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

Adam Smith

1776

[Brackets] enclose editorial explanations. Small ·dots· enclose material that has been added, but can be read as though it were part of the original text. Occasional •bullets, and also indenting of passages that are not quotations, are meant as aids to grasping the structure of a sentence or a thought. Every four-point ellipsis . . . . indicates the omission of a brief passage that seems to present more difficulty than it is worth. Longer omissions are reported between brackets in normal-sized type. Cross-headings in SMALL CAPITALS that are not in the original are marked by small ·dots·. Each of them announces the start of a new topic; there is often no mark of where that topic ends.

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Contents

Glossary

accommodation: Smith often uses this word in a broader sense than we are familiar with, a sense in which someone's 'accommodation' refers to all the comforts and conveniences he enjoys, not merely the place where he lives.

alienation: Selling something to someone outside the family of its present owner.

allodial: 'Pertaining to the absolute ownership of an estate' (OED)

arbitrary: It means 'dependent on individual human decisions'. An 'arbitrary government' is contrasted with one in which the rule of law is absolute.

art: Any practical activity that is governed by rules, involves techniques, requires skill. Also **artificer**.

benefice: Property and/or guaranteed income of a rector or vicar (higher in rank than a curate).

bounty: A handout from the state to the exporter of certain sorts of goods.

cattle: Sometimes used to cover horses, hogs, and sheep as well as bovine livestock. Not deer.

chairmen: Carriers of sedans, hired especially in winter to enable the passenger to avoid walking in water and mud.

contempt: On a few occasions Smith uses 'contempt of x' to mean 'attitude of regarding x as negligible'.

creditable: Respectable, decent.

effectual demand(er): A technical term of Smith's, explained on page 22.

entail: A property is entailed if it must by law remain in the possession of the family that now owns it.

equipage: This imprecise term covers: coach and horses, servants' uniform, elegant cutlery and dishes, and so on.

factory: Replaces Smith's 'manufactory' throughout.

finally paid: A tax is 'finally paid' by the person who pays it with no **retribution**.

generous: Mainly used in today's sense of 'free in giving', but a few times in the older sense of 'noble-minded, magnanimous, rich in positive emotions' etc.

genius: Aptitude for a particular activity.

income, revenue: In this version, private individuals have incomes; Smith usually says that they have revenues.

industry: Work, e.g. the work of a farm labourer.

journeyman: In Smith's usage, a skilled worker who is available to be hired but is not anyone's permanent fixed-wage employee, and is paid according to output rather than time.

magistrate: In this work a 'magistrate' is anyone with an official role in the enforcement of law; on page **??** the emperor Augustus is referred to as 'the magistrate'.

manufacturer: Smith quite often uses this in something like our sense, though he often expresses that with the phrase 'master manufacturer'. Sometimes the undecorated noun is used to refer to anyone who *works in* manufacturing; there is a striking example of this on page **??**.

meanest: Lowest on the social scale.

money: When Smith mentions particular sums of money in the terminology of 'pounds', 'shillings' and 'pence', those words are usually replaced by the conventional symbols, so that for example '£13/6/8d' means 'thirteen pounds six

shillings and eightpence'; '6/-' means 'six shillings'; '8d' means 'eightpence'.

parish: A town or village or neighbourhood that has its own church. To 'come on the parish' = 'to live in a workhouse, at public expense', always in wretched conditions.

pecuniary: Having to do with money; a worker's 'pecuniary wages' are what he is paid in cash for his work.

perfect liberty: Smith regularly uses this phrase, as he explains on page 22, to mean 'being free, so far as the law is concerned, to practise any trade you choose'.

perpetuities: Legal arrangements under which estates can never be sold or given away.

prince: In this work *prince* isn't a title and doesn't designate a rank; it stands for any ruler of a state, whether a king or queen or duke or count etc.

principle: Smith often uses this word in a sense, once common but now obsolete, in which 'principle' means 'source', 'cause', 'driver', 'energiser', or the like.

prodigal: Unwisely free in spending; 'the prodigal son' does *not* mean 'the son who left home and then returned' but 'the son who foolishly squandered all his money'.

projector: Someone who tries to start a new enterprise. On pages **??** and **??** there are strong suggestions of 'someone who rashly or foolishly tries' etc.

rent certain: A rent stated as a fixed amount of money per month, year, etc., rather than as a fixed proportion of some variable quantity such as profitability of land.

retribution: Sometimes used in the now obsolete sense of 'recompense' or 'repayment'. The word is left untouched in this version in case Smith means by it something more special than that. See also **finally paid**.

revolution: The revolution Smith refers to on page **??** and a few other places is the sequence of events in 1688 in which James II (Roman catholic) was replaced by the Dutch William and Mary of Orange (protestant) as joint sovereigns of England.

rude: As applied to societies: primitive. As applied to products such as metals and grains: unprocessed.

save-all: 'a means of preventing loss or waste' (OED).

science: In early modern times this word applied to any body of knowledge or theory that is (perhaps) axiomatised and (certainly) conceptually highly organised. Smith's use of the word seems looser than that, but you may have to interpret individual occurrences on the basis of their context.

station: social status.

sumptuary law: Law setting limits on how much individuals may spend.

theory: This is nearly always a replacement for Smith's 'system'. The work contains the phrase 'theories of political economy' (once) and 'systems of political economy' (many times), and it's clear that for Smith the phrases are synonymous.

tolerable: reasonable, allowable, fairly acceptable.

undertaker: In Smith's usage, the 'undertaker' of a project is the entrepreneur who launches and risks his capital in it.

united kingdom: In Smith's day this phrase applied to the combination of England (including Wales) and Scotland. Only in 1801 did 'the United Kingdom' become an official name for those two plus Ireland.

workshop: This word is used throughout to replace 'workhouse', to avoid the distracting suggestion of 'poorhouse'.

Introduction and plan of the work

The annual labour of every nation is the fund that basically supplies it with all the necessities and conveniences of life it annually consumes, and which consists in the immediate product of that labour or in what is purchased with it from other nations. Thus, •how well the nation is supplied with all the necessities and conveniences for which it has occasion depends on •the size of this product (or of what is purchased with it) in proportion to the number of those who are to consume it.

This proportion is always regulated by

(1) the skill, dexterity, and judgment with which its labour is generally applied; and

(2) how many people are employed in useful labour in proportion to those who are not so employed.

Whatever be the soil, climate, or extent of territory of any particular nation, whether its annual supply is abundant or scanty must depend on those two circumstances.

The abundance or scantiness of this supply seems to depend more on **(1)** than on **(2)**. Among the savage nations of hunters and fishers, everyone who can work is somewhat employed in useful labour, and does his best to provide the necessities and conveniences of life for himself and for such of his tribe as are too old, too young, or too infirm to hunt and fish. Such nations, however, are so miserably poor that they often are—or *think* they are—reduced to having to get rid of their infants, their old people, and their chronically ill, sometimes directly destroying them, and sometimes abandoning them to die of hunger or be devoured by wild beasts. Among civilised and thriving nations, on the other hand, many people don't labour at all; and many of *them* consume the product of up to a hundred times more labour than most of those who work; yet the product of the whole labour of the society is so large that all are often abundantly supplied, and even the poorest workman, if he is frugal and industrious, can enjoy more of the necessities and conveniences of life than any savage can acquire.

The causes of this improvement in the productive powers of labour, and the ways in which its product is naturally distributed among the different ranks and conditions of men, are the subject of the Book I of this Inquiry.

Whatever the level of skill, dexterity, and judgment with which labour is applied in any nation, the abundance of its annual supply must depend on the number of those who are annually employed in useful labour in proportion to the number who are not so employed. I'll show in due course that the number of useful and productive labourers is always proportional to •the quantity of *capital stock* that is employed in setting them to work, and to the •particular way in which it is so employed. Book II deals with the nature of capital stock, how it is gradually accumulated, and how the different ways of using it affect how much labour it puts into motion.

Nations tolerably well advanced in the skill, dexterity, and judgment of their labour force have followed very different plans in the general conduct or direction of it; and those plans haven't all been equally favourable to the size of its product. Some nations have given special encouragement to the industry [see Glossary] of the country; others to the industry of towns. Hardly any have dealt equally and impartially with every sort of industry. Since the fall of the Roman empire Europe has been more favourable to arts, manufactures, and commerce (the industry of towns) than to agriculture (the industry of the country). The policies producing these results are explained in Book III.

Those different plans may have arisen from the private interests and prejudices of particular orders of men, without any thought of their effect on the society's general welfare;

but they have given rise to very different theories of political economy of which some magnify the importance of the industry of towns, others of the industry of the country. Those theories have influenced not only the opinions of men of learning but the public conduct of princes and sovereign states. I have tried in Book IV to explain fully and clearly those theories and their main effects in different ages and nations.

So Books I–IV have aimed to explain what the revenue of the great body of the people has consisted in, i.e. what has been the nature of the funds that have supplied the different nations with their annual consumption. Book V examines the revenue of the sovereign or the commonwealth. I try here to show

(1) what are the necessary expenses of the sovereign or commonwealth; and which of them ought to be paid for by the whole society and which by some particular part of it; and

(2) the different methods in which the whole society may be made to contribute towards defraying the expenses incumbent on the whole society, and the principal advantages and inconveniences of each; and

(3) the reasons and causes that have induced almost all modern governments to mortgage some part of this revenue, i.e. to contract debts; and the effects of those debts on the real wealth—the annual product of the land and labour—of the society.

Book I.
The causes of improvement in the productive powers of labour, and the order according to which its product is naturally distributed among the different ranks of people

Chapter 1. The division of labour

The greatest improvements in the productive powers of labour, and most of the skill, dexterity, and judgment with which it is directed or applied, seem to be results of the division of labour. It will be easier to understand how the division of labour affects society in general if we first look at how it operates in some particular manufactures. It is easy to *see* the division of labour in small manufactures where the over-all number of workmen is small and all of them can be collected into one workshop and all seen at once.

But in the large manufactures that are destined to meet the needs of the great body of the people, every branch of the work employs so many workmen that they can't be collected into a single workshop; so that we can't see more at one time than those employed in one branch. In such manufactures the work may be divided into many more parts than in the smaller ones, but the division is much less obvious and has accordingly been much less noticed.

Consider the trade of a pin-maker—a small manufacture, but one in which the division of labour has often been noticed. A workman not educated to this business or acquainted with the use of its machinery probably couldn't make one pin in a day, and certainly couldn't make twenty. [Smith builds into that sentence two asides: that the division of labour •has made pin-making a distinct trade and •probably has led to the invention of the machinery.] But these days not only is pin-making a particular trade but it is divided into branches most of which are themselves particular trades. [He gives details.] In this way the business of making a pin is divided into about eighteen operations; in some factories they are all performed by different people, though in others one man may perform two or three of them. I have seen a small workshop of this kind employing only ten men, so that some had to perform two or three operations. These were very poor people, and therefore not familiar with the machinery they had to use; but when they exerted themselves they could jointly make about 12lb of pins in a day, which is about 48,000 pins of a middling size. So each of those ten workers might be considered as making 4,800 pins in a day; but if they had all worked separately and with no training in this particular business, they certainly couldn't each have made twenty pins in a day, and perhaps not even one. . . .

In every other art [see Glossary] and manufacture the effects of the division of labour are similar to this, though in many the labour can't be so much subdivided or reduced to such simplicity of operation. But whatever division of labour *can* be introduced always creates a proportionate increase of the productive powers of labour. This advantage seems to be what led to the separation of different trades and employments. And this separation is generally greatest in countries that have the most industry and improvement—what is the work of one man in a rude [see Glossary] state of society is generally that of several in an improved one. In every improved society the farmer is generally just a farmer, the manufacturer just a manufacturer; and the labour involved in any one manufacture is almost always divided among many hands. How many trades are employed

in each branch of the linen and woollen manufactures, from the growers of the flax and the wool to the bleachers and smoothers of the linen, or the dyers and dressers of the cloth! The business of the grazier can't be separated from that of the corn-farmer as completely as the trade of the carpenter is commonly separated from that of the smith. The spinner is usually a different person from the weaver; but the ploughman, the harrower, the sower of the seed, and the reaper of the corn are often the same. Those different sorts of labour are needed at different seasons, so one man can't be constantly employed in any one of them. Perhaps that is why the improvement of the productive powers of labour in agriculture don't always keep pace with their improvement in manufactures. The most opulent nations generally excel their neighbours in agriculture as well as in manufactures, but usually not by as much in the former as in the latter. Their lands are better cultivated—and having more labour and expenditure bestowed on them—produce more in proportion to the extent and natural fertility of the ground, but usually not much more than proportional to the greater amount of labour and greater expense. In agriculture, the rich country's labour is not always much more productive than the poor country's, and never as much more productive as it commonly is in manufactures. [He gives an example. The cultivation of corn is better in England than in France, where it is better than in Poland; but the price of corn (of equal quality) from those three countries is roughly the same.] But though the poor country. . . .can to some extent rival the rich country in the cheapness and quality of its corn, it can't compete in this way in its manufactures—at least if those manufactures suit the soil, climate, and situation of the rich country. The silks of France are better and cheaper than England's because the manufacture of silk, at least under the present high duties on the import of raw silk, doesn't suit England's climate as well as France's. [In this passage, 'climate' refers not to the weather but to the over-all situation. For manufacturing silk, the bad factor in England's 'climate' is the import tax on raw silk. The weather is irrelevant.] But England's hardware and coarse woollens are incomparably better than France's, and where quality is the same they are much cheaper. In Poland there are said to be hardly any manufactures except for a few of the coarser household manufactures without which no country can well subsist.

This increase in how much work a given number of people can do when their labour is divided is due to three factors. . . .

(1) By reducing every man's business to one simple operation, and making that the sole employment of his life, the division of labour greatly increases **the workman's dexterity**; and that of course increases the amount of work he can do. A common smith who hasn't been used to making nails will, if he is obliged to attempt this, make at most 300 nails—very bad ones—in a day. A smith who has been used to making nails but not as his sole or principal business, probably can't make more than 1,000 nails in a day, however hard he tries. But a boy who has never exercised any trade except making nails can make more than 2,300 nails in a day; I have seen this myself. [He goes on about the complexity of nail-making and thus its demands on dexterity, concluding:] The rapidity with which some of the operations of such manufactures are performed exceeds what the human hand could be supposed, by those who had never seen them, to be capable of acquiring.

(2) The advantage gained from **saving the time commonly lost in passing from one sort of work to another** is much greater than we might at first think. . . . A country weaver who also cultivates a small farm must lose a good deal of time in passing back and forth between his loom and the field. When the two trades are carried on in the same

workshop, the loss of time is less but still considerable. A man commonly slacks a little when he first begins the new work; his mind doesn't 'go to it' (as they say), and for some time he rather trifles than applying himself to good purpose. [Smith says that every country workman who has to change his work and his tools every half-hour 'naturally, or rather necessarily' falls into this habit of slacking, which] makes him almost always slothful and lazy, incapable of vigorous work even on the most pressing occasions. Quite apart from his lack of dexterity, this cause alone must considerably reduce the quantity of work he can perform.

(3) Everyone must know how greatly labour is eased and shortened by **the application of proper machinery**. There's no need to give an example. All those machines by which labour is made so much easier and briefer seem to have been invented because of division of labour. . . . Many of them were the invention of common workmen who, being each employed in some very simple operation, naturally looked for easier and readier methods of performing it. . . . In the first steam engines a boy was constantly employed to open or shut the valve between the boiler and the cylinder according as the piston ascended or descended. One such boy noticed that if he tied a string between •the handle of the valve and •another part of the machine, the valve would open and shut without his help, and leaving him at liberty to amuse himself with his playmates. This was one of the greatest improvements in this machine since it was first invented—discovered by a boy who wanted to save himself trouble!

Many improvements in machines, however, have been made not by the •users of the machines but by their •makers, when making them became a separate specialised trade. And some have been made by those who are called •philosophers, or men of speculation [here = 'disciplined theorising'], whose trade is not to *do anything* but to *observe everything*, which often enables them to combine the powers of the most distant and dissimilar objects in the progress of society. Like every other employment, philosophy or speculation becomes the principal or sole occupation of a particular class of citizens. Like the others it is divided into many branches, each employing a special class of philosophers; and here too the division of employment improves dexterity and saves time. Each individual becomes more expert in his own special branch, more work is done on the whole, and the amount of science [see Glossary] is considerably increased by it.

