home again. In France a seignorage of about eight per cent. is imposed upon the coinage, ^{* 41} and the French coin, when exported, is said to return home again of its own accord. ^{* 42}

1.5.40

The occasional fluctuations in the market price of gold and silver bullion arise from the same causes as the like fluctuations in that of all other commodities. The frequent loss of those metals from various

accidents by sea and by land, the continual waste of them in gilding and plating, in lace and embroidery, in the wear and tear of coin, and in that of plate;^{* 43} require, in all countries which possess no mines of their own, a continual importation, in order to repair this loss and this waste. The merchant importers, like all other merchants, we may believe, endeavour, as well as they can, to suit their occasional importations to what, they judge, is likely to be the immediate demand. With all their attention, however, they sometimes over-do the business, and sometimes under-do it. When they import more bullion than is wanted, rather than incur the risk and trouble of exporting it again, they are sometimes willing to sell a part of it for something less than the ordinary or average price. When, on the other hand, they import less than is wanted, they get something more than this price. But when, under all those occasional fluctuations, the market price either of gold or silver bullion continues for several years together steadily and constantly, either more or less above, or more or less below the mint price: we may be assured that this steady and constant, either superiority or inferiority of price, is the effect of something in the state of the coin, which, at that time, renders a certain quantity of coin either of more value or of less value than the precise quantity of bullion which it ought to contain. The constancy and steadiness of the effect, supposes a proportionable constancy and steadiness in the cause.

1.5.41

The money of any particular country is, at any particular time and place, more or less an accurate measure of value according as the current coin is more or less exactly agreeable to its standard, or contains more or less exactly the precise quantity of pure gold or pure silver which it ought to contain. If in England, for example, forty-four guineas and a half contained exactly a pound weight of standard gold, or eleven ounces of fine gold and one ounce of alloy, the gold coin of England would be as accurate a measure of the actual value of goods at any particular time and place as the nature of the thing would admit. But if, by rubbing and wearing, forty-four guineas and a half generally contain less than a pound weight of standard gold; the diminution, however, being greater in some pieces than in others; the measure of value comes to be liable to the same sort of uncertainty to which all other weights and measures are commonly exposed. As it rarely happens that these are exactly agreeable to their standard, the merchant adjusts the price of his goods, as well as he can, not to what those weights and measures ought to be, but to what, upon an average, he finds by experience they actually are. In consequence of a like disorder in the coin, the price of goods comes, in the same manner, to be adjusted, not to the quantity of pure gold or silver which the coin ought to contain, but to that which, upon an average, it is found by experience it actually does contain.

1.5.42

By the money-price of goods, it is to be observed, I understand always the quantity of pure gold or silver for which they are sold, without any regard to the denomination of the coin. Six shillings and eight-pence, for example, in the time of Edward I., I consider as the same money-price with a pound sterling in the present times; because it contained, as nearly as we can judge, the same quantity of pure silver.

Notes for this chapter

1. ['La richesse en elle-même n'est autre chose que la nourriture, les commodités et les agréments de la vie.'—Cantillon, *Essai*, pp. 1, 2.]
2. ['Everything in the world is purchased by labour.'—Hume, 'Of Commerce,' in *Political Discourses*, 1752, p. 12.]

3. [Also riches joined with liberality is Power, because it procureth friends and servants: without liberality not so, because in this case they defend not but expose men to envy as a prey.—*Leviathan*, I., x.]
4. [This paragraph appears first in Additions and Corrections and ed. 3.]
5. [The absence of any reference to the lengthy discussion of this subject in chap. x. is curious.]
6. [Below, I.11.134-138.]
7. [Ed. 1 reads 'there'.]
8. [Ed. 1 reads 'Equal quantities of labour must at all times and places be'.]
9. [The words from 'In his ordinary state of health' to 'dexterity' appear first in ed. 2.]
10. ['Be above all things careful how you make any composition or agreement for any long space of years to receive a certain price of money for the corn that is due to you, although for the present it may seem a tempting bargain.'—Fleetwood, *Chronicon Preciosum*, p. 174.]
11. [Above, I.4.8-10.]
12. [Below, I.11.188-190.]
13. [C. 6, which applies to Oxford, Cambridge, Winchester and Eton, and provides that no college shall make any lease for lives or years of tithes, arable land or pasture without securing that at least one-third of 'tholde' (presumably the whole not the old) rent should be paid in coin. The Act was promoted by Sir Thomas Smith to the astonishment, it is said, of his fellow-members of Parliament, who could not see what difference it would make. 'But the knight took the advantage of the present cheapness; knowing hereafter grain would grow dearer, mankind daily multiplying, and licence being lately given for transportation. So that at this day much emolument redoundeth to the colleges in each university, by the passing of this Act; and though their rents stand still, their revenues do increase.'—Fuller, *Hist. of the University of Cambridge*, 1655, p. 144. quoted in Strype, *Life of the learned Sir Thomas Smith*, 1698, p. 192.]
14. [*Commentaries*, 1765, vol. ii., p. 322.]
15. [Above, I.4.10.]
16. [Below, I.8.16-27.]
17. [Below I.8.27-30,50-56.]
18. [Below, chap. xi., see esp. I.11.134-137.]
19. [Ed. 1 reads 'it.']
20. [Ed. 1 places the 'for example' here.]
21. ['In England and this part of the world, wheat being the constant and most general food, not altering with the fashion, not growing by chance: but as the farmers sow more or less of it, which they endeavour to proportion, as near as can be guessed to the consumption, abstracting the overplus of the precedent year in their provision for the next; and *vice versa*, it must needs fall out that it keeps the nearest proportion to its consumption (which is more studied and designed in this than other commodities) of anything, if you take it for seven or twenty years together: though perhaps the scarcity of one year, caused by the accidents of the season, may very much vary it from the immediately precedent or following. Wheat, therefore, to this part of the world (and that grain which is the constant general food of any other country) is the fittest measure to judge of the altered value of things in any long tract of time: and therefore wheat here, rice in Turkey, etc., is the fittest

- thing to reserve a rent in, which is designed to be constantly the same for all future ages. But money is the best measure of the altered value of things in a few years: because its vent is the same and its quantity alters slowly. But wheat, or any other grain, cannot serve instead of money: because of its bulkiness and too quick change of its quantity.'—Locke, *Some Considerations of the Consequences of the Lowering of Interest and Raising the Value of Money*, ed. of 1696, pp. 74, 75.]
22. [Ed. 1 reads 'than one which sells for an ounce at London to'.]
 23. [Below, chap. xi. *passim*.]
 24. Pliny, lib. xxxiii. c. 3. [This note is not in ed. 1.]
 25. [Eds. 1 and 2 read 'always'.]
 26. [Habere aes alienum.]
 27. [Ed. 1 does not contain 'sterling'.]
 28. [Ed. 1 places the 'originally' here.]
 29. [Ed. 1 places the 'only' here.]
 30. [The Act, 19 Hen. VII., c. 5, ordered that certain gold coins should pass for the sums for which they were coined, and 5 and 6 Ed. VI. prescribed penalties for giving or taking more than was warranted by proclamation. The value of the guinea was supposed to be fixed by the proclamation of 1717, for which see *Economic Journal*, March, 1898. Lead tokens were coined by individuals in the reign of Elizabeth. James I. coined copper farthing tokens, but abstained from proclaiming them as money of that value. In 1672 copper halfpennies were issued, and both halfpennies and farthings were ordered to pass as money of those values in all payments under sixpence.—Harris, *Money and Coins*, pt. i., § 39; Liverpool, *Treatise on the Coins of the Realm*, 1805, pp. 130, 131.]
 31. [Ed. 1 reads 'sum'.]
 32. [*I.e.*, if 21 pounds may be paid with 420 silver shillings or with 20 gold guineas it does not matter whether a 'pound' properly signifies 20 silver shillings or 20/21 of a gold guinea.]
 33. [This happens to have been usually, though not always, true, but it is so simply because it has usually happened that the most precious metal in use as money has been made or become the standard. Gold was already the standard in England, though fact was not generally recognised; see Harris, *Money and Coins*, pt. ii., §§ 36, 37, below, vol. ii., IV.6.21-32.]
 34. [In 1774.]
 35. [These regulations, issued in 1774, provided that guineas should not pass when they had lost a certain portion of their weight, varying with their age.—Liverpool, *Coins Of the Realm*, p. 216, note.]
 36. [Magens, *Universal Merchant*, ed. Horsley, 1753, pp. 53-55, gives the proportions thus: French coin, 1 to 14 5803/12279, Dutch, 1 to 14 82550/154425, English, 1 to 15 14295/68200.]
 37. [Full weight silver coins would not remain in circulation, as the bullion in them was worth more reckoned in guineas and in the ordinary old and worn silver coins than the nominal amount stamped on them.]
 38. [Locke, *Further Considerations Concerning Raising the Value of Money*, 2nd ed., 1695, pp. 58-60. The exportation of foreign coin (misprinted 'kind' in Pickering) or bullion of gold or silver was permitted by 15 Car. II, c. 7, on the ground that it was 'found by experience that' money and bullion were 'carried in greatest abundance (as to a common market) to

- such places as give free liberty for exporting the same' and in order 'the better to keep in and increase the current coins' of the kingdom.]
39. [Harris, writing nearly twenty years earlier, had said, 'it would be a ridiculous and vain attempt to make a standard integer of gold whose parts should be silver, or to make a motley standard, part gold and part silver.'—*Money and Coins*, pt. i., § 36.]
40. [*I.e.*, an ounce of standard gold would not actually fetch £3 17s. 10 1/2*d.* if sold for cash down.]
41. [This erroneous statement is repeated below, p. 501, and also vol. ii., p. 60, where the calculations on which it is based are given. See the note on that passage.]
42. [The question of seignorage is further discussed at some length in the chapter on Commercial Treaties vol. ii., IV.6.15-32,.]
43. [Ed. 1 reads 'in the tear and wear of coin, and in the tear and wear of plate'.]

End of Notes

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Book I, Chapter VI

Of the Component Parts of the Price of Commodities

1.6.1

In that early and rude state of society which precedes both the accumulation of stock and the appropriation of land, the proportion between the quantities of labour necessary for acquiring different objects seems to be the only circumstance which can afford any rule for exchanging them for one another. If among a nation of hunters, for example, it usually costs twice the labour to kill a beaver which it does to kill a deer, one beaver should naturally exchange for or be worth two deer. It is natural that what is usually the produce of two days or two hours labour, should be worth double of what is usually the produce of one day's or one hour's labour.

1.6.2

If the one species of labour should be more severe than the other, some allowance will naturally be made for this superior hardship; and the produce of one hour's labour in the one way may frequently exchange for that of two hours labour in the other.