The affluence that extends right through to the lowest ranks of the people in a well-governed society arises from the multiplication of the products of the various arts because of the division of labour. Every workman has a large quantity of his own work to dispose of apart from what he needs for himself; and all other workmen are exactly the same situation; so he can exchange a quantity of his own goods for a quantity—or (the same thing) the *price of* a quantity—of theirs. He supplies them abundantly with what they need, and they accommodate him as fully with what he needs; and so a general plenty spreads through all ranks of the society.

The most common artificer or day-labourer in a civilised and thriving country—look at his accommodation! [see Glossary] There's no way of counting all the people whose labour has contributed, if only in a small way, to his having it. The day-labourer's woollen coat, for example, coarse and rough as it may appear, is the product of the joint labour of many workmen:

- •the shepherd,
- •the sorter of the wool,
- •the wool-comber or carder,
- •the dyer,
- •the scribbler,
- •the spinner,

- the weaver,
- the fuller,
- the dresser,

and many others combine their different arts in order to complete this homely product. How many carriers must have been employed in transporting the materials from some of those workmen to others in different places! How many ship-builders, sailors, sail-makers, rope-makers must have been employed in order to bring together the different dyes for the wool, which often come from the remotest corners of the world! What a variety of labour is also needed to produce the tools of the meanest [see Glossary] of those workmen! Setting aside such complicated machines as the sailor's ship, the fuller's mill, or even the weaver's loom, let us consider a very simple machine, the shears the shepherd uses to clip the wool, and see what labour is required to make *that*:

- the miner,
- the builder of the furnace for smelting the ore,
- the feller of the timber,
- the burner of the charcoal to use in the smelting-house,
- the brick-maker,
- the bricklayer,
- the workmen who manage the furnace,
- the millwright,
- the forger,
- the smith

—all these must combine their arts in order to produce the shears. If we examine in the same way all of his dress and household furniture—

- the coarse linen shirt that he wears next his skin,
- the shoes that cover his feet,
- the bed he lies on, and all its parts,
- the kitchen-grate at which he prepares his food,
- the coals he uses for cooking, dug from the bowels of the earth and brought to him perhaps by a long sea- and a long land-transport,
- all the other utensils of his kitchen,
- all the furniture of his table, the knives and forks, the earthen or pewter plates on which he serves his food,
- the different hands employed in preparing his bread and his beer,
- the glass window that lets in heat and light and keeps out wind and rain, with all the knowledge and art required for preparing that beautiful and happy invention without which these northern parts of the world could hardly have offered a comfortable habitation,
- together with the tools of all the workmen employed in producing those conveniences

—examining these, we realise that without the co-operation of thousands of people the very meanest person in a civilised country couldn't be provided for; not even in the easy and simple manner that we wrongly imagine him to live. Compared with the more extravagant luxury of the great, his accommodation does no doubt seem simple and easy; and yet the gap between •a European prince's accommodation and that of •an industrious and frugal peasant may be smaller than the gap between the latter and the accommodation of •many African kings who are the absolute masters of ten thousand naked savages.

Chapter 2. The principle that gives rise to the division of labour

[For 'principle' see the Glossary.]

This division of labour from which so many advantages are derived doesn't initially come from human wisdom that foresees and intends the general affluence to which it leads.

Rather, it comes—slowly but inevitably—from the natural human propensity to barter and exchange one thing for another.

Is this propensity a basic principle in human nature of which no further account can be given, or rather a necessary consequence of the faculties of reason and speech? The latter seems more probable, but I needn't go into that here. The propensity is common to all men, and apparently no other animals know this or any other kind of contract. . . . Nobody ever saw one animal use gestures and sounds to signify to another 'This is mine, that yours; I'm willing to give this ·in exchange· for that'. When an animal wants something from a man or another animal, its only means of persuasion is to gain the favour of those whose service it requires. A puppy fawns on its mother, and a spaniel wanting to be fed tries by a thousand attractions to engage the attention of its master who is at dinner. Man sometimes uses the same arts with his brethren. . . ., but he doesn't have time to do this every time he wants something; in civilised society he stands at all times in need of the help and co-operation of many, while his whole life is scarce sufficient to gain the friendship of a few. In most non-human species each adult animal is entirely independent, and in its natural state has no need for the help of any other living creature. But man nearly always needs the help of his brethren, and it's no use his relying on their benevolence for it! He'll do better to interest their self-love in his favour, and show them that *they* will benefit from doing what he requires. Whoever offers someone else a bargain of any kind is proposing

> 'Give me *that*, which I want, and you shall have *this*, which you want',

and this is how we obtain from one another most of the help that we need. We don't expect our dinner from the •benevolence of the butcher, brewer, or baker but from their •regard for their own interest; we appeal not to their humanity but to their self-love, and talk to them not of our needs but of their advantages. Only a beggar chooses to depend chiefly on people's benevolence, and even he doesn't depend on it entirely. The charity of well-disposed people. . . .ultimately provides him with all the necessities of life that he needs, but it doesn't—can't—provide him with them just when they are needed. Most of his occasional wants are supplied, like other people's, by treaty, barter, and purchase. With the money that one man gives him he buys food. The old clothes that another gives him he exchanges for •other clothes that suit him better, or for •lodging, or for •food, or for •money with which he can buy food or clothes or lodging as the need comes up.

This disposition to contract, barter, and purchase is also the source of the division of labour. In a tribe of hunters or shepherds, one man makes bows and arrows (for example) with more ease and dexterity than anyone else; he often exchanges them with his companions for cattle [see Glossary] or for venison; and eventually he finds that he can get more cattle and venison •in this way than •by going to the field to catch them. So his own interests are at work in his becoming a sort of armourer, with the making of bows and arrows as his chief business. [Smith gives other examples: a house-carpenter, a smith, and a tanner or dresser of hides or skins.] In this way, a man's confidence that he can exchange all the surplus part of the product of his own labour. . . .for such parts of the product of other men's labour as he may need encourages him to apply himself to a particular occupation, and to cultivate and perfect whatever talent or genius he may possess for that particular business.

. . . .The different genius [see Glossary] that appears to distinguish men of different professions. . . .is in many cases not so much the cause of the division of labour as an effect of it.

The difference between (say) a philosopher and a common street porter seems to arise not so much from •nature as from •habit, custom, and education. They may have been very much alike for their first six or eight years, with their parents and playmates not seeing any remarkable difference. At about that age or soon after, they come to be employed in very different occupations; and then the difference of talents comes to be noticed, and gradually widens until the philosopher's vanity is willing to acknowledge almost no resemblance. If there had been no disposition to barter and exchange, every man would have had to procure for himself everything he needed; all would have had the same duties to perform, and the same work to do; and there couldn't have been a difference of employment from which any large difference of talents could arise.

As well as •causing the difference of talents that is so remarkable among men of different professions, the disposition to barter and exchange also •makes that difference useful. Many tribes of animals that are all of the same species get from nature a much more remarkable difference of genius than men seem to have before custom and education leave their mark. By nature a •philosopher is not in genius and disposition half as different from a •street-porter as a •mastiff is from a •greyhound, or a greyhound from a spaniel, or this last from a shepherd's dog. Yet those tribes of animals, though all of one species, are of little use to one another: the mastiff's strength isn't supported by the greyhound's speed or by the spaniel's sagacity or the shepherd's dog's teachableness. Because there's no power or disposition to barter and exchange, the effects of those different geniuses and talents can't be brought into a common stock, and don't contribute at all to the better accommodation and convenience of the species. . . .

Chapter 3. The division of labour is limited by the extent of the market

Because **the power of exchanging** is what gives rise to the division of labour, the extent of this division must be limited by the extent of that power—i.e. by the extent of **the market**. When the market is very small, no-one can be motivated to dedicate himself entirely to one employment, because he won't able to exchange •all the surplus part of the product of his own labour for •the parts of the product of other men's labour that he needs.

Some kinds of work, even of the lowest kind, can be done only in a large town. A porter, for example, can't find employment and subsistence anywhere else; a village is far too small, and even an ordinary market-town is hardly big enough to keep him constantly employed. In the solitary houses and tiny villages scattered about in such a desert country as the highlands of Scotland, every farmer must be butcher, baker, and brewer for his own family. In such situations we can hardly expect to find even a smith, a carpenter, or a mason less than twenty miles from another in the same trade. The scattered families that live eight or ten miles away from the nearest of them must learn to do many little pieces of work for which in more populous countries they would call in the help of those workmen. Country workmen often have to tackle all the lines of work that involve the same sort of materials. A country carpenter deals in every sort of work that is made of wood; a country smith in every sort made of iron. The former is not only a carpenter but a joiner, a cabinet-maker, and even a carver in wood, as well as a wheelwright, a plough-wright, a waggon-maker. The smith's employments are even more various. There couldn't possibly be such a trade as that of a nail-maker in the remote and inland parts of the highlands of Scotland.

[Smith calculates that a nail-maker would need more than a *year* to sell or exchange the nails he made in a *day*. He then moves to the theme of how the division of labour and the consequent improvements in industry develops first 'on the sea-coast and along the banks of navigable rivers', and explains why:]

A broad-wheeled waggon attended by two men and drawn by eight horses takes about six weeks for a return journey between London and Edinburgh with a 4-ton load. In about the same time a ship navigated by six or eight men can sail between the ports of London and Leith (both ways) with a load of about 200 tons. [Leith was Edinburgh's port.] To do that by land one would need

> 50 broad-wheeled waggons, attended by 100 men and drawn by 400 horses.

Thus, for the cheapest land-transport of 200 tons from London to Edinburgh (one way) one would have to pay for three weeks' worth of

> the maintenance of 100 men, the maintenance and (nearly as great) the wear and tear of 400 horses and 50 large waggons, ·and the cost of insurance·.

Whereas to carry that load by water only would only have to pay for three weeks' worth of

> the maintenance of six or eight men, the wear and tear of a ship of big enough for that load, and the cost of insurance (which would he higher than for the land-journey).

If London were connected to Edinburgh only by land-transport, the only goods that could be transported between them would be things whose price was very considerable in proportion to their weight; that would be a tiny part of the commerce that now goes on between them, so it would give only a tiny part of the encouragement that they now provide to each other's industry. Even London and Calcutta have a very considerable commerce with each other, creating a market through which they give a good deal of encouragement to one another's industry. But if there were no water-transport, none of that would exist. What goods could bear the expense of land-transport between London and Calcutta? And even if there were things precious enough to support this expense, how safely could they be transported through the territories of so many barbarous nations?

Thus, the first improvements of art and industry are made in places where water-transport is available to open the whole world for a market to the product of every sort of labour; for a long time the only market that inland places can have for most of their goods is the immediately surrounding territory separating them from the coast and the large navigable rivers. . . .

According to the best authenticated history, the first nations to be civilised were the ones spread around the coast of the Mediterranean sea. That sea was extremely favourable to the infant navigation of the world, for two reasons. **(i)** Its many islands and the proximity of its neighbouring shores were helpful at a time when sailors, ignorant of the compass, were afraid to go out of sight of land. **(ii)** Having no tides, and consequently no waves except those caused by the wind, the Mediterranean had a smooth surface which was reassuring to sailors who, given the imperfection of the art of ship-building, were reluctant to abandon themselves to the boisterous waves of the ·Atlantic· ocean. To sail out through the straits of Gibraltar was regarded by the ancient world as an amazing and dangerous exploit of navigation. . . .

Of all the countries on the Mediterranean coast, Egypt seems to have been the first in which agriculture or manufactures were considerably cultivated and improved. Nowhere in Upper Egypt is more than a few miles from the Nile; and in Lower Egypt the Nile breaks itself into many canals,

which—with the help of a little art [see Glossary]—seem to have enabled water-transport between all the large towns, all the considerable villages, and even many farm-houses. . . . The extent and easiness of this inland navigation was probably a principal cause of the early improvement of Egypt.

[This theme is continued, with a page of remarks about the probable role of water-transport—including inland, by canals—in the commercial development of various countries in Asia and Africa. Remarks about why there hasn't been more commerce of that kind end with this:]

The commerce that any nation can carry on by means of a river that. . . .runs into another territory before it reaches the sea can never be very considerable, because the nations who possess that other territory can always obstruct the communication between the upper country and the sea. The navigation of the Danube is of very little use to Bavaria, Austria, and Hungary, compared with what it would be if any of them possessed the whole of its course until it reaches the Black sea.

Chapter 4. The origin and use of money

Once the division of labour is thoroughly established, very few of a man's wants are supplied by the product of his own labour; most are supplied by his exchanging his surplus with that of others. Every man thus lives by exchanging—i.e. by becoming to some extent a merchant—and the society grows to be a commercial society.

But when the division of labour first began, this power of exchanging must often have been greatly clogged and embarrassed in its operations. . . . For example:

> The butcher has more meat in his shop than he can consume, and the brewer and the baker would each be willing to buy a part of it. But all they have to offer in exchange are the products of their trades, and the butcher already has all the bread and beer he has an immediate need for. So no exchange can take place: he can't be their merchant, and they can't be his customers; and in this respect they aren't any use to one another.

To avoid this kind of situation, every prudent man in every period of society after the first dividing of labour must naturally have tried to manage his affairs in such a way as to have in his possession at all times, along with the specific product of his own work, a certain quantity of some other commodity that he thought few people would be likely to refuse in exchange for the product of their work. It's likely that many different commodities were successively used for this purpose. Cattle are said to have been the common instrument of commerce in the rude ages of society; inconvenient as this must have been, we're told that things were often valued in terms of numbers of cattle—Homer says that Diomedes's armour cost only nine oxen, while Glaucus's cost a hundred. Salt is said to be the common instrument of commerce and exchanges in Abyssinia; a species of shells in some parts of the coast of India; dried cod in Newfoundland; tobacco in Virginia; sugar in some of our West India colonies; hides or dressed leather in some other countries; and even today there is, I am told, a village in Scotland where a workman may carry nails instead of money to the baker's shop or the ale-house.

In all countries, however, men seem eventually to have been led by irresistible reasons to prefer *metals* for this purpose. Metals can be kept without loss; hardly anything is less perishable than they are; and they can without loss be divided into any number of parts, which can then easily be re-united again, this being the quality that most fits them to be the instruments of commerce and circulation. Someone

who wanted to buy salt and had nothing but cattle to give in exchange for it had to buy salt to the value of a whole ox at a time. . . . If on the other hand instead of •oxen he had •metals to give in exchange for the salt, he could easily proportion the quantity of the metal to the precise quantity of salt that he wanted.

Different metals have been used for this purpose. Iron was the common instrument of commerce among the ancient Spartans, copper among the ancient Romans, and gold and silver among all rich and commercial nations.

Those metals seem originally to have been used for this purpose in rude [see Glossary] bars, without any stamp or coinage. Ancient historians tell us that until the time of Servius Tullius the Romans had no coined money, but used unstamped bars of copper to purchase whatever they wanted. So these rude bars had at that time the function of money.

There were two considerable inconveniences in the use of metals in this rude state—the trouble of •weighing them, and of •assaying them. In the precious metals, where a small difference in the quantity makes a great difference in the value, **weighing** with proper exactness requires very accurate weights and scales. With the coarser metals, where a small error would matter less, precise accuracy would not be needed; but it would be excessively troublesome if every time a poor man wanted to buy or sell a farthing's worth of goods he had to weigh the farthing. The operation of **assaying** is still more difficult and tedious: you can't be sure about the purity of a portion of gold unless some of it is completely melted in a crucible with proper solvents. Before coined money was introduced, this tedious and difficult operation gave people their only protection against the grossest frauds and impositions in which gold or silver or copper might be replaced by an adulterated composition of coarse cheap material that looked the same. To prevent such abuses, to facilitate exchanges and thus encourage industry and commerce, every country that has made any considerable advance towards improvement has found it necessary to affix a public stamp on certain quantities of the particular metals that were commonly used to purchase goods in that country. Hence the origin of **coined money** and of the public offices called 'mints'; institutions just like with those of the inspectors and stamp-masters of woollen and linen cloth. All of them are equally meant to ascertain, by means of a public stamp, the quantity and uniform goodness of those commodities when brought to market.

The first such public stamps affixed to current metals were often intended to ascertain the thing it was hardest and most important to ascertain, namely the metal's goodness or fineness. They resembled the sterling mark that is now affixed to plate and bars of silver, or the Spanish mark sometimes affixed to ingots of gold; these marks, being struck on only one side of the piece and not covering the whole surface, ascertain the •fineness of the metal but not its •weight. [He gives two examples, one biblical and one historical.]

The difficulty of weighing those metals precisely gave rise to the institution of **coins**, of which the stamp—entirely covering both sides and sometimes the edges too—was intended to ascertain not only the metal's fineness but also its weight. Such coins were received by tale [= 'on the basis of *counting* them'], as at present, without the trouble of weighing.

[After a long and learned account of some of the currencies used in Europe through the centuries, their names, values, and constituent metals, Smith continues:]

In every country of the world, I believe, the avarice and injustice of princes and sovereign states, abusing the confidence of their subjects, have gradually diminished the real quantity of metal contained in their coins. The Roman

assis was reduced in the later ages of the republic to $\frac{1}{24}$ of its original value; from weighing a pound, it came to weigh only half an ounce. From their original values,

- the English pound and penny now weigh about $\frac{1}{3}$,
- the Scots pound and penny about $\frac{1}{36}$, and
- the French pound and penny about $\frac{1}{66}$.

The princes and sovereign states that did this were able to *appear to* pay their debts and fulfil their engagements with less silver than would otherwise have been required. But it was only appearance; their creditors were really defrauded of a part of what was owed to them. All other debtors in the state were also allowed to pay with the same nominal sum of the new and debased coin whatever they had borrowed in the old. Such operations have always been favourable to the debtor and ruinous to the creditor. . . .

That is how *money* has become the universal instrument of commerce in all civilised nations, by the intervention of which goods are bought and sold or exchanged for one another.

My next topic is: the rules that men naturally follow in exchanging goods for money or goods for goods. These rules determine what may be called the 'relative' or 'exchangeable' value of goods.

The word 'value' has two meanings: the 'value of' x may be

- x's utility, its 'value in use' or
- the power of purchasing other goods that you get from owning x, its 'value in exchange'.

The things with greatest value in use often have little or no value in exchange; and those with the greatest value in exchange often have little or no value in use. Nothing is more useful than water, but there is almost nothing you can buy with it; whereas a diamond has hardly any value in use, but a large quantity of other goods may often be had in exchange for it.

To investigate the principles that regulate the exchangeable value of commodities I shall try to show **(1)** what is the real measure of this exchangeable value, i.e. what the real price of a commodity consists in; **(2)** what are the parts that this real price is composed of; and **(3)** what are the. . . .causes that sometimes prevent the market price of commodities from coinciding exactly with what may be called their 'natural price'.

I'll deal with those three subjects, as fully and clearly as I can, in the next three chapters, which I beg you to approach with patience and attention. You will need patience to examine details of which some may appear unnecessarily tedious; and you'll need to attend if you are to understand things that may appear somewhat obscure even after I have explained them as fully as I can. I'm always willing to risk being tedious in order to be sure that I am clear; and even after I have done my best to be clear, some obscurity may still appear to remain on a subject that is inherently extremely abstract.

Chapter 5. Commodities' real price (in labour) and their nominal price (in money)

Every man is rich or poor according to how much he can afford to enjoy the necessities, conveniences, and pastimes of human life. But once the division of labour has thoroughly taken place, a man can't supply himself with many of these through his own labour. Most of them must come to him from the labour of other people, and he must be rich or poor according to how much of that labour he can command or can afford to purchase. Thus, for someone who owns something and intends not to use or consume it himself but to exchange it for other commodities, its *value* is equal to the amount of labour it enables him to purchase or command.

So labour is the real measure of the exchangeable value of all commodities.

The real price of everything, what everything really costs to the man who wants to acquire it, is the toil and trouble of acquiring it. What everything is really worth to the man who has acquired it and wants to exchange it for something else is the toil and trouble it can save him from and impose on other people. What is bought with money or with goods is *purchased by labour*, just as much as what we acquire by the toil of our own body. . . . Labour was the first price, the original purchase money that was paid for all things. The wealth of the world was originally purchased not by gold or silver but by labour; and its value to those who possess it and who want to exchange it for something else is precisely equal to the quantity of labour it can enable them to purchase or command.

Wealth, as Hobbes says, is power. But someone who acquires or inherits a large fortune doesn't necessarily acquire or inherit any political power, whether civil or military. His fortune *may* enable him to acquire both; but merely owning that fortune doesn't necessarily bring either to him. [He repeats all this, heavily emphasising the thesis that a thing's exchangeable value 'must always be precisely equal to the extent of the power' it gives its owner to purchase or command the labour of others.]

But though labour is the •real measure of the exchangeable value of all commodities, it's not the basis on which their value is •commonly estimated. It is often hard to settle which is the greater of two quantities of labour; it isn't always a mere matter of which took longer. The different degrees of hardship endured, and of ingenuity exercised, must also be taken into account. There may be more labour

- in an hour's hard work than in two hours of easy business; or
- in an hour's application to a trade that it took ten years learn than in a month's work at an ordinary and obvious employment.

But it isn't easy to find any accurate measure either of hardship or of ingenuity. It's true that in exchanges of different productions of different sorts of labour some allowance is commonly made for both. But the allowance is not based on any precise measure; it arises out of the haggling and bargaining of the market, and involves a kind of equality which, though rough and inexact, is sufficient for carrying on the business of ordinary life.

Also, every commodity is more often exchanged for (and thus compared with) other commodities than with labour. So it is more natural to estimate its exchangeable value by the quantity of some other commodity than by the quantity of labour it can produce. And most people understand better what is meant by •a quantity of a particular commodity than ·what is meant· by a quantity of labour. One is a palpable object; the other an abstract notion which, though it *can* be made intelligible enough, is not as natural and obvious.

But when barter ceases and money becomes the common instrument of commerce, every particular commodity is more often exchanged for money than for any other commodity. The butcher seldom carries his beef or mutton to the baker or the brewer so as to exchange them for bread or for beer; rather, he carries them to the market where he exchanges them for money which he then exchanges for bread and for beer. The quantity of money he gets for them regulates how much bread and beer he can then purchase. This makes it more natural and obvious for him to estimate the value of his meat by the quantity of money (the commodity for which he immediately exchanges them) than ·to estimate it· by the quantity of bread and beer (commodities he can exchange them for only by the intervention of another commodity); and

to say that his butcher's meat is worth threepence a pound rather than that it is worth three pounds of bread or three or four quarts of beer. . . .

Like every other commodity, however, gold and silver vary in their value. . . . The quantity of labour that any particular quantity of them can purchase. . . .depends always on the fertility or barrenness of the mines that happen to be known about the time when such exchanges are made. In the 16th century the discovery of the abundant mines of America reduced the value of gold and silver in Europe to about a third of what it had been before. Because it cost less labour to bring those metals from the mine to the market, they could purchase less labour in the market; and this revolution in their value, though perhaps the greatest, is not the only one that history records. But. . . .a commodity whose own value continually varies 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 of equal value to the labourer. In his ordinary state of health, strength, and spirits; in the ordinary degree of his skill and dexterity, he must always lay down the same portion of his ease, his liberty, and his happiness. The price he pays must always be the same, whatever the quantity of goods he receives in return for it. His labour may sometimes purchase more and sometimes less of this or that commodity; but the value of the commodities is what varies, not the value of the labour that purchases them. At all times and places what is dear is what it's difficult to come at, i.e. what costs much labour to acquire; and what is cheap is what can be had easily, i.e. with very little labour. Because labour itself never varies in its own value, it alone is the ultimate and real standard by which the value of all commodities can—always, everywhere—be estimated and compared. It is their real price; money is their nominal price only.

But though equal quantities of labour are always of equal value to the labourer, to his employer they appear sometimes to be of greater and sometimes of smaller value, to be purchased sometimes with a greater and sometimes with a smaller quantity of goods; to him the price of labour seems to vary like that of all other things. ·But he is wrong about that·. When labour seems to him to be dear, the fact is that the goods with which he purchases labour are cheap; and when labour seems to him to be cheap, that's because the goods with which he purchases labour are dear,

In this popular sense, therefore, labour may be said to have a real and a nominal price, just as commodities can. Real: the quantity of the necessities and conveniences of life that are given for it. Nominal: the quantity of money. The labourer is rich or poor, is well or ill rewarded, in proportion to the real price of his labour, not the nominal price.

·Real and nominal prices·

The distinction between the real and the nominal price of commodities and labour is not of merely •theoretical interest; it can sometimes be of considerable use in •practice. The same real price is always of the same value; but because the value of gold and silver varies the same nominal price is sometimes of very different values. Thus, when a landed estate is sold with a reservation of a perpetual rent—·i.e. on the condition that the purchaser will pay an annual 'rent' to a stipulated receiver·—if this rent is always to be of the same value it must not consist in a particular sum of money. If it did, its value could vary in either of two ways: **(1)** through variations in the quantity of gold and silver contained in coins of the same denomination; and **(2)** through variations in the values of equal quantities of gold and silver.

(1) Rulers and sovereign states have often fancied that they could get some temporary benefit from diminishing the

quantity of pure metal contained in their coins; but they have seldom fancied that it would be in their interests to increase it. So the quantity of metal contained in the coins of all nations (I believe) has been almost continually diminishing, and hardly ever increasing. Such variations, therefore, tend almost always to diminish the value of a *money* rent.

(2) The discovery of the mines of America lessened the value of gold and silver in Europe. It is commonly supposed—though without any certain proof that I know of—that this lessening is still going on gradually and is likely to continue for a long time. On this supposition, the value of a money rent is likely to decrease through time, even if it is stipulated to be paid not in so many pounds sterling (for example) but in so many ounces of pure silver or of silver of a certain standard of purity.

[In a long paragraph Smith illustrates factor (2) in terms of 'the money rents of colleges', which have drastically fallen in value since earlier in the reign of Queen Elizabeth, although during that time there has been little if any change in the silver content of English coins. Thus:] This fall in the value of the money rents of colleges has arisen solely from the fall in the price of silver.

When the fall in the value of silver is combined with the lessening of the quantity of it contained in the coin of the same denomination, the loss is often still greater. In Scotland, where the coinage has undergone much greater alterations than it ever did in England, and in France, where it has altered even more, some originally valuable rents have in this way been reduced almost to nothing.

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. [Smith devotes a paragraph to explaining why this is so. Then:]

Though the real value of a corn rent 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 try to show later, doesn't fluctuate from year to year with the money price of corn, but seems always to be adjusted to the average or ordinary price of corn—that necessity of life—and not to reflect temporary or occasional fluctuations in it. The average or ordinary price of corn in turn is regulated, as I shall also try to show later, by the value of silver, by the richness or barrenness of the silver-mines, i.e. by the quantity of labour that must be employed (and consequently the quantity of corn that must be consumed) to bring any particular quantity of silver from the mine to the market. And though the value of silver sometimes varies greatly from century to century, it seldom varies much from year to year, often continuing nearly the same for half a century or a century together. So the **ordinary or average** money price of corn may also continue to be nearly the same for a long period, and along with it the money price of labour—provided that the society continues to be in other respects in nearly the same condition. In the meantime, the **temporary and occasional** price of corn may often double from one year to the next. . . . But when corn is at the higher price, not only the nominal but also the real value of a corn rent will be double of what it was a year earlier; i.e. a given quantity of corn will command double the quantity of labour or of most other commodities. The money price of labour, and along with it that of most other things, will continue the same during all these fluctuations.

So we see that labour is not just the only •accurate measure of the value of various commodities but also the only •universal measure—the only standard by which we can compare the values of different commodities at all times and all places. We can't estimate the real value of commodities

from century to century by the quantities of silver given for them (quantities of corn are a better basis). We can't estimate it from year to year by the quantities of corn (quantities of silver are better for that purpose). By the quantities of labour we can accurately estimate it both from century to century and from year to year. . . .

But although it may be useful to distinguish real from nominal price in establishing perpetual rents, or even in letting very long leases, the distinction is useless in the more common and ordinary transactions of human life, i.e. in buying and selling.

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 a given market, the more or less labour it will enable you to purchase or command *there* and *then*. At the same time and place, therefore, money is the exact measure of the real exchangeable value of all commodities.

Though at distant places there is no regular proportion between the real and the money price of commodities, a merchant who carries goods from the one place to the other needs only to consider the money price, i.e. the difference between how much silver he buys them for and how much silver he is likely to get for them. An ounce of silver at Canton in China may command a greater quantity both of labour and of the necessities and conveniences of life than two ounces at London. So a commodity that sells for 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 two ounces at London is to the man who possesses it at London. But if a London merchant buys at Canton, for an ounce of silver, a commodity that he can then sell at London for two ounces, he gains 100% by the bargain, just as much as if an ounce of silver had exactly the same value in both places. It is of no importance to him that an ounce of silver would give him in Canton the command of more labour etc. than two ounces can give him in London. Two ounces in London will always give him the command of double the quantity of all these than an ounce would have given him *there*, and this is precisely what he wants.

Given that the nominal or money price of goods is what finally determines the prudence or imprudence of all purchases and sales, thus regulating almost the whole business of common life in which price is concerned, it's no wonder that it should have been attended to so much more than the real price.

·The value of gold and silver·

In a work like the present one, however, it may sometimes be useful to compare a particular commodity's real values at different times and places, i.e. the degrees of power over the labour of other people that it may give to its owners on different occasions. For this purpose we must compare not so much •the quantities of silver for which it was commonly sold as •the quantities of labour that those quantities of silver could have purchased. The current prices of labour at distant times and places can hardly ever be known with any exactness, but the prices of corn—though not regularly recorded in many places—are in general better known ·than the prices of labour·, and have been more often taken notice of by historians and other writers. So we must generally settle for them, not as being always exactly in the same proportion as the current prices of labour, but as being the nearest approximation to that proportion that we can usually have. I shall later make several comparisons of this kind.

In the progress of industry, commercial nations have found it convenient to coin metals into money: gold for larger payments, silver for smaller ones, and copper or some

other coarse metal for payments that are smaller still. But they have always considered one of those metals as more particularly the measure of value than either of the other two, and this preference seems generally to have been given to the metal that they happened to use *first* in coinage. . . .

The Romans are said to have had nothing but copper money until 270 BC, when they first began to coin silver. So copper apparently continued to be 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' stands for $2\frac{1}{2}$ asses. Though the sestertius was originally a silver coin, therefore, its value was estimated in copper. In Rome someone who owed a great deal of money was said to have a great deal of other people's 'copper'.

The northern nations founded on the ruins of the Roman empire seem to have had silver money from the outset, not knowing gold or copper coins for many years after that. There were silver coins in England at the time of the Saxons, but little gold coined until the time of Edward III and no copper until the time of James I of Great Britain. That is why in England all accounts are kept, and the value of all goods and estates is generally computed, in silver (and I believe it's the same in all the modern nations of Europe). When we mean to express the amount of a person's fortune we seldom mention the number of 'guineas' but rather the number of 'pounds sterling' that we suppose would be given for it.

Originally—in all countries, I believe—a legal tender of payment could be made only in coin of the metal that was particularly regarded as the standard or measure of value. For a long time after gold was coined into money in England, it still wasn't considered as legal tender there. The relative 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 reject such payment or accept it at whatever valuation of the gold he and his debtor could agree on. Copper is not at present legal tender except in the change of the smaller silver coins.

In this state of things, the difference between the metal that was the standard and metal that wasn't the standard was real, not merely verbal.

As people became more familiar with the use of the different metals in coinage, and consequently better acquainted with their relative values, it was (in most countries, I believe) found convenient to settle these relative values, declaring by a public law that (for example) a ·golden· guinea of such-and-such a weight and fineness is equal to 21 ·silver· shillings, i.e. is legal tender for a debt of that amount. While such a law is in force, the distinction between the metal that is the standard and metal that isn't the standard is little more than merely verbal.

With any change in the relevant law, the distinction seems to become something more than merely verbal again. If the regulated value of a guinea was reduced to 20 or raised to 22 shillings, and all accounts were kept (and most debts were stated) in terms of silver money, most payments could be made with the same quantity of silver money as before but would require different quantities of gold money—more in one case, less in the other. Silver would appear to be more invariable in its value than gold; it would appear to measure the value of gold, and not vice versa. . . . This, however, would be entirely due to the custom of keeping accounts in terms of silver rather than in gold. A banker's note for '25 guineas' or '50 guineas' would, after an alteration of this kind, be still payable with 25 or 50 guineas, just as before. It would be payable with the same quantity of gold as before but with different quantities of silver. In cashing 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 not vice versa. If the custom of keeping accounts etc. in this manner ever became general, the metal that was regarded as particularly the standard or measure of value would be gold, not silver.