1.6.3

Or if the one species of labour requires an uncommon degree of dexterity and ingenuity, the esteem which men have for such talents, will naturally give a value to their produce, superior to what would be due to the time employed about it. Such talents can seldom be acquired but in consequence of long application, and the superior value of their produce may frequently be no more than a reasonable compensation for the time and labour which must be spent in acquiring them. In the advanced state of society, allowances of this kind, for superior hardship and superior skill, are commonly made in the wages of labour; and something of the same kind must probably have taken place in its earliest and rudest period.

1.6.4

In this state of things, the whole produce of labour belongs to the labourer; and ^{*44} the quantity of labour commonly employed in acquiring or producing any commodity, is the only circumstance which can regulate the quantity of labour which it ought commonly to purchase, command, or exchange for.

1.6.5

As soon as stock has accumulated in the hands of particular persons, some of them will naturally employ it in setting to work industrious people, whom they will supply with materials and subsistence, in order to make a profit by the sale of their work, or by what their labour adds to the value of the materials. In exchanging the complete manufacture either for money, for labour, or for other goods, over and above what may be sufficient to pay the price of the materials, and the wages of the workmen, something must be given for the profits of the undertaker of the work who hazards his stock in this adventure. The value which the workmen add to the materials, therefore, resolves itself in this case into two parts, of which the one pays their wages, the other the profits of their employer upon the whole stock of materials and wages which he advanced. He could have no interest to employ them, unless he expected from the sale of their work something more than what was sufficient to replace his stock to him; and he could have no interest to employ a great stock rather than a small one, unless his profits were to bear some proportion to the extent of his stock.

1.6.6

The profits of stock, it may perhaps be thought, are only a different name for the wages of a particular sort of labour, the labour of inspection and direction. They are, however, altogether different, are regulated by quite different principles, and bear no proportion to the quantity, the hardship, or the ingenuity of this supposed labour of inspection and direction. They are regulated altogether by the value of the stock employed, and are greater or smaller in proportion to the extent of this stock. Let us suppose, for example, that in some particular place, where the common annual profits of manufacturing stock are ten per cent. there are two different manufactures, in each of which twenty workmen are employed at the rate of fifteen pounds a year each, or at the expence of three hundred a year in each manufactory. Let us suppose too, that the coarse materials annually wrought up in the one cost only seven hundred pounds, while the finer materials in the other cost seven thousand. The capital annually employed^{*45} in the one will in this case amount only to one thousand pounds; whereas that employed in the other will amount to seven thousand three hundred pounds. At the rate of ten per cent. therefore, the undertaker of the one will expect an yearly profit of about one hundred pounds only; while that of the other will expect about seven hundred and thirty pounds. But though their profits are so very different, their labour of inspection and direction may be either altogether or very nearly the same. In many great works, almost the whole labour of this kind is^{*46} committed to some principal clerk. His wages properly express the value of this labour of inspection and direction. Though in settling them some regard is had commonly, not only to his labour and skill, but to the trust which is reposed in him, yet they never bear any regular proportion to the capital of which he oversees the management; and the owner of this capital, though he is thus discharged of almost all labour, still expects that his profits should bear a regular proportion to his capital.^{*47} In the price of commodities, therefore, the profits of stock constitute a component part^{*48} altogether different from the wages of labour, and regulated by quite different principles.

1.6.7

In this state of things, the whole produce of labour does not always belong to the labourer. He must in most cases share it with the owner of the stock which employs him. Neither is the quantity of labour commonly employed in acquiring or producing any commodity, the only circumstance^{*49} which can regulate the quantity which it ought commonly to purchase, command, or exchange for. An additional quantity, it is evident, must be due for the profits of the stock which advanced the wages and furnished the materials of that labour.

1.6.8

As soon as the land of any country has all become private property, the landlords, like all other men, love to reap where they never sowed,^{*50} and demand a rent even for its natural produce. The wood of the forest, the grass of the field, and all the natural fruits of the earth, which, when land was in common, cost the labourer only the trouble of gathering them, come, even to him,^{*51} to have an additional price fixed upon them. He must then pay for the licence to gather them; and must give up to the landlord a portion of what his labour either collects or produces. This portion, or, what comes to the same thing, the price of this portion, constitutes the rent of land, and in the price of the greater part of commodities makes a third component part.^{*52}

1.6.9

The real value of all the different component parts of price, it must be observed, is measured^{*53} by the quantity of labour which they can, each of them, purchase or command. Labour measures the value not only of that part of price which resolves itself into labour, but of that which resolves itself into rent, and of that which resolves itself into profit.

1.6.10

In every society the price of every commodity finally resolves itself into some one or other, or all of those three parts; and in every improved society, all the three enter more or less, as component parts, into the price of the far greater part of commodities.

1.6.11

In the price of corn, for example, one part pays the rent of the landlord, another pays the wages or maintenance of the labourers and labouring cattle,^{*54} employed in producing it, and the third pays the profit of the farmer. These three parts seem either immediately or ultimately to make up the whole price of corn. A fourth part, it may perhaps be thought, is necessary for replacing the stock of the farmer, or for compensating the wear and tear^{*55} of his labouring cattle, and other instruments of husbandry. But it must be considered that the price of any instrument of husbandry, such as a labouring horse, is itself made up of the same three parts; the rent of the land upon which he is reared, the labour of tending and rearing him, and the profits of the farmer who advances both the rent of this land, and the wages of this labour. Though the price of the corn, therefore, may pay the price as well as the maintenance of the horse, the whole price still resolves itself either immediately or ultimately into the same three parts of rent, labour,^{*56} and profit.