[Throughout the next four pages, Smith discusses aspects of the value of money that vary according to

- relevant laws,
- the purity of the metals,
- the worn-down state of the coins,
- whether private citizens can have bulk metal made into coins,
- whether there is a charge for this,
- the availability of the metals,

and so on. He gives many examples.]

Chapter 6. The component parts of the price of commodities

In the early and rough state of society that comes before anyone has accumulated stock or claimed possession of land, the only basis for any rule for exchanging one object for another seems to be the proportion between the quantities of labour needed for acquiring those objects. If among a nation of hunters it usually takes twice as much work to kill a beaver as to kill a deer, one beaver should naturally exchange for—or be worth—two deer. It is natural that what is usually the product of two days or two hours labour should be worth double what is usually the product of one day's or one hour's labour.

If one of the species of labour is more **severe** than the other, some allowance will naturally be made for this difference; and the product of one hour's labour of one kind may often exchange for the product of two hour's labour of the other.

Or if one of the species of labour requires an unusual level of **dexterity and ingenuity**, men's esteem for such talents will naturally give their product a higher value than would come merely from the time spent producing it. Acquiring such talents usually requires long hard work, and the higher value of their product may often be merely a reasonable compensation for the time and labour that must be spent in acquiring them. In the advanced state of society, the wages of labour commonly make such allowances for greater hardship and greater skill; and something like this probably occurred also in society's earliest and roughest period.

In this state of things [Smith's phrase], the whole product of labour belongs to the labourer; and the quantity of labour commonly employed in acquiring or producing any commodity is the only basis for regulating the quantity of labour that it ought commonly to purchase, command, or exchange for.

·First component: wages·

As soon as stock has accumulated in the hands of individual persons, some of them will naturally employ it in setting to work industrious people whom they will supply—·out of their stock·—with materials and subsistence, so as to make a profit by •the sale of their work or by •what their labour adds to the value of the materials. When the complete manufactured product is exchanged for money, for labour, or for other goods—·i.e. when it is *sold*·—the price must reflect the cost of the materials, the wages of the workmen, and some profit for the undertaker [see Glossary] of the work who risks his stock in this venture.

·Second component: profit·

In this case, therefore, the value that the workmen add to the materials falls into two parts: **(1)** one that pays their

wages, and **(2)** one that constitutes their employer's profit on the whole stock of materials and wages that he advanced. He could have no interest in employing them unless he expected the sale of their work to bring him more than enough merely to replace his stock; and he could have no interest in employing a large stock rather than a small one unless his profits were to bear some proportion to the extent of his stock.

You might think that •the profits of stock are really only •the wages of a particular sort of labour, the labour of inspection and direction. In fact they are 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. The profits of stock are regulated wholly by the value of the stock employed, and are greater or smaller in proportion to the extent of this stock. Suppose that in a certain place where the common annual profits of manufacturing stock are 10% there are two factories in each of which twenty workmen are employed at the rate of £15 [see 'money' in Glossary] a year each, or at the expense of £300 per year in each factory. Suppose also that the coarse materials worked on in one factory cost only £700 per year, while the finer materials used in the other cost £7,000. The capital annually employed in the one will amount to only £1,000, whereas that employed in the other will amount to £7,300. At the rate of 10%, therefore, the undertaker of one will expect a yearly profit of about £100 only, while that of the other will expect about £730. But though their profits are so different, their labour of inspection and direction may be the same. In many large works most of the labour of this kind is committed to some principal clerk. His wages properly express the value of this labour of inspection and direction. They commonly reflect not only to his labour and skill but also the trust that is placed in him, but they are never proportional to the capital of which he oversees the management; and the owner of this capital, though he is thus freed from almost all labour, still expects his profit to bear a regular proportion to his capital. In the price of commodities, therefore, the profits of stock constitute a **second component part** that is altogether different from the wages of labour and regulated by quite different principles. . . .

·THIRD COMPONENT: RENT·

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, and demand a rent even for their land's natural product. 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 to have an additional price fixed on them, even for that labourer. He must now pay for permission to gather them, giving the landlord a portion of what his labour either collects or produces. This portion (i.e. the price of it) is the rent of land; it is a **third component part** of the price of most commodities.

The real value of all the component parts of a price is measured by the quantity of labour that each of them can purchase or command. Labour measures the value not only of the part of the price that resolves itself into •labour, but of the part that resolves itself into •rent, and of the part that resolves itself into •profit.

In every society, the price of every commodity finally resolves itself into one more of those three parts; and in every improved society all three enter as larger or smaller component parts of the price of most commodities.

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 working animals employed in producing it, and the third pays the farmer's profit. These three parts seem either immediately or ultimately to make up the whole price of corn. [The rest of the paragraph explains 'or ultimately'.] You might think that there has to be a fourth part for replacing the farmer's stock or for making up for the wear and tear of his working animals and other instruments of husbandry. But consider: the price of any instrument of husbandry, such as a working horse, is itself made up of the same three parts: the rent of the land on which the horse 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. Thus, though the price of the corn may have to cover the maintenance of the horse, the whole price still resolves itself, either immediately or ultimately, into the same three parts—rent, labour, and profit.

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 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 farmer's house to the miller's, and from there to the baker's, together with the profits of those who advance the wages of that labour.

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, etc. together with the profits of their respective employers.

As any particular commodity comes to be more manufactured [i.e. comes to involve more processing], the part of the price that reflects wages and profit comes to be greater in proportion to the part that reflects rent. In the progress of the manufacture there is profit at each stage, and each of these profits is larger than its predecessors, because the capital from which it is derived must always be greater. The capital that 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 also pays the wages of the weavers: and the profits must always bear some proportion to the capital. . . .

Just as the price of every particular commodity resolves itself into some one or more of those three parts, so also the price of all the commodities that compose the whole annual product of the labour of a country must resolve itself into the same three parts, and be parcelled out among the inhabitants of the country either as the wages of their labour, the profits of their stock, or the rent of their land. . . . Wages, profit and rent are the three original sources of all income [see Glossary], as well as of all exchangeable value. All other income is ultimately derived from one or other of these.

Whoever derives his income from a fund that he owns must draw it either from his labour, from his stock, or from his land. The income 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 doesn't employ it himself but lends it to someone else is called •the interest on the use of money. It is the compensation that the borrower pays to the lender, for the profit he has an opportunity of making through using the money. Part of that profit naturally belongs to the borrower, who runs the risk and takes the trouble of using the money; and part belongs to the lender, who gives him the opportunity to make this profit. The interest on money is always a derivative income; if it isn't paid from the profit made by the use of the money, it must be paid from some other source of income—unless the borrower is a spendthrift who incurs a second debt in order to pay the interest on the first! The income that comes solely from land is called rent, and

belongs to the landlord. The farmer's income is derived partly from his labour and partly from his stock. To him, land is only the instrument that enables him to earn the wages of this labour and to make the profits of this stock. All taxes, and all the revenue based on them—all salaries, pensions, and annuities of every kind—are ultimately derived from one or more of those three original sources of revenue and are paid (immediately or ultimately) from the wages of labour, the profits of stock, or the rent of land.

When those three sorts of income belong to different persons they are easy to distinguish; but when they belong to one person they are sometimes muddled with one another, at least in common speech. A gentleman who farms a part of his own estate, after paying the expense of cultivation, should gain both the rent of the landlord and the profit of the farmer. But he is apt to call his whole gain 'profit', thus confusing rent with profit. Most of our North American and West Indian planters are in this situation. They farm their own estates: and accordingly we seldom hear of the 'rent' of a plantation but often of its 'profit'.

Common farmers seldom employ any overseer to direct the general operations of the farm. And they generally work a good deal with their own hands, as ploughmen, harrowers, etc. What remains of the crop after paying the rent, therefore, should not only replace for them their stock employed in cultivation, together with its ordinary profits, but also pay them the wages that are due to them as labourers and as overseers. Whatever remains after paying the rent and keeping up the stock is ·ordinarily· called 'profit'; but wages evidently make a part of it. By avoiding paying these wages to someone else, the farmer necessarily gains them himself. So this is a case where wages are confused with profit.

An independent manufacturer who has enough stock to purchase materials and to maintain himself until he can carry his work to market should gain both •the wages of a journeyman [see Glossary] who works under a master and •the profit that the master makes by the sale of that journeyman's work. His whole gains, however, are commonly called 'profit', this being another case where wages are confused with profit.

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. So his product should pay him the rent of the first, the profit of the second, and the wages of the third. But the whole is commonly considered as the earnings of his labour. Both rent and profit are in this case confused with wages.

In a civilised country there are few commodities whose exchangeable value arises from labour only; rent and profit contribute largely to the value of most of them; with the result that the annual product of a country's labour will always be sufficient to purchase or command a much greater quantity of labour than was employed in raising, preparing, and bringing that product to market. If the society were annually to employ all the labour it can annually purchase, the quantity of employed labour would increase greatly every year, and so the product of each year would be of vastly greater value than that of the preceding year. But there is no country where the whole annual product is employed in maintaining the industrious; the idle everywhere consume a large part of it. Whether in a country's total product for a given year is greater than the year before, or less, or the same, depends on the proportion in which it is divided in this year between those two orders of people—·the industrious and the idle·.

Chapter 7. Commodities' natural and market prices

In every society or neighbourhood there is, for every employment of labour and stock, an ordinary or average rate of wages and of profit. I shall show later that this rate is *naturally* regulated •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.

In every society or neighbourhood there is also an ordinary or average rate of rent. I shall show later that this too is regulated •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.

These ordinary or average rates may be called the *natural* rates of wages, profit and rent at the time and place in question.

When the price of a 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*.

The commodity is then sold precisely for what it is worth, or for what it really costs the person who brings it to market. In everyday speech the 'prime cost' of a commodity doesn't include the profit of the person who is to sell it again, but ·strictly speaking it should do so·: if he sells it at a price that doesn't allow him the ordinary rate of profit in his neighbourhood, he is evidently a loser by the trade because he could have made that profit by employing his stock in some other way. Also, his profit is his income, the proper fund of his subsistence [= 'what he basically lives on']. While he is preparing and bringing the goods to market he advances to his workmen their wages, i.e. their subsistence; and in the same way he advances to himself his own subsistence, which is generally suitable to the profit he can reasonably expect from the sale of his goods. Unless they yield him this profit, therefore, they don't repay him what they may very properly be said to have really cost him.

Thus, though the price that leaves him this profit is not always the lowest at which he 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 [see Glossary], i.e. where he may change his trade as often as he pleases.

The actual price at which a commodity is commonly sold is called its 'market price'. It may be the same as its natural price or above or below it.

The market price of any particular commodity is regulated by the proportion between

- •the quantity of it that is brought to market, and
- •the demand of those who are willing to pay its natural price

—i.e. to pay the whole value of the rent, labour, and profit involved in bringing it to the market. Such people may be called the *effectual demanders*, and their demand the *effectual demand*; since it can be sufficient to effectuate the bringing of the commodity to market. The adjective makes a difference. A very poor man may be said in some sense to have a *demand* for a coach and six horses; he might like to have it; but his demand isn't an effectual one because the commodity can never be brought to market in order to satisfy it.

When the quantity of a commodity that is brought to market falls short of the effectual demand, this means that those who are willing to pay ·the natural price for it—i.e.· the whole value of the rent, wages, and profit involved in bringing

it to the market—cannot all be supplied with the quantity of it that they want. Rather than going without it altogether, some will be willing to pay more. A competition will immediately begin among them, and the market price will rise higher than the natural price. How much higher will depend on the eagerness of the competition, and that will depend on •the greatness of the deficiency or •the wealth and wanton luxury of the competitors. When competitors of equal wealth and luxury confront a deficiency, the competition amongst them will be more or less eager depending on how important it is to them to have the commodity in question. Hence the exorbitant price of the necessities of life during the blockade of a town, or in a famine.

When the quantity brought to market exceeds the effectual demand, it can't be all sold to those who are willing to pay the natural price. Some part of it must be sold to those who are willing to pay less, and the low price they pay for it must reduce the price of the whole, so that the market price sinks below the natural price. How much below will depend on how greatly the size of the excess energizes the competitiveness of the sellers, or on how important it is to immediately get rid of the commodity. The same excess in the import of (say) oranges will occasion a much greater competition than in that of (say) old iron.

When the quantity brought to market is exactly enough to meet the effectual demand, the market price naturally comes to be the same—as near as can be judged—-as the natural price. The whole quantity on hand can be disposed of for this price, and can't be disposed of for more. The competition of the different dealers obliges them all to settle for this price, but doesn't oblige them to settle for less.

The quantity of every commodity brought to market naturally suits itself to the effectual demand. It's in the interests of everyone who employs his land, labour, or stock in bringing a commodity to market that the quantity never exceeds the effectual demand; and it's in the interests of everyone else that it never falls short of that demand.

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

If the quantity brought to market ever falls short of the effectual demand, some parts of its price must rise above their natural rate. If it is rent, other landlords will prepare more land for raising this commodity; if it is wages or profit, other labourers and dealers will employ more labour and stock in preparing and bringing it to market. The quantity brought to market will soon be sufficient to supply the effectual demand. All the parts of its price will soon sink to their natural rate, and the whole price to its natural price.

So the natural price is, as it were, the central price to which the prices of all commodities are continually gravitating. Various events may sometimes keep them suspended a good deal above it, and sometimes force them down somewhat below it. But whatever the obstacles to their settling in this centre of repose and continuance, ·the natural price·, they are constantly tending towards it. . . .

In this way the whole quantity of industry annually employed to bring a commodity to market naturally suits itself to the effectual demand. It naturally aims at bringing to market the precise quantity of the commodity that will meet that demand with none left over.

But in some employments the same quantity of industry

will produce very different quantities of commodities in different years, while in other employments it will produce nearly the same. The same number of workers in husbandry will produce very different quantities of corn, wine, oil, hops, etc. in different years. But the same number of spinners or weavers will every year produce very nearly the same quantity of linen and woollen cloth. It is only in **one species** of industry that the average product can be suited to the effectual demand; and as its actual product is often much greater than its average product and often much less, the quantity of its commodities brought to market will sometimes greatly exceed the effectual demand and sometimes fall well short of it; so that their market price will be liable to fluctuate considerably above and below their natural price. In the **other species** of industry, the product of equal quantities of labour is always pretty nearly the same, and so 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 virtually same as the natural price. Every man's experience will inform him that the price of linen and woollen cloth is not liable to vary as often or as much as the price of corn. The price of one species of commodities varies with variations in the quantity of what is brought to market; the price of the other varies only with the variations in the demand.

The occasional and temporary fluctuations in the market price of any commodity fall chiefly on the parts of its price that depend on wages and profit. The part depending on rent is less affected by them. A rent certain [see Glossary] in money is not in the least affected by them, either in its rate or in its value. A rent that consists either in a certain proportion or a certain quantity of the commodity is no doubt affected in its yearly *value* by all the occasional and temporary fluctuations in the commodity's market price; but it is seldom affected by them in its yearly *rate*. In settling the terms of the lease, the landlord and farmer do their best to to adjust that rate to the average and ordinary price of the product, not to its temporary and occasional price.

Such fluctuations affect both the value and the rate either of wages or of profit:

- of profit if the market is overstocked or understocked with commodities (= work done),
- of wages, if the market is overstocked or understocked with labour (= work to be done).

A public mourning raises the price of black cloth (with which the market is almost always understocked on such occasions), and increases the profits of the merchants who have much of it. It has no effect on the wages of the weavers. The market is understocked with commodities, not with labour. It raises the wages of journeymen [see Glossary] tailors. The market is here understocked with labour. There is an effectual demand for more 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 much of them on hand. It also sinks the wages of the workmen employed in preparing such commodities, for which all demand is stopped for several months. The market is here overstocked with commodities *and* with labour. . . .

When an increase in the effectual demand drives the market price of a commodity a good deal above the natural price, those who use 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 use their stocks in the same way that the effectual demand would be fully supplied and the market price be reduced to the natural price or even below it. In rare cases, where the market is a long way from the residence of those who supply it, they may be able to keep the secret for several

years during which they'll enjoy their extraordinary profits without any new rivals.

Secrets in manufactures can be kept for longer than secrets in trade. A dyer who has found a way to produce a particular colour with materials costing only half the price of those commonly used 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 are really the high wages of his private labour; but as they are repeated on every part of his stock, so that their whole amount bears a regular proportion to it, they are commonly considered as extraordinary profits of stock.

Some natural productions require such special soil and situation that all the land that is fit for producing them in a large country is not enough to meet the effectual demand. Then the whole quantity brought to market can be sold to those who are willing to pay more than enough to cover the rent of the land that produced them, together with the wages of the labour and the profits of the stock that were employed in preparing and bringing them to market, according to their natural rates. Such commodities may continue for centuries to be sold at this high price; and in this case the part that is generally paid above its natural rate is the part that constitutes the rent of land. Such rent—like the rent of some vineyards in France that have a specially good soil and situation—bears no regular proportion to the rent of other equally fertile and 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 other hand, are seldom out of their natural proportion to those of the other employments of labour and stock in their neighbourhood.

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 thus continue to operate for ever.

A monopoly granted to an individual or a trading company has the same effect as a secret in trade or manufactures. The monopolists—by keeping the market constantly understocked, never fully meeting the effectual demand—sell their commodities much above the natural price, and raise their income, whether it consists in wages or profit, greatly above its natural rate.

The **price of monopoly** is always the highest that can be got. The natural price—i.e. the **price of free competition**—is the lowest that can be taken, not on every occasion but for any considerable period of time. One is on every occasion the highest that can be squeezed out of the buyers, or that it is supposed they will consent to pay; the other is the lowest that the sellers can commonly afford to take while still continuing their business.

The exclusive privileges of •corporations, •statutes of apprenticeship, and •all laws that limit the amount of competition there can be in certain employments have the same tendency ·as monopolies· though in a lesser degree. They're a sort of enlarged monopolies; they can often—for ages together and in whole classes of employments—keep 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.

Such enhancements of the market price may last as long as the regulations of policy that give rise to them.

Although the market price of a commodity may continue long above its natural price, it can seldom continue long below. Whatever part of it was paid below the natural rate, the persons whose interest it affected would immediately feel the loss and would withdraw land or labour or stock from

being employed in producing it, the withdrawal being large enough to ensure that the quantity brought to market would soon be no more than enough to meet the effectual demand. Its market price would thus soon rise to the natural price; this at least would be the case where there was perfect liberty [see Glossary].

The statutes of apprenticeship and other corporation laws that •enable the workman to raise his wages above their natural rate when a manufacture is in prosperity sometimes •oblige him to let them down a good deal below it when the manufacture decays. As in prosperity they exclude many people from his employment, so in bad times they exclude him from many employments. But such regulations don't sink the workman's wages below the natural rate for anything like as long as they can raise them above it. Their raising operation may continue for many centuries, but their lowering effect 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. For a policy to bring it about that for several generations together the wages of labour or the profits of stock in some particular employment were below their natural rate, it would have to be as violent as that of India or ancient Egypt (where every man was bound by a principle of religion to follow his father's occupation).

So much for deviations of the market price of commodities from their natural price.

The natural price itself varies with the natural rate of each of its component parts—wages, profit, and rent—and in every society this rate varies according to the society's circumstances, its riches or poverty, its advancing, stationary, or declining condition. In the next four chapters I'll explain as fully and clearly as I can the causes of those variations.

In chapter 8 I'll try to explain what the circumstances are that naturally determine the rate of wages, and how those circumstances are affected by the riches or poverty, by the advancing, stationary, or declining state of the society.

In chapter 9 I'll try to show what the circumstances are that naturally determine the rate of profit; and again how those circumstances are affected by variations in the state of the society.

Pecuniary [see Glossary] wages and profit are very different in the different employments of labour and stock; but it seems commonly to be the case that within a particular employment of labour and of stock there is a steady proportion between the pecuniary wages of the labour and the pecuniary profits of the stock. We'll see that this proportion depends partly on the nature of the employments, and partly on the laws and policy of the society in which they are carried on; but it seems to be little affected by the riches or poverty of the society—by its advancing, stationary, or declining condition. In chapter 10 I'll try to explain the circumstances that regulate this proportion.

In chapter 11 I'll try to show what the circumstances are that regulate the rent of land, raising or lowering the real price of all the substances it produces.

Chapter 8. The wages of labour

The product of labour constitutes the natural recompense or wages of labour.

In the original state of things before the appropriation of land and the accumulation of stock, the whole product of labour belonged to the labourer. He had neither landlord nor master to share with him.

If this state of things had continued, the wages of labour would have increased through all the improvements in its

productive powers that arise from the division of labour. All things would gradually have become cheaper. They would have been produced by less labour; and as the commodities produced by equal quantities of labour would naturally be exchanged for one another, they would have been purchased likewise with the product of a smaller quantity.

But though all things would actually have become cheaper, many things might seem to have become dearer—i.e. to have been exchanged for a greater quantity of other goods. Suppose that in most employments the productive powers of labour improve tenfold (i.e. a day's labour comes to produce ten times as much product as it originally did), while in one employment X they improve only twofold. In exchanging the product of a day's labour in most employments for that of a day's labour in X, ten times the original quantity of work in them would purchase only twice the original quantity in X. Any particular quantity in X thus appears to be five times dearer than before. In reality, however, it is twice as cheap. Though it requires five times the quantity of other goods to purchase it, it requires only half the quantity of labour to purchase it. So the acquisition is twice as easy as before.

But this original state of things in which the labourer enjoyed the whole product of his own labour could not last beyond the first appropriation of land and accumulation of stock. So it was at an end long before the most considerable improvements were made in the productive powers of labour; and it would be pointless to inquire further into how it might have affected the wages of labour.

As soon as land becomes private property, the landlord demands a share of almost all the product the labourer can raise or collect from it. His rent makes the first deduction from the product of the labour that is employed on land.

It seldom happens that someone who tills the ground has the means to maintain himself until he reaps the harvest. His maintenance is generally advanced to him from the stock of a master, the farmer who employs him; the master will eventually get this advance back, with a profit, which constitutes a second deduction from the product of the labour employed on land. (The master would have no interest in employing the worker if he weren't going to share in the product of his labour and also have his stock replaced to him with a profit.)

The product of almost all labour that doesn't involve working the land is also liable to the deduction of profit. In all arts and manufactures, most workmen need a master to advance them the materials of their work, and their wages and maintenance until it is completed. He shares in the product of their labour, i.e. in the value it adds to the materials they have worked on; and this share is his profit.

It does sometimes happen that a single independent workman has enough stock to purchase the materials of his work and to maintain himself until it is completed. He is both master and workman, and enjoys the whole product of his own labour, i.e. the whole value it adds to the materials he has worked on. It includes what are usually two incomes belonging to two persons, the profits of stock and the wages of labour.

But such cases are uncommon; throughout Europe twenty workmen have a master for every one that is independent, and the wages of labour are everywhere understood to be what they usually are when the labourer is one person and the owner of the stock that employs him is another.

·Combinations·

What the common wages of labour are always depends on the contract usually made between the labourer and the employer, whose interests are not the same. The workmen want to earn as much, the masters to pay as little, as

possible. The former are disposed to combine in order to raise the wages of labour, the latter in order to lower them.

It is easy to foresee which of the two parties must usually have the advantage in the dispute, and force the other to comply with their terms. The masters, being fewer in number, can combine much more easily; and anyway the law doesn't prohibit their combinations, while it does prohibit those of the workmen: we have no acts of parliament against combining to lower the price of work, but many against combining to raise it. In all such disputes, the masters can hold out much longer. A landlord, a farmer, a master manufacturer, or merchant, without employing a single workman could generally live a year or two on the stocks they have already acquired. Many workmen couldn't subsist for a week, few could subsist a for month, and hardly any for a year, without employment. In the long run, the workman may be as necessary to his master as his master is to him; but the necessity is not so immediate.

It has been said that we rarely hear of the combinations of masters, though often of those of workmen. But anyone who is led by this to think that masters rarely combine is as ignorant of the world as he is of the subject. Masters are always and everywhere in a sort of combination not to raise the wages of labour above their actual rate. This combination is tacit, but it is constant and uniform. To violate it is everywhere a most unpopular action, and a sort of reproach to a master among his neighbours and equals. It's true that we seldom *hear of* this combination, because it is the usual state of things—one may say, the *natural* state of things—which nobody ever hears of. Masters, too, sometimes enter into particular combinations to sink the wages of labour even below this rate. These are always conducted with the utmost silence and secrecy until the moment of execution; and when the workmen yield, as they sometimes do without resistance, they are never heard of by other people though they are severely felt by the workers. Such combinations, however, are often resisted by a contrary defensive combination of the workmen; and sometimes the workers without any provocation of this kind combine of their own accord to raise the price of their labour. Their usual claims are sometimes **(1)** the high price of provisions and sometimes **(2)** the great profit their masters make by their work. But whether their combinations are **(2)** offensive or **(1)** defensive, they are always abundantly *heard of*. In order to reach a speedy decision they always have recourse to the loudest clamour, and sometimes to the most shocking violence and outrage. They are desperate, and act with the folly and extravagance of desperate men who must either •starve or •frighten their masters into immediately complying with their demands. On these occasions the masters are just as clamorous on the other side, and never cease to call aloud for the help of the civil magistrate [see Glossary] and the rigorous application of the laws that have been enacted with so much severity against the combination of servants, labourers, and journeymen. So the workmen seldom derive any advantage from the violence of those tumultuous combinations, which—

- •partly from the interposition of the civil magistrate,
- •partly from the greater steadiness of the masters, and
- •partly from the fact that most of the workmen *have to* submit for the sake of present subsistence

—generally lead only to the punishment or ruin of the leaders.

·Rock-bottom wages·

But though masters must generally have the advantage in disputes with their workmen, there is a certain rate below which it seems impossible to reduce, for any considerable time, the ordinary wages even of the lowest sort of labour.

A man must always live by his work, and his wages must at least be sufficient to maintain him. In most cases they must be even more than that, if he is to be able to bring up a family. . . . Mr Cantillon seems on this account to suppose that the lowest species of common labourers must everywhere earn at least double their own maintenance, so as to be able to bring up two children (the labour of the wife, because of her necessary attendance on the children, being supposed to be just enough to provide for herself). But it is calculated that half the children who are born die before the age of manhood. The poorest labourers, therefore, according to this account, must attempt to rear at least four children so that two may have an equal chance of living to that age. But the necessary maintenance of four children, it is supposed, may be nearly equal to that of one man. The labour of an able-bodied slave, Mr Cantillon adds, is computed to be worth double his maintenance; and that of the meanest [see Glossary] labourer, he thinks, can't be worth less than that of an able-bodied slave. This makes it seem certain that in order to bring up a family the labour of the husband and wife together must, even in the lowest sort of common labour, be able to earn something more than what is precisely necessary for their own maintenance; but how much more—whether in that above-mentioned proportion or some other—I shall not undertake to determine.

There are certain circumstances, however, which sometimes give the labourers an advantage, enabling them to raise their wages considerably above this rate which is obviously the lowest that is consistent with common humanity.

When in any country the demand for those who live by wages—labourers, journeymen, servants of every kind—is continually increasing; when every year provides employment for more than were employed the year before; the workmen have no occasion to combine to raise their wages. The scarcity of hands leads to a competition among masters, who bid against one another in order to get workmen and thus break through the natural combination of masters not to raise wages. Obviously, the demand for wage-earning workers can increase only in proportion to the increase of the funds destined to the payment of wages. These funds are of two kinds: **(1)** the income that is over and above what is necessary for the maintenance of the masters, and **(2)** the stock that is over and above what is necessary for the use of their masters.

(1) When the landlord, annuitant, or moneyed man, has a greater income than what he judges sufficient to maintain his own family, he spends some or all of the surplus on maintaining one or more domestic servants. Increase this surplus and he will naturally increase the number of those servants.

(2) When an independent workman (such as a weaver or shoemaker) has more stock than he needs to purchase the materials of his own work and to maintain himself until he can dispose of it, he naturally uses the surplus to hire one or more journeymen [see Glossary], in order to make a profit by their work. Increase this surplus, and he will naturally increase the number of his journeymen.

In any country, therefore, the demand for wage-earning workers must increase with—and cannot possibly increase without—an increase of the country's revenue and stock. The increase of revenue and stock is the increase of national wealth. So the demand for wage-earning workers naturally increases with the increase of national wealth, and can't possibly increase without it.

·Wage-level and national growth·

What leads to a rise in the wages of labour is not •the actual greatness of national wealth but its •continual increase. So

the wages of labour are highest not in the richest countries but in the most thriving, i.e. those that are growing rich the fastest. England is certainly at present a much richer country than any part of North America, but the wages of labour are much higher in North America than in any part of England. [He gives details about wages in New York, which 'are all above' the wages for the corresponding work in London.] And wages are said to be as high in the other colonies as in New York. Throughout North America the price of provisions is much lower than in England. . . . In the worst seasons they have always had enough for themselves, though less for export. If the *money* price of labour, therefore, is higher there than it is anywhere in the mother-country, its *real* price—the real command of the necessities and conveniences of life that it conveys to the labourer—must be higher in a still greater proportion.

Though North America is not yet as rich as England, it is much more thriving, advancing much faster in the further acquisition of riches. The most decisive mark of the prosperity of any country is the increase in its population. In Great Britain, and most other European countries, the population is not supposed to double in less than 500 years. In the British colonies in North America it has been found to double in 20 or 25 years. At present this increase does not come principally from the continual import of new inhabitants but from the great multiplication of the species. It is said that in North America those who live to old age often see from fifty to a hundred—and sometimes many more—descendants from their own body. Labour is so well rewarded there that a large family of children, instead of being a burden, is a source of wealth and prosperity to the parents. The labour of each child before it leaves home is calculated to be worth £100 clear gain to them. Among the middling or lower ranks of people in Europe a young widow with four or five young children would have little chance of a second husband, but in North America she is likely to be courted as a sort of fortune. The value of children is the greatest of all encouragements to marriage, so we can't wonder that the people in North America should generally marry very young. Despite the great increase occasioned by such early marriages, there is a continual complaint of the scarcity of hands in North America. The demand for labourers, and the funds destined for maintaining them, seem to increase even faster than they can find labourers to employ.

Even if a country is very wealthy, if it has been long stationary we must not expect to find the wages of labour very high in it. The funds destined for the payment of wages—the revenue and stock of its inhabitants—may be of the greatest extent; but if they haven't changed much for several centuries, the number of labourers employed every year could easily supply (and even more than supply) the number wanted the following year. There could seldom be any scarcity of hands that would oblige the masters to bid against one another to get them. On the other hand, in this situation the hands would naturally multiply beyond their employment: there would be a constant scarcity of employment, and the labourers would have to bid against one another in order to get it. If in such a country the wages of labour had ever been more than sufficient to maintain the labourer and enable him to bring up a family, the competition among the labourers and the interest on the masters would soon reduce wages to the lowest rate that is consistent with common humanity.

·The case of China·

China has been long one of the richest—i.e. one of the most fertile, best cultivated, most industrious, and most

populous—countries in the world. But it seems , to have been long stationary. Marco Polo, who visited it more than 500 years ago, describes its cultivation, industry, and populousness in almost the same terms in which they are described by travellers today. It had, perhaps even long before his time, acquired the full complement of riches which the nature of its laws and institutions permits it to acquire. The accounts of all travellers, though inconsistent in many other respects, agree on the low wages of labour and on how hard it is for a labourer to bring up a family in China. If by digging the ground for a whole day he can get what will purchase a small quantity of rice in the evening, he is contented. The condition of skilled workmen is perhaps even worse. Instead of waiting patiently in their workshops for the calls of their customers, as in Europe, they are continually running about the streets with the tools of their respective trades, offering their services—begging for employment. The poverty of the lower ranks of people in China is far worse than that of the most beggarly nations in Europe. It is commonly said that in the neighbourhood of Canton many hundreds or even thousands of families have no home on the land, but live permanently in little fishing-boats on the rivers and canals. The subsistence they find there is so scanty that they are eager to fish up the nastiest garbage thrown overboard from any European ship. . . . Marriage is encouraged in China not by •the profitableness of children but by •the liberty of destroying them. Every night in all large towns several babies are exposed in the street or drowned like puppies in the water. The performance of this nasty task is even said to be the avowed business by which some people earn their subsistence.

However, although China may be standing still it doesn't seem to go backwards. Its towns are nowhere deserted by their inhabitants. The lands which have been cultivated are nowhere neglected. So just about the same annual labour must continue to be performed, and the funds for maintaining it must not be noticeably diminished. So the lowest class of labourers, despite their scanty subsistence, must somehow find ways to continue their race far enough to keep up their usual numbers.