1.6.12

In the price of flour or meal, we must add to the price of the corn, the profits of the miller, and the wages of his servants; in the price of the bread, the profits of the baker, and the wages of his servants; and in the price of both, the labour of transporting the corn from the house of the farmer to that of the miller, and from that of the miller to that of the baker, together with the profits of those who advance the wages of that labour.

1.6.13

The price of flax resolves itself into the same three parts as that of corn. In the price of linen we must add to this price the wages of the flax-dresser, of the spinner, of the weaver, of the bleacher, &c. together with the profits of their respective employers.

1.6.14

As any particular commodity comes to be more manufactured, that part of the price which resolves itself into wages and profit, comes to be greater in proportion to that which resolves itself into rent. In the progress of the manufacture, not only the number of profits increase, but every subsequent profit is greater than the foregoing; because the

capital from which it is derived must always be greater. The capital which employs the weavers, for example, must be greater than that which employs the spinners; because it not only replaces that capital with its profits, but pays, besides, the wages of the weavers; and the profits must always bear some proportion to the capital. *57

1.6.15

In the most improved societies, however, there are always a few commodities of which the price resolves itself into two parts only, the wages of labour, and the profits of stock; and a still smaller number in which it consists altogether in the wages of labour. In the price of sea-fish, for example, one part pays the labour of the fishermen, and the other the profits of the capital employed in the fishery. Rent very seldom makes any part of it, though it does sometimes, as I shall shew hereafter. *58 It is otherwise, at least through the greater part of Europe, in river fisheries. A salmon fishery pays a rent, and rent, though it cannot well be called the rent of land, makes a part of the price of a salmon as well as wages and profit. In some parts of Scotland a few poor people make a trade of gathering, along the sea-shore, those little variegated stones commonly known by the name of Scotch Pebbles. The price which is paid to them by the stone-cutter is altogether the wages of their labour; neither rent nor profit make any part of it.

1.6.16

But the whole price of any commodity must still finally resolve itself into some one or other, or all of those three parts; as whatever part of it remains after paying the rent of the land, and the price of the whole labour employed in raising, manufacturing, and bringing it to market, must necessarily be profit to somebody. *59

1.6.17

As the price or exchangeable value of every particular commodity, taken separately, resolves itself into some one or other, or all of those three parts; so that of all the commodities which compose the whole annual produce of the labour of every country, taken complexly, must resolve itself into the same three parts, and be parcelled out among different inhabitants of the country, either as the wages of their labour, the profits of their stock, or the rent of their land. *60 The whole of what is annually either collected or produced by the labour of every society, or what comes to the same thing, the whole price of it, is in this manner originally distributed among some of its different members. Wages, profit, and rent, are the three original sources of all revenue as well as of all exchangeable value. All other revenue *61 is ultimately derived from some one or other of these.

1.6.18

Whoever derives his revenue from a fund which is his own, must draw it either from his labour, from his stock, or from his land. The revenue derived from labour is called wages. That derived from stock, by the person who manages or employs it, is called profit. That derived from it by the person who does not employ it himself, but lends it to another, is called the interest or the use of money. It is the compensation which the borrower pays to the lender, for the profit which he has an opportunity of making by the use of the money. Part of that profit naturally belongs to the borrower, who runs the risk and takes the trouble of employing it; and part to the lender, who affords him the opportunity of making this profit. The interest of money is always a derivative revenue, which, if it is not paid from the profit which is made by the use of the money, must be paid from some other source of revenue, unless perhaps the borrower is a spendthrift, who contracts a second debt in order to pay the interest of the first. The revenue which proceeds altogether from land, is called rent, and belongs to the landlord. The revenue of the farmer is derived partly from his labour, and partly from his stock. To him, land is only the instrument which enables

him to earn the wages of this labour, and to make the profits of this stock. All taxes, and all the revenue which is founded upon them, all salaries, pensions, and annuities of every kind, are ultimately derived from some one or other of those three original sources of revenue, and are paid either immediately or mediately from the wages of labour, the profits of stock, or the rent of land.

1.6.19

When those three different sorts of revenue belong to different persons, they are readily distinguished; but when they belong to the same they are sometimes confounded with one another, at least in common language.

1.6.20

A gentleman who farms a part of his own estate, after paying the expence of cultivation, should gain both the rent of the landlord and the profit of the farmer. He is apt to denominate, however, his whole gain, profit, and thus confounds rent with profit, at least in common language. The greater part of our North American and West Indian planters are in this situation. They farm, the greater part of them, their own estates, and accordingly we seldom hear of the rent of a plantation, but frequently of its profit.

1.6.21

Common farmers seldom employ any overseer to direct the general operations of the farm. They generally too work a good deal with their own hands, as ploughmen, harrowers, &c. What remains of the crop after paying the rent, therefore, should not only replace to them their stock employed in cultivation, together with its ordinary profits, but pay them the wages which are due to them, both as labourers and overseers. Whatever remains, however, after paying the rent and keeping up the stock, is called profit. But wages evidently make a part of it. The farmer, by saving these wages, must necessarily gain them. Wages, therefore, are in this case confounded with profit.

1.6.22

An independent manufacturer, who has stock enough both to purchase materials, and to maintain himself till he can carry his work to market, should gain both the wages of a journeyman who works under a master, and the profit which that master makes by the sale of the journeyman's work.*62 His whole gains, however, are commonly called profit, and wages are, in this case too, confounded with profit.*63

1.6.23

A gardener who cultivates his own garden with his own hands, unites in his own person the three different characters, of landlord, farmer, and labourer. His produce, therefore, should pay him the rent of the first, the profit of the second, and the wages of the third. The whole, however, is commonly considered as the earnings of his labour. Both rent and profit are, in this case, confounded with wages.