It would be different in a country where funds for the maintenance of labour were noticeably decreasing. Every year the demand for servants and labourers would, in all the different kinds of employments, be less than it was the year before. Many who had been bred in the higher classes, not being able to find employment in their own business, would be glad to seek it in the lowest. The lowest class being overstocked not only with its own workmen but also with the overflow from the other classes, the competition for employment in it would be so great as to reduce the wages of labour to the most miserable and scanty subsistence of the labourer. Many would not be able to find employment even on these hard terms, and would either starve or be driven to seek a subsistence by begging or by criminal activities. Want, famine, and mortality would immediately prevail in that class, and would spread from there into all the higher classes, until the remaining population of the country—those who had escaped the tyranny or calamity that had destroyed the rest—was reduced to a size that could easily be maintained by the revenue and stock that remained in it. This is perhaps nearly the present state of Bengal and of some other of the English settlements in the East Indies. In a fertile country •which had been much depopulated so that subsistence should not be very difficult, and •in which more than 300,000 die of hunger in one year, we maybe assured that the funds destined for the maintenance of the labouring poor are fast decreasing. The difference between the spirit of the British constitution which protects and governs North

America, and that of the mercantile company that oppresses and domineers in the East Indies [see Wikipedia on the East India Company], cannot, perhaps, be better illustrated than by the different state of those countries.

So the liberal reward of labour is the necessary effect of increasing national wealth, and thus the natural symptom of it. The scanty maintenance of the labouring poor is the natural symptom that things are at a stand, and their starving condition that they are fast going backwards.

In Great Britain the wages of labour seem at present to be evidently more than what is barely needed to enable the labourer to bring up a family. To satisfy ourselves on this point we needn't enter into any tedious or doubtful calculation of what may be the lowest sum on which it is possible to do this. There are many clear symptoms that none of the wages of labour in this country are down at the lowest rate that is consistent with common humanity. ·I shall present four of them.·

(1) In almost every part of Great Britain there is a difference, even in the lowest sort of labour, between summer and winter wages. Summer wages are always higher. Yet the maintenance of a family is more expensive in winter, because of the extraordinary expense of fuel. Give, then, that wages are highest when this expense is lowest, it seems clear that they are regulated not by •what is necessary for this expense but by •the quantity and supposed value of the work. You might say: 'A labourer ought to save part of his summer wages to defray his winter expense; his wages through the whole year need not exceed what is necessary to maintain his family through the whole year.' But a slave—absolutely depending on us for immediate subsistence—wouldn't be treated in this manner. His daily subsistence would be proportioned to his daily needs.

(2) The wages of labour in Great Britain don't fluctuate with the price of provisions. These vary everywhere from year to year, often from month to month. But in many places the money price of labour remains the same, sometimes for half a century together. In these places, therefore, if the labouring poor can maintain their families in years when the price of provisions is high, they must be at their ease in times when those prices are moderate, and in affluence when provisions are especially cheap. During the past ten years the high price of provisions in many parts of the kingdom hasn't been accompanied by any noticeable rise in the money price of labour. In some places indeed it *has*, probably more because of an increase in the demand for labour than because of an increase in the price of provisions.

(3) Whereas the price of provisions varies more *from year to year* than the wages of labour, the wages of labour vary more *from place to place* than the price of provisions. The prices of bread and butchers' meat are generally about the same through most of the united kingdom [see Glossary]. These, like most other things that are sold by retail (which is how the labouring poor buy everything), are generally at least as cheap in large towns as in the remoter parts of the country; I'll explain why in due course. But the wages of labour in and around a large town are often 20% or 25% higher than they are a few miles away. [He gives examples involving London and Edinburgh, and comments on the fact that workers don't in general move into large towns in search of higher wages. Then:] After all that has been said of the levity and inconstancy of human nature, experience shows that man is the most difficult sort of luggage to be transported! If the labouring poor, therefore, can maintain their families in the parts of the kingdom where the price of labour is lowest, they must be in affluence where it is highest.

(4) The variations in the price of labour not only •don't correspond (in place or time) with variations in the price of provisions but •are often quite opposite. [Smith elaborates on this with several pages of detail. Difference of place: wages and grain-prices in England compared with Scotland. Difference of time: wages and grain-prices on the united kingdom, France, and 'probably most other parts of Europe' in the 1600s compared with the 1700s. He discusses his evidence for what he says about wages in various times and places, concluding:] The price of labour can't be ascertained very accurately anywhere, different prices being often paid at the same place and for the same sort of labour, not only according to the different abilities of the workman but according to the easiness or hardness of the masters. Where wages are not regulated by law, all we can claim to determine is what the most usual wages are; and experience seems to show that law can never regulate wages properly, though it has often claimed to do so.

The *real recompense* of labour, the real quantity of the necessities and conveniences of life that it can procure for the labourer, has during the present century increased perhaps even more than its *money price*. Grain has become somewhat cheaper, but also many other things from which the industrious poor derive an agreeable and wholesome variety of food have become much cheaper. Throughout most of the kingdom potatoes don't now cost half what they did 30 or 40 years ago. The same is true of turnips, carrots, cabbages; things that were formerly raised only by the spade but are now commonly raised by the plough. All sorts of garden stuff has also become cheaper, as have. . . . coarser linen and woollen cloth which provide labourers with cheaper and better clothing; and coarser metals, leading to cheaper and better instruments of trade as well as with many agreeable and convenient pieces of household furniture. Soap, salt, candles, leather, and fermented liquors have indeed become a good deal dearer, chiefly because of the taxes on them. But the quantity of these that the labouring poor need to consume is so small that the increase in their prices doesn't cancel out the lessening of the prices of so many other things. For testimony that what has increased is not only the money price of labour but its real recompense, listen to the common complaint that luxury now extends even to the lowest ranks of the people, and that the labouring poor will no longer be contented with the same food, clothing, and lodging that satisfied them in former times!

Is this improvement in the circumstances of the lower ranks of the people to be regarded as an advantage, or as an inconvenience, to the society? The answer seems at first abundantly plain. Servants, labourers, and workmen of various kinds constitute *most* of any large political society. And what improves the circumstances of most can't be regarded as an inconvenience to the whole. Surely no society can be flourishing and happy if most of its members are poor and miserable. It is only fair that those who feed, clothe, and lodge the whole body of the people should have a share of the product of their own labour that enables *them* also to be tolerably well fed, clothed, and lodged.

Poverty no doubt discourages •marriage, but doesn't always prevent it. And it seems to be ·positively· favourable to •generation. A half-starved Highland woman may bear more than 20 children, while many a pampered fine lady is incapable of bearing any and is generally exhausted by two or three. Barrenness, so frequent among women of fashion, is very rare among those of lower station [see Glossary]. Luxury may inflame in the fair sex the passion for enjoyment, but it seems always to weaken—and often to destroy—the powers of generation.

·INFANT MORTALITY·

But although poverty doesn't prevent the generation of children it is extremely unfavourable to the rearing of them. The tender plant is produced; but in soil so cold and a climate so severe that it soon withers and dies. I have been often told that it's not uncommon in the Highlands of Scotland for a mother who has born 20 children not to have two alive. Several ·army· officers of great experience have assured me that, so far from recruiting their regiment from all the soldiers' children that were born in it, they have never been able to supply it with ·early-teen-age players of· drums and fifes from what source. A greater number of fine children is seldom seen anywhere than around a barrack of soldiers; but very few, it seems, arrive at the age of thirteen or fourteen. In some places, half the children die before they are four years old, in many places before they are seven, and almost everywhere before they are nine or ten. This great mortality will be found everywhere among the children of the common people, who cannot afford to tend them with the same care as those of better station. Though their marriages are generally more fruitful than those of people of fashion, a smaller proportion of their children arrive at maturity. And in foundling hospitals, and among the children brought up by parish charities, the mortality is even greater than among those of the common people.

Every species of animals naturally multiplies in proportion to the means of their subsistence, and no species can ever multiply beyond it. But in civilised society it is only among the lower ranks of people that the scantiness of subsistence can set limits to the further multiplication of the human species; and it can do this only by destroying a large part of the children whom their fruitful marriages produce.

The liberal reward of labour, by enabling workers to provide better for their children and thus to bring up more of them, naturally tends to widen and extend those limits. It should be noted that it necessarily does this as nearly as possible in the proportion that the demand for labour requires. If this demand continually increases, the reward of labour must necessarily encourage the marriage and multiplication of labourers in a way that enables them to meet the continually increasing demand with a continually increasing population. If the reward ever becomes *less* than what is needed for this purpose, the shortage of workers will soon raise it; and if it ever becomes *more*, the excessive multiplication will soon lower wages to this necessary rate. The market will be so much understocked with labour in the one case, and so much overstocked in the other, as will soon force its price back to the proper rate that the circumstances of the society require. This is how the demand for men, like the demand for any other commodity, necessarily regulates the production of men—speeds it when it goes too slowly, and stops it when it advances too fast. It is this demand that regulates and determines the state of propagation in the different countries of the world: •in North America, rapidly progressive; •in Europe, slow and gradual; •in China, altogether stationary.

It has been said that the wear and tear of a slave is at the expense of his master while that of a free servant is at his own expense. Actually, however, the wear and tear of the free servant is as much at his master's expense as that of the slave. The wages paid to journeymen and servants of every kind must be enough to enable them to continue the race of journeymen and servants, according to what the society's demand may happen to require, whether the demand is increasing, diminishing, or stationary. But though the wear and tear of a free servant is equally at his master's expense, it generally costs the master much less than that of a slave. The fund destined for replacing or repairing (if I may put

it this way) the wear and tear of the slave is commonly managed by a negligent master or careless overseer. The fund destined for performing the same task with regard to the freeman is managed by the freeman himself. The disorders that generally prevail in the economy of the rich naturally introduce themselves into the management of the slave; the strict frugality and parsimonious attention of the poor naturally establish themselves in the management of the free servant. Under such different managements, the same purpose must require very different levels of expenditure to achieve it. And so it appears, from the experience of all ages and nations, I believe, that the work done by freemen comes cheaper in the end than work done by slaves. It is found to do so even in Boston, New York and Philadelphia, where the wages of common labour are so very high.

The liberal reward of labour, therefore, is not just the effect of increasing wealth but also the cause of increasing population. To complain of it is to lament the necessary cause and effect of the greatest public prosperity.

The condition of the labouring poor, of the great body of the people, seems to be happiest and most comfortable in the progressive state, while the society is advancing to the further acquisition. Their condition is hard in the stationary state when the society has acquired its full complement of riches; and it is miserable in the declining state. The progressive state is in fact the cheerful and hearty state for all the orders of the society; the stationary is dull; the declining melancholy.

The. . . .wages of labour are the encouragement of industry [here = 'hard-workingness'], which like every other human quality improves in proportion to the encouragement it receives. A plentiful subsistence increases the labourer's bodily strength; and the comfortable hope of bettering his condition, and of possibly ending his days in ease and plenty, animates him to exert that strength to the utmost. Where wages are high, accordingly, we shall always find the workmen more active, diligent, and expeditious than where they are low; high in England, low in Scotland; high in the neighbourhood of large towns, low in remote country places. Admittedly, some workmen who can earn in four days enough to maintain them through the week will be idle the other three days; but this is by no means the case with most. On the other hand, when workmen are liberally paid by the piece, they're apt to overwork themselves and to ruin their health and constitution in a few years. In London and some other places a carpenter is not supposed to last in his utmost vigour for more than eight years. Something of the same kind happens in many other trades where workmen are paid by the piece; as they generally are in manufactures (and even in country labour) where wages are higher than ordinary. Almost every class of artificer [see Glossary] is subject to some particular infirmity caused by excessive application to their particular kind of work. Ramini, an eminent Italian physician, has written a book specifically about such diseases. [Smith warns against the dangers to health and efficiency of working too hard, including working too hard for four days a week and then relaxing (or worse) for three. He urges 'masters' to 'listen to the dictates of reason and humanity', and concludes:] It will be found in every sort of trade, I believe, that the man who works so moderately that he can work constantly not only preserves his health the longest but carries out the greatest quantity of work in the course of the year.

It is claimed that in cheap years workmen are generally more idle, and in dear times more industrious than ordinary; and that therefore a plentiful subsistence slackens their industry and a scanty one quickens it. No doubt a little more plenty than ordinary may make some workmen idle; but it doesn't seem probable that it has this effect on most workers,

or that men in general will work better

- •when they are ill fed than when they are well fed,
- •when they are disheartened than when they are in good spirits,
- •when they are often sick than when they are generally in good health.

Among the common people years of dearth are generally years of sickness and mortality, which cannot fail to lessen the product of their industry.

In years of plenty, servants often leave their masters and trust their subsistence to what they can make by their own industry. But that same cheapness of provisions, by increasing the fund that is destined for the maintenance of servants, encourages masters (especially farmers) to employ more workers. In these circumstances farmers expect more profit from their corn by •maintaining a few more labouring servants than by •selling it at a low price in the market. The demand for servants increases, while the number of those who offer to meet the demand diminishes. So the price of labour often rises in cheap years.

In years of scarcity, the difficulty and uncertainty of subsistence make all such people eager to return to service. But the high price of provisions, by lessening the funds destined for the maintenance of servants, inclines masters to lessen rather than increase the number of servants they have. In these years, also, poor independent workmen often consume the little stock they have been using to supply themselves with the materials of their work, and are obliged to become journeymen [see Glossary] for subsistence. More people want employment than easily get it; many are willing to take it on lower terms than ordinary; and the wages of both servants and journeymen often sink in dear years.

So masters of all sorts often make better bargains with their servants in dear years than in cheap ones, and find them more humble and dependent in the former than in the latter. They naturally, therefore, commend the dear years as more favourable to industry. [There now follow a couple of pages in which Smith discusses, sometimes very unclearly, various aspects of the relations between prices and wages. He cites studies that have been done of this, and expresses scepticism about their sources and thus about their results:]

The product of all large manufactures for distant sale are bound to depend less •on the dearness or cheapness of the seasons in the countries where they are conducted than •on circumstances affecting the demand in the countries where they are consumed: peace or war, the prosperity or decline other rival manufactures, the good or bad mood of their principal customers. Also, much of the extra work that is probably done in cheap years never enters the public registers of manufactures. The men-servants, who leave their masters become independent labourers. The women return to their parents, and commonly spin in order to make clothes for themselves and their families. Even the independent workmen don't always work for public sale, but are employed by some of their neighbours in manufactures for family use. So the product of their labour often does not show up in those public registers whose records are sometimes published with so much parade, and from which our merchants and manufacturers often vainly claim to announce the prosperity or decline of the greatest empires.

Although the variations in the price of labour not only don't always •correspond with those in the price of provisions but are often quite •opposite, we mustn't infer from this that the price of provisions has no influence on that of labour. The money price of labour is regulated by two circumstances: the demand for labour, and the price of the necessities and conveniences of life. The demand for labour—whether increasing, stationary, or declining—determines

the quantities of necessities and conveniences that must be given to the labourer; and the money price of labour is determined by what is needed for purchasing this quantity. Thus, though the money price of labour is sometimes high where the price of provisions is low, it would be still higher (the demand continuing the same) if the price of provisions was high.

·Up and down pressures on wages·

It is because the demand for labour increases in years of sudden and extraordinary plenty, and diminishes in those of sudden and extraordinary scarcity, that the money price of labour sometimes rises in the one and sinks in the other.

In a year of sudden and extraordinary plenty, many of the employers of industry have funds sufficient to maintain and employ more industrious people than had been employed the year before; and this extraordinary number can't always be had. So the masters who want more workmen bid against one another to get them, which sometimes raises both the real price and the money price of their labour.

The opposite of this happens in a year of sudden and extraordinary scarcity. The funds destined for employing industry are less than they were the year before. Many people are thrown out of employment; they bid one against another in order to get it, which sometimes lowers both the real and the money price of labour. In 1740, a year of extraordinary scarcity, many people were willing to work for bare subsistence. In the following years of plenty it was harder to get labourers and servants. The scarcity of a dear year, by diminishing the demand for labour, tends to lower its price, while the high price of provisions tends to raise it. The plenty of a cheap year, by increasing the demand for labour, tends to raise its price, while the cheapness of provisions tends to lower it. In the ordinary variations of the prices of provisions those two opposite causes seem to counterbalance one another, which is probably one reason why the wages of labour are everywhere so much more steady and permanent than the price of provisions.

The increase in the wages of labour necessarily increases the price of many commodities, by increasing the part of it that depends on wages, and to that extent tends to diminish the consumption of the commodities, both at home and abroad. But the same cause that raises the wages of labour—namely the increase of stock—tends to increase labour's productive powers so that a smaller quantity of labour produces more work. The owner of the stock that employs many labourers necessarily tries, for his own advantage, to divide and distribute employment in such a way that the greatest possible quantity of work is produced. For the same reason, he tries to supply them with the best machinery that he or they can think of. What takes place among the labourers in a particular factory takes place for the same reason among those of a large society. The greater their number, the more they naturally divide themselves into different classes and subdivisions of employments. More heads are occupied in inventing the best machinery for doing the work of each, making it more likely that it *will* be invented. In consequence of these improvements, many commodities come to be produced by less labour than before—so much less that the increase in its price is more than made up for by the lessening of its quantity

Chapter 9. The profits of stock

The rise and fall in the profits of stock depend on the same causes as the rise and fall in the wages of labour, namely the increasing or declining state of the wealth of the society; but *how* those causes affect the one is very different from how

they affect the other.

The increase of stock, which raises wages, tends to lower profit. When the stocks of many rich merchants are turned into the same trade, their mutual competition naturally tends to lower profit in that trade; and when there's a similar increase of stock in all the trades carried on in the same society, the same competition must produce the same effect in them all.

It is not easy (I repeat) to ascertain what the *average* wages of labour are, even in one place at one time; we can seldom determine more than what are the *most usual* wages. But even this can seldom be done concerning the profits of stock. Profit is so very fluctuating that the person who carries on a particular trade can't always tell you himself what the average is of his annual profit. It is affected not only by

- every variation of price in the commodities he deals in, but by
- the good or bad fortune of his rivals and of his customers, and by
- a thousand other accidents to which goods are liable when carried by sea or land, or even when stored in a warehouse.

So it varies not only from year to year but from day to day, and almost from hour to hour. To ascertain what the average profit is of all the trades carried on in a large kingdom must be much more difficult still; and to judge with any degree of precision concerning what it may have been long ago must be altogether impossible.

But though it may be impossible to determine with any precision what the average *profits of stock* are now or were in ancient times, some notion of them can be formed from the *interest on money*. It can be laid down as a maxim that wherever a great deal can be made by the use of money, a great deal will commonly be given for the use of it; and that wherever little can be made by it, less will commonly he given for it. So we can be sure that as the usual market rate of interest varies in a country the ordinary profits of stock vary with it—sinking as it sinks, and rising as it rises. The progress of interest, therefore, may lead us to form some notion of the progress of profit.

[Smith now gives some details of the gradual lowering of the legal ceiling on interest-rates from 10% in 1546 under Henry VIII to 5% in 1714 under Queen Anne; with a blip in 1547–53 under Edward VI, who called interest-taking 'usury' and passed a (completely ineffective) law banning it altogether. He continues:] All these statutory regulations seem to have been made with great propriety. They seem not to have preceded but to have followed the market rate of interest, i.e. the rate at which people with good credit usually borrowed. Since the time of Queen Anne 5% seems to have been above rather than below the market rate. Before the late war the government borrowed at 3%, and people with good credit in the capital and in many other parts of the kingdom borrowed at $3\frac{1}{2}$%–$4\frac{1}{2}$%.

Since the time of Henry VIII the wealth and revenue of the country have been continually advancing, and in the course of their progress, their pace seems to have gradually accelerated rather than slowing down. . . . The wages of labour have been continually increasing during the same period, and in most branches of trade and manufactures the profits of stock have been shrinking.

It generally requires a greater stock to conduct any sort of trade in a large town than in a country village. The great stocks employed in every branch of trade, and the number of rich competitors, generally reduce the rate of profit in the large town below what it is in the village, though the wages of labour are generally higher in the town than in the village. In

a thriving town, the people who have great stocks to employ often can't get as many workmen as they want; so they bid against one another for workmen, which raises the wages of labour and lowers the profits of stock. In the remote parts of the country there is often not enough stock to employ all the people, who therefore bid against one another for employment, which lowers the wages of labour and raises the profits of stock.

[He gives details of how the market rate of interest is higher in Scotland than in England, and wages lower. Then:] During the present century the legal rate of interest in France has not always been regulated by the market rate. [He gives details about this. Then:] The supposed purpose of many of those violent reductions of interest was to prepare the way for reducing that of the public debts; a purpose which has sometimes been carried out. France is perhaps not as rich a country as England today; and though the legal rate of interest has in France often been lower than in England, the market rate has generally been higher because they (like some other countries) have safe and easy methods of evading the law. British merchants who have traded in both countries assure me that the profits of trade are higher in France than in England; and that is doubtless why many British subjects choose to employ their capital in a country where trade is in disgrace rather than in one where it is highly respected. The wages of labour are lower in France than in England. When you go from Scotland to England the difference you can see between the dress and countenance of the common people in the one country and in the other shows the difference in their condition. The contrast is still greater when you return from France. France, though no doubt richer than Scotland, seems not to be going forward so fast. It is a common and even a popular opinion in each country that it is going backwards; but no-one who sees Scotland now and who saw it 20 or 30 years ago can possibly believe this; and I think it is false even with regard to France.

In proportion to its size and population the province of Holland is a richer country than England. The government there borrows at 2% and private people with good credit at 3%. The wages of labour are said to be higher in Holland than in England, and it is well known that the Dutch trade on lower profits than any ·other· people in Europe. Some people have claimed that Holland's trade is decaying, and perhaps some particular branches of it are so; but these symptoms seem to indicate sufficiently that there is no general decay. When profit diminishes, merchants are apt to complain that trade decays, though the lessening of profit is the natural effect of its prosperity, i.e. of a greater stock being employed in it than before. During the late war the Dutch gained the whole carrying trade of France, of which they still retain a large share. The great property they possess in French and English funds. . . . and the great sums they lend to private people in countries where the rate of interest is higher than in Holland, clearly show that their stock has increased beyond what they can use with tolerable [see Glossary] profit in the proper business of their own country; but they don't show that that business has decreased. The capital a private man has acquired by a particular trade may increase beyond what he can employ in it, though the trade continues to increase also; and the same holds for the capital of a large nation.

In our North American and West Indian colonies, not only the wages of labour but also the interest on money and consequently the profits of stock are higher than in England. In the different colonies, both the legal and the market rate of interest run from 6% to 8%. But high wages of labour and high profits of stock hardly ever go together except in the special circumstances of new colonies. A new colony must always, for some time, be more understocked in proportion

to the extent of its territory, and more under-peopled in proportion to the extent of its stock, than most of other countries. They have more land than they have stock to cultivate it; so they apply what stock they have to cultivating only what is most fertile and most favourably situated—land near the sea-shore and along the banks of navigable rivers. And this land is often purchased at a price below the value even of its natural product ·let alone what can be raised from it by cultivation·. Stock employed in buying and improving such lands must •yield a very large profit, and thus •be able to pay a very large interest. . . . This enables the planter to increase the number of his workers faster than he can find them in a new settlement; so the ones he can find are liberally rewarded. As the colony increases, the profits of stock gradually diminish. When the most fertile and best situated lands have all been occupied, less profit can be made by cultivating what is inferior in soil and situation, and less interest can be provided for stock that is employed in that way. That is why in most of our colonies the legal and market rates of interest have both been considerably reduced during the the present century. As riches, improvement, and population have increased, interest has declined. The wages of labour don't sink with the profits of stock. The demand for labour increases with the increase of stock, whatever its profits; and after the profits are lessened, stock may continue to increase. Industrious nations advancing in the acquisition of riches are like industrious individuals: a large stock with small profits generally increases faster than a small stock with large profits. Money, says the proverb, makes money. When you have a little, it is often easy to get more. The difficulty is to get that little. I have already partly explained how the increase of stock is connected with the increase of industry or of the demand for useful labour; I'll explain it more fully when I discuss the accumulation of stock.

The acquisition of new territory or of new branches of trade may sometimes raise the profits of stock, and with them the interest on money, even in a country that is fast advancing in the acquisition of riches. The country's stock isn't sufficient for the whole increase of business that such acquisitions invite, so it is restricted to the branches that provide the greatest profit. Part of what used to be employed in other trades is withdrawn from them and applied to some of the new and more profitable ones. In all those old trades, therefore, competition becomes less than it was before. The market comes to be less fully supplied with many sorts of goods. Their price inevitably rises, yielding a greater profit to those who deal in them, enabling them to borrow at a higher interest. For some time after the end of the recent war, private people with the best credit and some of the greatest companies in London commonly borrowed at 5%; before that they hadn't paid more than $4\frac{1}{2}$%. The great accession of territory and trade by our acquisitions in North America and the West Indies sufficiently account for this ·increase in interest·, without supposing any lessening of the capital stock of the society. . . . I shall later present my reasons for believing that the capital stock of Great Britain was not lessened even by the enormous expense of that war.

The lessening of the capital stock of a society, i.e. of the funds destined for the maintenance of industry,

- •lowers the wages of labour, and so
- •raises the profits of stock, and so
- •raises the interest on money.

By lowering the wages of labour, the owners of what stock remains in the society can bring their goods to market at less expense than before; and less stock being employed in supplying the market than before, they can sell them dearer. So their goods cost them less, and they get more for them. Their profits, therefore, being increased at both

ends, can well provide a large interest. The great fortunes so suddenly and so easily acquired in Bengal and the other British settlements in the East Indies may satisfy us that as the wages of labour are very low in those ruined countries so the profits of stock are very high. The interest on money is proportionally so. In Bengal, money is often lent to the farmers at 40% or more, and the succeeding crop is mortgaged for the payment. As the profits that can provide such an interest must eat up almost the whole rent of the landlord, such enormous usury must in its turn eat up most of those profits. Before the fall of the Roman republic, usury of the same kind seems to have been common in the provinces under the ruinous administration of their proconsuls. The virtuous Brutus lent money in Cyprus at 48%, as we learn from the letters of Cicero.

Suppose a country has acquired all the riches it can acquire, given the nature of its soil and climate and its relations to other countries; this country can't advance any further, and I am supposing that it isn't going backwards. In this country the wages of labour and the profits of stock will probably be very low. In a country with as many inhabitants as its territory can maintain or its stock employ, the competition for employment is bound to be so great as to reduce the wages of labour to what is barely sufficient to keep up the number of labourers, and the country being already fully populated that number can never be increased. In a country fully stocked in proportion to all the business it has to transact, as much stock will be employed in every particular branch as the nature and extent of the trade admits. So the competition will everywhere be as great—and thus the ordinary profit as small—as possible.

Perhaps no country has ever yet reached this level of affluence. China seems to have been long stationary, and probably it acquired long ago the full complement of riches that is consistent with the nature of its laws and institutions. But this complement may be much smaller than the nature of China's soil, climate, and situation would permit if it had different laws and institutions. A country which neglects or despises foreign commerce, and which admits the vessel of foreign nations into only one or two of its ports, can't conduct the same amount of business as it might do with different laws and institutions. Also, in a country where

> though the rich enjoy a good deal of security, the poor enjoy hardly any, and are liable—under the pretence of justice—to be pillaged and plundered at any time by the lower mandarins,

the quantity of stock employed in all the branches of business can never be equal to what the nature and extent of that business might admit. In every branch, the oppression of the poor must establish the monopoly of the rich, who by engrossing the whole trade to themselves will be able to make very large profits. So it is said that 12% is the common interest on money in China, and the ordinary profits of stock must be sufficient to provide this large interest.

A defect in the law may sometimes raise the rate of interest considerably above what the country's level of wealth or poverty would require. When the law doesn't enforce the performance of contracts, it puts all borrowers nearly in the same situation that bankrupts or people of doubtful credit have in better regulated countries. The uncertainty of recovering his money makes the lender exact the same usurious interest which is usually required from bankrupts. Among the barbarous nations that overran the western provinces of the Roman empire, the performance of contracts was for centuries left to the faith of the contracting parties. The courts of justice of their kings seldom got involved in it. The high rate of interest that prevailed in those ancient times may be partly explained by this.

When the law *prohibits* interest altogether, it doesn't *prevent* it. Many people must borrow, and nobody will lend without a payment that is suitable to •what can be made by the use of it and to •the difficulty and danger of evading the law. The high rate of interest among all Moslem nations is explained by Montesquieu not by their poverty but partly by this and partly by the difficulty of recovering the money.

The lowest ordinary rate of profit must always be more than enough to compensate for the occasional losses to which every use of stock is exposed. This surplus is the whole of the *net* or *clear* profit. What is called *gross* profit includes not only this surplus but what is retained for compensating for such occasional losses. The interest the borrower can afford to pay is in proportion to the clear profit, not the gross profit. The lowest ordinary rate of interest must in the same way be more than enough to compensate for the occasional losses to which lending, even with tolerable prudence, is exposed. If it weren't, mere charity or friendship could be the only motives for lending.

In a country that has acquired its full complement of riches—where in every particular branch of business there is the greatest quantity of stock that can be employed in it—the ordinary rate of clear profit will be very small, so the usual market rate of interest that can be provided out of that profit will be so low as to make it impossible for any but the very wealthiest people to live on the interest on their money. All people of small or middling fortunes will be obliged to superintend the employment of their own stocks. Almost every man will have to be a man of business or engage in some sort of trade. The province of Holland seems to be coming close to this state. In Holland it is unfashionable *not* to be a man of business! Necessity makes it usual for almost every man to be so, and custom everywhere regulates fashion. Just as it is ridiculous not to dress like other people, so also it is somewhat ridiculous not to be employed like other people. A civilian seems awkward in a camp or a garrison, and is even in some danger of being despised there; so does an idle man among men of business.

For most commodities, the highest ordinary rate of profit may be one that eats up the whole of what should go to the rent of the land, and leaves only enough to pay the labour of preparing and bringing the commodities to market according to the lowest rate at which labour can anywhere be paid, namely the bare subsistence of the labourer. The workman must always have been fed somehow while he was doing the work, but the landlord may not always have been paid. The profits of the trade that the servants of the East India Company carry on in Bengal are perhaps close to this rate.

The proportion that the usual market rate of interest ought to bear to the ordinary rate of clear profit necessarily varies as profit rises or falls. In Great Britain double interest is regarded as what the merchants call a 'good, moderate, reasonable profit'—which is what I call a common and usual profit. In a country where the ordinary rate of clear profit is 8% or 10%, it may be reasonable that one half of it should go to interest when business is conducted with borrowed money. The stock is at the risk of the borrower, who insures it (as it were) to the lender; and 4% or 5% may in most trades be both a sufficient profit on the risk of this insurance and a sufficient recompense for the trouble of employing the stock. But the proportion between interest and clear profit might be different in countries where the ordinary rate of profit is a lot lower or a lot higher. If it were much lower, one half of it, perhaps, could not be provided for interest; and more might be provided if it were much higher.

In countries that are fast advancing to riches, the low rate of profit may in the price of many commodities make up for the high wages of labour, and enable those countries

to sell as cheaply as their less thriving neighbours whose wages of labour are lower.

In reality, high profits tend to raise the price of work much more than high wages do. Suppose that in the manufacture of linen, for example, the wages of the flax-dressers, the spinners, the weavers, etc. are all raised by twopence a day. Then the price of a piece of linen will have to go up only by a number of twopences equal to •the number of people that have worked on it multiplied by •the number of days they have so worked. The part of the price of the commodity that comes from wages will, through all the stages of the manufacture, rise only in arithmetical proportion to this rise of wages. But if the profits of all the employers of those working people are raised by 5%, the part of the price of the linen that comes from profit will, through all the stages of the manufacture, rise in geometrical proportion to this rise of profit. The employer of the flax dressers will in selling his flax require an additional 5% on the whole value of the materials and wages he has advanced to his workmen. The employer of the spinners will require an additional 5% both on the newly-raised price of the flax and on the wages of the spinners. And the employer of the weavers will require 5% both on the newly-raised price of the linen-yarn and on the wages of the weavers. In raising the price of commodities, the rise of wages operates like simple interest in the accumulation of debt. The rise of profit operates like compound interest. Our merchants and master manufacturers complain much of the bad effects of high wages in raising the price and thereby lessening the sale of their goods at home and abroad. They say nothing about the bad effects of high profits; they are silent regarding the pernicious effects of their own gains; they complain only of other people's.

Chapter 10. Wages and profit in the different employments of labour and stock

The whole of the advantages and disadvantages of the different employments of labour and stock must in the same neighbourhood be perfectly equal or at least continually tending to equality. If in the same neighbourhood any employment was obviously more (or less) advantageous than the rest, so many people would crowd into it (or desert it) that its advantages would soon return to the level of other employments. This, at least, is what would happen in a society where •things were left to follow their natural course, •there was perfect liberty, and •every man was perfectly free both to choose what occupation he thought proper and to change it as often as he thought proper. Every man's interest would prompt him to seek the advantageous employment and to shun the disadvantageous one.