1.6.24

As in a civilized country there are but few commodities of which the exchangeable value arises from labour only, rent and profit contributing largely to that of the far greater part of them, so the annual produce of its labour will always be sufficient to purchase or command a much greater quantity of labour than what was employed in raising, preparing, and bringing that produce to market. If the society were*64 annually to employ all the labour which it can annually purchase, as the quantity of labour would increase greatly every year, so the produce of every succeeding year would be of vastly greater value than that of the foregoing. But there is no country in which the whole annual produce is employed in maintaining the industrious. The idle every where consume a great part of it; and according to the different proportions in which it is annually divided between those two different orders of people, its

ordinary or average value must either annually increase, or diminish, or continue the same from one year to another.

Notes for this chapter

44. [Ed. 1 does not contain 'the whole produce of labour belongs to the labourer; and'. The words, however, occur in all eds. at I.8.2 below.]
45. ['The capital annually employed' is the working expenses for twelve months, not capital in the usual modern sense.]
46. [Ed. 1 inserts 'frequently'.]
47. [Eds. 1 and 2 read 'proportion to it'.]
48. [Ed. 1 reads 'profits of stock are a source of value'.]
49. [Ed. 1 reads from the beginning of the paragraph: 'In this state of things, therefore, quantity of labour commonly employed in acquiring or producing any commodity is by no means the only circumstance'.]
50. [Buchanan, ed. *Wealth of Nations*, 1814, vol. i., p. 80, says: 'They do so. But the question is why this apparently unreasonable demand is so generally complied with. Other men love also to reap where they never sowed, but the landlords alone, it would appear, succeed in so desirable an object.']
51. [Ed. 1 does not contain 'the labourer' and 'even to him'.]
52. [Ed. 1 in place of these two sentences reads: 'Men must then pay for the licence to gather them; and in exchanging them either for money, for labour, or for other goods, over and above what is due, both for the labour of gathering them, and for the profits of the stock which employs that labour, some allowance must be made for the price of the licence, which constitutes the first rent of land. In the price therefore of the greater part of commodities the rent of land comes in this manner to constitute a third source of value. In this state of things, neither the quantity of labour commonly employed in acquiring or producing any commodity, nor the profits of the stock which advanced the wages and furnished the materials of that labour, are the only circumstances which can regulate the quantity of labour which it ought commonly to purchase command or exchange for. A third circumstance must likewise be taken into consideration; the rent of the land; and the commodity must commonly purchase, command or exchange for, an additional quantity of labour, in order to enable the person who brings it to market to pay this rent.']
53. [Ed. 1 reads 'The real value of all the different component parts of price is in this manner measured'.]
54. [Smith overlooks the fact that his inclusion of the maintenance of labouring cattle here as a sort of wages requires him to include it in the national income or 'wealth of the nation,' and therefore to reckon the cattle themselves as part of the nation.]
55. [Ed. 1 reads 'tear and wear'.]
56. [The use of 'labour' instead of the more natural 'wages' here is more probably the result of its use five lines higher up than of any feeling of difficulty about the maintenance of cattle. On I.7.2-3 below 'rent, labour and profit' and 'rent, wages and profit' are both used; see below, II.3.4, and note.]
57. [The fact that the later manufacturer has to replace what is here called the capital, *i.e.*, the periodical expenditure of the earlier manufacturer,

does not necessarily require him to have a greater capital to deal with the same produce. It need not be greater if he requires less machinery and buildings and a smaller stock of materials.]

58. [Below, I.11.4-6.]
59. [Only true if 'commodity' be understood to include solely goods which constitute income.]
60. [The ' whole annual produce' must be taken to mean the income and not the whole mass of goods produced, including those which perish or are used up in the creation of others.]
61. [Some parts of this 'other revenue,' viz., interest and taxes, are mentioned in the next paragraph. It is perhaps also intended to include the rent of houses; see below, II.1.10-15.]
62. [Ed. 1 reads 'sale of his work'.]
63. [Below, I.10.38-40.]
64. [Eds. 1-3 read ' was'.]

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Book I, Chapter VII

Of the Natural and Market Price of Commodities^{*65}

1.7.1

There is in every society or neighbourhood an ordinary or average rate both of wages and profit in every different employment of labour and stock. This rate is naturally regulated, as I shall show hereafter,^{*66} partly by the general circumstances of the society, their riches or poverty, their advancing, stationary, or declining condition; and partly by the particular nature of each employment.

1.7.2

There is likewise in every society or neighbourhood an ordinary or average rate of rent, which is regulated too, as I shall show hereafter,^{*67} partly by the general circumstances of the society or neighbourhood in which the land is situated, and partly by the natural or improved fertility of the land.

1.7.3

These ordinary or average rates may be called the natural rates of wages, profit, and rent, at the time and place in which they commonly prevail.

1.7.4

When the price of any commodity is neither more nor less than what is sufficient to pay the rent of the land, the wages of the labour, and the profits of the stock employed in raising, preparing, and bringing it to market, according to their natural rates, the commodity is then sold for what may be called its natural price.

1.7.5

The commodity is then sold precisely for what it is worth, or for what it really costs the person who brings it to market; for though in common language what is called the prime cost of any commodity does not comprehend the profit of the person who is to sell it again, yet if he sells it at a price which does not allow him the ordinary rate of profit in his neighbourhood, he is evidently a loser by the trade; since by employing his stock in some other way he might have made that profit. His profit, besides, is his revenue, the proper fund of his subsistence. As, while he is preparing and bringing the goods to market, he advances to his workmen their wages, or their subsistence; so he advances to himself, in the same manner, his own subsistence, which is generally suitable to the

profit which he may reasonably expect from the sale of his goods. Unless they yield him this profit, therefore, they do not repay him what they may very properly be said to have really cost him.

1.7.6

Though the price, therefore, which leaves him this profit, is not always the lowest at which a dealer may sometimes sell his goods, it is the lowest at which he is likely to sell them for any considerable time; at least where there is perfect liberty,^{*68} or where he may change his trade as often as he pleases.

1.7.7

The actual price at which any commodity is commonly sold is called its market price. It may either be above, or below, or exactly the same with its natural price.

1.7.8

The market price of every particular commodity is regulated by the proportion between the quantity which is actually brought to market, and the demand of those who are willing to pay the natural price of the commodity, or the whole value of the rent, labour, and profit,^{*69} which must be paid in order to bring it thither. Such people may be called the effectual demanders, and their demand the effectual demand; since it may be sufficient to effectuate the bringing of the commodity to market. It is different from the absolute demand. A very poor man may be said in some sense to have a demand for a coach and six; he might like to have it; but his demand is not an effectual demand, as the commodity can never be brought to market in order to satisfy it.

1.7.9

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 profit, 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. A competition will immediately begin among them, and the market price will rise more or less above the natural price, according as either the greatness of the deficiency, or the wealth and wanton luxury of the competitors, happen to animate more or less the eagerness of the competition. Among competitors of equal wealth and luxury the same deficiency^{*70} will generally occasion a more or less eager competition, according as the acquisition of the commodity happens to be of more or less importance to them.^{*71} Hence the exorbitant price of the necessaries of life during the blockade of a town or in a famine.

1.7.10

When the quantity brought to market exceeds the effectual demand, it cannot be all sold to those who are willing to pay the whole value of the rent, wages and profit, which must be paid in order to bring it thither. Some part must be sold to those who are willing to pay less, and the low price which they give for it must reduce the price of the whole. The market price will sink more or less below the natural price, according as the greatness of the excess increases more or less the competition of the sellers, or according as it happens to be more or less important to them to get immediately rid of the commodity. The same excess in the importation of perishable, will occasion a much greater competition than in that of durable commodities; in the importation of oranges, for example, than in that of old iron.

1.7.11

When the quantity brought to market is just sufficient to supply the effectual demand and no more, the market price naturally comes to be either exactly, or as nearly as can be judged of, the same with the natural price. The whole quantity upon hand can be disposed of for this price, and cannot be disposed of for more. The competition of the

different dealers obliges them all to accept of this price, but does not oblige them to accept of less.

1.7.12

The quantity of every commodity brought to market naturally suits itself to the effectual demand. It is the interest of all those who employ their land, labour, or stock, in bringing any commodity to market, that the quantity never should exceed the effectual demand; and it is the interest of all other people that it never should fall short of that demand.* 72

1.7.13

If at any time it exceeds the effectual demand, some of the component parts of its price must be paid below their natural rate. If it is rent, the interest of the landlords will immediately prompt them to withdraw a part of their land; and if it is wages or profit, the interest of the labourers in the one case, and of their employers in the other, will prompt them to withdraw a part of their labour or stock from this employment. The quantity brought to market will soon be no more than sufficient to supply the effectual demand. All the different parts of its price will rise to their natural rate, and the whole price to its natural price.

1.7.14

If, on the contrary, the quantity brought to market should at any time fall short of the effectual demand, some of the component parts of its price must rise above their natural rate. If it is rent, the interest of all other landlords will naturally prompt them to prepare more land for the raising of this commodity; if it is wages or profit, the interest of all other labourers and dealers will soon prompt them to employ more labour and stock in preparing and bringing it to market. The quantity brought thither will soon be sufficient to supply the effectual demand. All the different parts of its price will soon sink to their natural rate, and the whole price to its natural price.

1.7.15

The natural price, therefore, is, as it were, the central price, to which the prices of all commodities are continually gravitating. Different accidents may sometimes keep them suspended a good deal above it, and sometimes force them down even somewhat below it. But whatever may be the obstacles which hinder them from settling in this center of repose and continuance, they are constantly tending towards it.

1.7.16

The whole quantity of industry annually employed in order to bring any commodity to market, naturally suits itself in this manner to the effectual demand. It naturally aims at bringing always that precise quantity thither which may be sufficient to supply, and no more than supply, that demand.

1.7.17

But in some employments the same quantity of industry will in different years produce very different quantities of commodities;* 73 while in others it will produce always the same, or very nearly the same. The same number of labourers in husbandry will, in different years, produce very different quantities of corn, wine, oil, hops, &c. But the same number of spinners and weavers will every year produce the same or very nearly the same quantity of linen and woollen cloth. It is only the average produce of the one species of industry which can be suited in any respect to the effectual demand; and as its actual produce is frequently much greater and frequently much less than its average produce, the quantity of the commodities brought to market will sometimes exceed a good deal, and sometimes fall short a good deal of the effectual demand. Even though that demand therefore should continue always the same, their market price will be liable to great fluctuations, will sometimes fall a good deal below, and sometimes rise a

good deal above, their natural price. In the other species of industry, the produce of equal quantities of labour being always the same, or very nearly the same, it can be more exactly suited to the effectual demand. While that demand continues the same, therefore, the market price of the commodities is likely to do so too, and to be either altogether, or as nearly as can be judged of, the same with the natural price. That the price of linen and woollen cloth is liable neither to such frequent nor to such great variations as the price of corn, every man's experience will inform him. The price of the one species of commodities varies only with the variations in the demand: That of the other varies not only with the variations in the demand, but with the much greater and more frequent variations in the quantity of what is brought to market in order to supply that demand.

1.7.18

The occasional and temporary fluctuations in the market price of any commodity fall chiefly upon those parts of its price which resolve themselves into wages and profit. That part which resolves itself into rent is less affected by them. A rent certain in money is not in the least affected by them either in its rate or in its value. A rent which consists either in a certain proportion or in a certain quantity of the rude produce, is no doubt affected in its yearly value by all the occasional and temporary fluctuations in the market price of that rude produce; but it is seldom affected by them in its yearly rate. In settling the terms of the lease, the landlord and farmer endeavour, according to their best judgment, to adjust that rate, not to the temporary and occasional, but to the average and ordinary price of the produce.

1.7.19

Such fluctuations affect both the value and the rate either of wages or of profit, according as the market happens to be either over-stocked or under-stocked with commodities or with labour; with work done, or with work to be done. A public mourning raises the price of black cloth^{*74} (with which the market is almost always under-stocked upon such occasions) and augments the profits of the merchants who possess any considerable quantity of it. It has no effect upon the wages of the weavers. The market is under-stocked with commodities, not with labour; with work done, not with work to be done. It raises the wages of journeymen taylors. The market is here under-stocked with labour. There is an effectual demand for more^{*75} labour, for more work to be done than can be had. It sinks the price of coloured silks and cloths, and thereby reduces the profits of the merchants who have any considerable quantity of them upon hand. It sinks too the wages of the workmen employed in preparing such commodities, for which all demand is stopped for six months, perhaps for a twelvemonth. The market is here over-stocked with commodities and with labour.

1.7.20

But though the market price of every particular commodity is in this manner continually gravitating, if one may say so, towards the natural price, yet sometimes particular accidents, sometimes natural causes, and sometimes particular regulations of police, may, in many commodities, keep up the market price, for a long time together, a good deal above the natural price.

1.7.21

When by an increase in the effectual demand, the market price of some particular commodity happens to rise a good deal above the natural price, those who employ their stocks in supplying that market are generally careful to conceal this change. If it was commonly known, their great profit would tempt so many new rivals to employ their stocks in the same way, that, the effectual demand being fully supplied, the market price would soon be reduced to the natural price, and perhaps for some time even below it. If the market is at a great distance from the residence

of those who supply it, they may sometimes be able to keep the secret for several years together, and may so long enjoy their extraordinary profits without any new rivals. Secrets of this kind, however, it must be acknowledged, can seldom be long kept; and the extraordinary profit can last very little longer than they are kept.

1.7.22

Secrets in manufactures are capable of being longer kept than secrets in trade. A dyer who has found the means of producing a particular colour with materials which cost only half the price of those commonly made use of, may, with good management, enjoy the advantage of his discovery as long as he lives, and even leave it as a legacy to his posterity. His extraordinary gains arise from the high price which is paid for his private labour. They properly consist in the high wages of that labour. But as they are repeated upon every part of his stock, and as their whole amount bears, upon that account, a regular proportion to it, they are commonly considered as extraordinary profits of stock. ^{*76}

1.7.23

Such enhancements of the market price are evidently the effects of particular accidents, of which, however, the operation may sometimes last for many years together.

1.7.24

Some natural productions require such a singularity of soil and situation, that all the land in a great country, which is fit for producing them, may not be sufficient to supply the effectual demand. The whole quantity brought to market, therefore, may be disposed of to those who are willing to give more than what is sufficient to pay the rent of the land which produced them, together with the wages of the labour, and the profits of the stock which were employed in preparing and bringing them to market, according to their natural rates. Such commodities may continue for whole centuries together to be sold at this high price; ^{*77} and that part of it which resolves itself into the rent of land is in this case the part which is generally paid above its natural rate. The rent of the land which affords such singular and esteemed productions, like the rent of some vineyards in France of a peculiarly happy soil and situation, bears no regular proportion to the rent of other equally fertile and equally well-cultivated land in its neighbourhood. The wages of the labour and the profits of the stock employed in bringing such commodities to market, on the contrary, are seldom out of their natural proportion to those of the other employments of labour and stock in their neighbourhood.

1.7.25

Such enhancements of the market price are evidently the effect of natural causes which may hinder the effectual demand from ever being fully supplied, and which may continue, therefore, to operate for-ever.

1.7.26

A monopoly granted either to an individual or to a trading company has the same effect as a secret in trade or manufactures. The monopolists, by keeping the market constantly under-stocked, by never fully supplying the effectual demand, sell their commodities much above the natural price, and raise their emoluments, whether they consist in wages or profit, greatly above their natural rate.

1.7.27

The price of monopoly is upon every occasion the highest which can be got. The natural price, or the price of free competition, on the contrary, is the lowest which can be taken, not upon every occasion indeed, but for any considerable time altogether. The one is upon every occasion the highest which can be squeezed out of the buyers, or which, it is supposed, they will consent to give: The other is the lowest which the sellers can commonly afford to take, and at the same time continue

their business.

1.7.28

The exclusive privileges of corporations, statutes of apprenticeship,^{*78} and all those laws which restrain, in particular employments, the competition to a smaller number than might otherwise go into them, have the same tendency, though in a less degree. They are a sort of enlarged monopolies, and may frequently, for ages together, and in whole classes of employments, keep up the market price of particular commodities above the natural price, and maintain both the wages of the labour and the profits of the stock employed about them somewhat above their natural rate.

1.7.29

Such enhancements of the market price may last as long as the regulations of police which give occasion to them.

1.7.30

The market price of any particular commodity, though it may continue long above, can seldom continue long below, its natural price. Whatever part of it was paid below the natural rate, the persons whose interest it affected would immediately feel the loss, and would immediately withdraw either so much land, or so much labour, or so much stock, from being employed about it, that the quantity brought to market would soon be no more than sufficient to supply the effectual demand. Its market price, therefore, would soon rise to the natural price. This at least would be the case where there was perfect liberty.^{*79}

1.7.31

The same statutes of apprenticeship and other corporation laws indeed, which, when a manufacture is in prosperity, enable the workman to raise his wages a good deal above their natural rate, sometimes oblige him, when it decays, to let them down a good deal below it. As in the one case they exclude many people from his employment, so in the other they exclude him from many employments. The effect of such regulations, however, is not near so durable in sinking the workman's wages below, as in raising them above their natural rate. Their operation in the one way may endure for many centuries, but in the other it can last no longer than the lives of some of the workmen who were bred to the business in the time of its prosperity. When they are gone, the number of those who are afterwards educated to the trade will naturally suit itself to the effectual demand. The police must be as violent as that of Indostan or antient Egypt^{*80} (where every man was bound by a principle of religion to follow the occupation of his father, and was supposed to commit the most horrid sacrilege if he changed it for another), which can in any particular employment, and for several generations together, sink either the wages of labour or the profits of stock below their natural rate.

1.7.32

This is all that I think necessary to be observed at present concerning the deviations, whether occasional or permanent, of the market price of commodities from the natural price.

1.7.33

The natural price itself varies with the natural rate of each of its component parts, of wages, profit, and rent; and in every society this rate varies according to their circumstances, according to their riches or poverty, their advancing, stationary, or declining condition. I shall, in the four following chapters, endeavour to explain, as fully and distinctly as I can, the causes of those different variations.

1.7.34

First, I shall endeavour to explain what are the circumstances which naturally determine the rate of wages, and in what manner those circumstances are affected by the riches or poverty, by the advancing,

stationary or declining state of the society.

1.7.35

Secondly, I shall endeavour to show what are the circumstances which naturally determine the rate of profit, and in what manner too those circumstances are affected by the like variations in the state of the society.

1.7.36

Though pecuniary wages and profit are very different in the different employments of labour and stock; yet a certain proportion seems commonly to take place between both the pecuniary wages in all the different employments of labour, and the pecuniary profits in all the different employments of stock. This proportion, it will appear hereafter, depends partly upon the nature of the different employments, and partly upon the different laws and policy of the society in which they are carried on. But though in many respects dependent upon the laws and policy, this proportion seems to be little affected by the riches or poverty of that society; by its advancing, stationary, or declining condition; but to remain the same or very nearly the same in all those different states. I shall, in the third place, endeavour to explain all the different circumstances which regulate this proportion.

1.7.37

In the fourth and last place, I shall endeavour to show what are the circumstances which regulate the rent of land, and which either raise or lower the real price of all the different substances which it produces.

Notes for this chapter

65. [The chapter follows *Lectures*, pp. 173-182, very closely.]
66. [Below, chaps. viii. and ix.]
67. [Below, chap. xi.]
68. [The same phrase occurs below, 1.7.30, 1.10.1.]
69. [Above, 1.7.11 and note 56.]
70. [Ed. 1, beginning four lines higher up, reads 'according as the greatness of the deficiency increases more or less the eagerness of this competition. The same deficiency'.]
71. [Ed. 1 reads 'the competitors'.]
72. [Ed. 1 reads 'fall short of it'.]
73. [See below, 1.10.49.]
74. [Repeated below, 1.10.49.]
75. [Ed. 1 does not contain 'more'.]
76. [They are called profits simply because all the gains of the master-manufacturer are called profits. They can scarcely be said to have been 'considered' at all; if they had been, they would doubtless have been pronounced to be, in the words of the next paragraph, 'the effects of a particular accident,' namely, the possession of peculiar knowledge on the part of the dyer.]
77. [Ed. 1 places 'for whole centuries together' here instead of in the line above.]
78. [See below, 1.10.56-89. Playfair, in a note on this passage, ed. *Wealth of Nations*, 1805, vol. i. p. 97, says: 'This observation about corporations and apprenticeships scarcely applies at all to the present day. In London, for example, the freemen only can carry on certain businesses within the city: there is not one of those businesses that may not be carried on elsewhere, and the produce sold in the city. If Mr.

Smith's principle applied, goods would be dearer in Cheapside than in Bond Street, which is not the case.']

79. [Above, I.7.6, and below, I.10.1.]

80. [In *Lectures*, p. 168, the Egyptian practice is attributed to 'a law of Sesostris'.]

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The cuneiform inscription in the Liberty Fund logo is the earliest-known written appearance of the word "freedom" (amagi), or "liberty." It is taken from a clay document written about 2300 B.C. in the Sumerian city-state of Lagash.

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