Throughout Europe pecuniary wages and profit are extremely different, according to the different employments of labour and stock. This difference arises partly from **(1)** certain facts about the employments themselves, facts which do (or are imagined to) make up for a small pecuniary gain in some and counterbalance a large one in others; and partly from **(2)** the policy of Europe, which nowhere leaves things at perfect liberty.

Detail consideration of those facts and of that policy will divide this chapter into two parts.

Part 1. Inequalities arising from the nature of the employments themselves

I have observed five facts which principally make up for a small pecuniary gain in some employments and counterbalance a large one in others. **(a)** The agreeableness or

disagreeableness of the employments themselves; **(b)** the easiness and cheapness, or the difficulty and expense, of learning them; **(c)** the constancy or inconstancy of employment in them; **(d)** the small or large trust that must be reposed in those who exercise them; and **(e)** the probability or improbability of success in them.

(a) The wages of labour vary with the ease or hardship, the cleanliness or dirtiness, the honourableness or dishonourableness, of the employment. Thus in most places a journeyman tailor earns less than a journeyman weaver in the course of a year. His work is much easier. A journeyman weaver earns less than a journeyman smith. His work isn't always easier than the smith's, but it is much cleaner. A journeyman blacksmith, though an artificer [see Glossary], seldom earns as much in twelve hours as a coal-miner, who is only a labourer, does in eight. His work is not quite as dirty, is less dangerous, and is carried on in daylight and above ground. I'll try to show in due course that honourable professions are, all things considered, generally underpaid in *money* terms, because *honour* makes a large part of their reward. Disgrace has the contrary effect. The butcher's trade is a brutal and an odious business; but in most places it is more profitable than most common trades. The most detestable of all employments, that of public executioner, is in proportion to the quantity of work done better paid than any common trade whatever.

Hunting and fishing, mankind's most important activities in the primitive state of society, become in its advanced state men's most agreeable pastimes, and they pursue for pleasure what they once followed from necessity. In the advanced state of society, only poor people follow as a trade what others pursue as a pastime. . . . In countries where the rigour of the law allows no poachers, the licensed hunter is not in a much better condition. The natural taste for those employments makes more people follow them than can live comfortably by them; and the product of their labour always comes to market too cheap to provide anything but the most scanty subsistence to the labourers.

Disagreeableness and disgrace affect the profits of stock in the same way that they affect the wages of labour. The keeper of an inn, who is never master of his own house and is exposed to the brutality of every drunkard, runs a business that is neither very agreeable nor very creditable [see Glossary]. But there is hardly any common trade in which a small stock yields so large a profit.

(b) The wages of labour vary with the easiness and cheapness, or the difficulty and expense, of learning the business.

When any expensive machine is erected, the extraordinary work to be done by it before it is worn out is expected to repay the capital laid out on it, with at least the ordinary profits. A man educated at the expense of much labour and time in any of the employments that require extraordinary dexterity and skill may be compared to one of those expensive machines. He must expect the work that he learns to perform to bring him the usual wages of common labour *and* the whole expense of his education, with at least the ordinary profits of an equally valuable capital. And it must do this in a reasonable time, considering the very uncertain duration of human life. . . .

The difference between the wages of skilled labour and those of common labour is based on this principle.

The policy of Europe considers the labour of all mechanics, artificers, and manufacturers to be skilled labour, and that of all country labourers to be common labour. It seems to suppose that the former is more precise and delicate than the latter. (It is so perhaps in some cases, but in most it is quite otherwise, as I shall try to show in due course.) So the laws and customs of Europe, in order to qualify a person for

exercising the one kind of labour, impose the necessity of an apprenticeship, though with different degrees of rigour in different places. They leave the other kind of labour free and open to everyone. While the apprenticeship lasts, the whole labour of the apprentice belongs to his master. In the meantime he must (in many cases) be maintained by his parents or relations, and (in almost all cases) must be clothed by them. Also, the master is commonly paid for teaching him his trade. Those who can't give money give time, i.e. become bound for more than the usual number of years; which is not always advantageous to the master, because of the usual idleness of apprentices, but is always disadvantageous to the apprentice. In country labour, on the other hand, the labourer learns the more difficult parts of his business *while* he is employed in the easier parts, so that his own labour maintains him through all the stages of his employment. So it is reasonable that in Europe the wages of mechanics, artificers, and manufacturers should be somewhat higher than the wages of common labourers; and their superior wages leads to their being in most places considered as a superior rank of people. But this superiority ·of wages· is generally very small: the daily or weekly earnings of journeymen in the more common sorts of manufactures, such as those of plain linen and woollen cloth, are in most places very little more on average than the day-wages of common labourers. The difference may be somewhat greater if we take the whole year into account, because the employment of skilled workers is more steady and uniform; but their higher earnings are no more than enough to make up for the greater expense of their education. Education in the fine arts and the liberal professions is still more tedious and expensive; which is why the pecuniary recompense of painters and sculptors, of lawyers and physicians, is and ought to be much more liberal.

The profits of stock seem to be very little affected by the easiness or difficulty of learning the trade in which it is employed. All the ways in which stock is commonly employed in large towns seem to be almost equally easy and equally difficult to learn. One branch of foreign or domestic trade can't well be a much more intricate business than another.

(c) The wages of labour in different occupations vary with the constancy of employment. Employment is much more constant in some trades than in others. In most manufactures a journeyman can be pretty sure of employment on almost every day when he is able to work. A mason or bricklayer, on the other hand, can't work in hard frost or heavy rain, and his employment at all other times depends on when his customers happen to call on him—so that he may often not have any. What he earns while he is employed, therefore, must maintain him while he is idle and also make him some compensation for the anxious and desponding moments that the thought of so precarious a situation must sometimes cause. Where the computed earnings of most manufacturers are nearly on a level with the day-wages of common labourers, those of masons and bricklayers are generally from one-half more to double those wages. Where common labourers earn 4/- or 5/- a week, masons and bricklayers often earn 7/- and 8/-;. . . .and where the former earn 9/- and 10/-, as they do in London, the latter commonly earn 15/- and 18/-. Yet no kind of skilled labour seems easier to learn than that of masons and bricklayers. Chairmen [see Glossary] in London are said sometimes to be employed in summer as bricklayers. The high wages of those workmen, therefore, are not so much a reward for their skill as compensation for the inconstancy of their employment.

A house-carpenter exercises a trade that seems more precise and intellectually demanding than a mason's. But in most places, though not everywhere, his day-wages are

somewhat lower. His employment does not depend so entirely on the occasional calls of his customers; and it is not liable to be interrupted by the weather.

When trades that generally provide constant employment happen not to do so in a particular place, the wages of the workmen there always rise well above their ordinary proportion to those of common labour. In London, most journeymen [see Glossary] artificers are liable to be called on and dismissed by their masters from day to day, and from week to week, as are day-labourers in other places. So in London the lowest order of artificers, journeymen tailors, earn their 2/6d a day, though 1/6d may be reckoned the wages of common labour. In small towns and country villages the wages of journeymen tailors often hardly equal those of common labour; but ·that's because they have steady employment there, whereas· in London they are often many weeks without employment, particularly during the summer.

When the inconstancy of employment is combined with the hardship, disagreeableness, and dirtiness of the work, it sometimes raises the wages of the most common labour above those of the most skilful artificers. [Smith illustrates this with the high wages of 'coal-heavers in London' whose work is hard, nasty, dirty, and—because of 'the unavoidable irregularity in the arrivals of coal-ships'—inconstant. Despite the high wages, there is no great competition for that job.]

The constancy or inconstancy of employment cannot affect the ordinary profits of stock in any particular trade. Whether the stock is constantly employed depends not on the trade but on the trader.

(d) The wages of labour vary according to how much trust must be placed in the workmen.

Because of the precious materials entrusted to them, goldsmiths and jewellers are everywhere paid higher wages than are many other workmen whose level of delicate skill is much higher than theirs. We trust our health to the physician, our fortune—and sometimes our life and reputation—to the lawyer and attorney. Such confidence couldn't safely be placed in people of a very mean or low condition [Smith's phrase]. So their reward must give them the rank in the society that such an important trust requires. The long time and great expense required for their education, when combined with this circumstance, necessarily raises still further the price of their labour.

When someone employs only his own stock in trade, there is no trust; and the credit he may get from other people depends not on the nature of the trade but on their opinion of his fortune, probity and prudence. So the different rates of profit in the different branches of trade cannot arise from the different degrees of trust placed in the traders.

(e) The wages of labour in different employments vary according to the probability of success in them.

The probability that any particular person will ever be qualified for the employment he is educated for is very different in different occupations. In most mechanic trades success is almost certain; but it is very uncertain in the liberal professions. Apprentice your son to a shoemaker, there's little doubt of his learning to make a pair of shoes; but send him to study the law, it's at least 20:1 against his ever reaching proficiency that will enable him to live by that business. In a perfectly fair lottery, those who draw the prizes ought to gain all that is lost by those who draw the blanks. In a profession where twenty fail for one that succeeds, that one ought to gain all that should have been gained by the unsuccessful twenty [apparently meaning 'that would have been gained by them if they had been successful'; but it would fit the argument better if it meant 'all that they spent on their legal education']. The counsellor at law who begins to make something by his profession when he is nearly 40 years old

ought to receive the retribution [see Glossary] not only of his own tedious and expensive education but of that of more than twenty others who are never likely to make anything by it. However extravagant the fees of counsellors at law may sometimes appear, their real retribution is never equal to this. Compute, in any particular place, **(i)** what is likely to be annually gained and **(ii)** what is likely to be annually spent, by all the workmen in any common trade such as that of shoemakers or weavers, and you will find that **(i)** the former sum will generally exceed **(ii)** the latter. But make the same computation with regard to all the counsellors and students of law in all the Inns of Court and you will find that their annual gains are only a very small fraction of their annual expense, even if you rate the former as high and the latter as low as you reasonably can. So the lottery of the law is far from being a perfectly fair lottery. Like many other liberal and honourable professions, law is in monetary terms obviously underpaid.

Yet those professions keep their level with other occupations; and despite these discouragements all the most generous [see Glossary] and liberal spirits are eager to crowd into them. Two causes contribute to recommend them. First, the desire for the reputation that comes with superior excellence in any of them; and secondly, the natural confidence that every man has, more or less, not only in his own abilities but in his own good luck.

Excelling in a profession in which few get as high as mediocrity is the most decisive mark of what is called 'genius' or superior talents. The public admiration that comes with such distinguished abilities is always a part of their reward. . . . It is a considerable part of that reward in the medical profession; a still greater part perhaps in that of law; and in poetry and philosophy it is almost the whole reward.

There are some very agreeable and beautiful talents the possession of which commands a certain sort of admiration, but of which the exercise for the sake of gain is considered—whether from reason or prejudice—to be a sort of public prostitution. So the pecuniary recompense of those who exercise such talents in this manner must be sufficient not only •to pay for the time, labour, and expense of acquiring the talents but also •to pay for the discredit that comes with employing them as the means of subsistence. The exorbitant rewards of players, opera-singers, opera-dancers, etc. are based on those two factors: the rarity and beauty of the talents, and the discredit of employing them in this way. It seems absurd at first sight that we should despise their persons yet reward their talents so liberally; but while we do the one we must of necessity do the other. If public opinion or prejudice ever altered regarding such occupations, their pecuniary recompense would quickly shrink. More people would take them up and the competition would quickly reduce the price of their labour. Such talents, though far from being common, are by no means as rare as they are imagined to be. Many people have them in great perfection but disdain to make this use of them; and many more are capable of acquiring them if anything could be honourably earned by them.

·Irrationality about luck·. . .

The over-weening conceit which most men have of their own •abilities is an ancient evil remarked by the philosophers and moralists of all ages. Men's absurd assumption of their own •good fortune has been less taken notice of, yet it is—if possible—even more universal. There is no man living who, when in tolerable health and spirits, doesn't have some share of it. Every man more or less over-values the chance of gain; most men under-value the chance of loss, and hardly anyone who is in tolerable health and spirits over-values it.

The universal success of lotteries shows us that the chance of gain is naturally overvalued. There never was and never will be a perfectly fair lottery, i.e. one in which the whole gain equalled the whole loss; because the undertaker [see Glossary] could make nothing by it. In state lotteries, the tickets are really not worth the price the original subscribers pay for them, and yet they commonly sell in the market for anything up to a 40% mark-up. The vain hope of gaining some of the great prizes is the sole cause of this demand. The soberest people hardly look on it as folly to pay a small sum for the chance of gaining £10,000 or £20,000, though they know that even that small sum is perhaps 20% or 30% more than the chance is worth. In a lottery where no prize exceeded £20, though in other respects it came closer to being perfectly fair than the common state lotteries, there wouldn't be the same demand for tickets. In order to have a better chance for some of the great prizes, some people purchase several tickets; and others purchase small shares in a still greater number. But there is no more certain proposition in mathematics than that the more tickets you adventure on the more likely you are to be a loser. Adventure on all the tickets in the lottery and you lose for certain! And the more tickets you buy the nearer you approach to this certainty.

That the chance of loss is often undervalued and almost never overvalued is shown by the very moderate profit of insurers. In order to make insurance a trade at all, the common premium must be sufficient to •compensate for the common losses, •pay the expense of management, and •provide a profit such as might have been drawn from that much capital employed in any common trade. The person who pays no more than this obviously pays no more than the *real value* of the risk, i.e. the lowest price at which he can reasonably expect to insure it. But though many people have made a little money by insurance, very few have made a large fortune; and this fact alone shows that the ordinary balance of profit and loss is not more advantageous in insurance than in other common trades by which so many people make fortunes. Moderate as the premium of insurance commonly is, however, many people despise the risk too much to care to pay it. Across the whole united Kingdom 95% or perhaps 99% of the houses are not insured against fire. Sea-risk is more alarming to most people; and the proportion of ships insured to those not insured is much greater, though many sail at all seasons, and even in time of war, without any insurance. This may sometimes be done without any imprudence: when a large company or even a large merchant has twenty or thirty ships at sea, they can insure one another, so to speak. The premium saved on them all may more than make up for such losses as they are likely to meet with in the ordinary course of events. In most cases, though, the neglect of insurance on shipping—like the neglect of insurance on houses—arises not from any such precise calculation but from mere thoughtless rashness and presumptuous contempt [see Glossary] of the risk.

·. . . ESPECIALLY AMONG THE YOUNG·

The contempt of risk and the presumptuous hope of success are in no period of life more active than at the age when young people choose their professions. How little the fear of misfortune is then capable of balancing the hope of good luck shows even more clearly in •the readiness of the common people to enlist as soldiers or to go to sea than in •the eagerness of those higher up the social scale to enter into the so-called 'liberal professions'.

What a common soldier may lose is obvious enough. Without regarding the danger, however, young volunteers never enlist so readily as at the beginning of a new war;

and though they have almost no chance of promotion they fantasize about a thousand occasions of acquiring honour and distinction, occasions that never occur. These romantic hopes make the whole price of their blood. Their pay is less than that of common labourers, and in actual service their work is much harder and more exhausting.

The lottery of the sea is not quite as disadvantageous as that of the army. The son of a creditable labourer or artificer may often go to sea with •his father's consent; but if he enlists as a soldier it is always without •it. Other people see some chance of his making something by the sailor's trade; nobody but himself sees any chance of his making anything by the soldier's. The great admiral is less the object of public admiration than the great general; and the highest success in the sea service promises a less brilliant fortune and reputation than equal success in the land. The same difference runs through all the lower levels of promotion in both. By the rules of precedence a captain in the navy ranks with a colonel in the army; but he doesn't rank with him in the common estimation. Because the large prizes in the lottery are less, the smaller ones must be more numerous; so common sailors get some fortune and promotion more often than common soldiers do; and the hope of those prizes is what principally recommends the trade. [Smith gives details of how, and by how much, the common sailor is worse off than the common labourer.]

The dangers and hair-breadth escapes of a life of adventures, instead of disheartening young people, seem often to recommend a trade to them. A tender mother is often afraid to send her son to school at a sea-port town, for fear that the sight of the ships and the conversation and adventures of the sailors should entice him to go to sea. The distant prospect of dangers from which we can hope to extricate ourselves by courage and skill is not disagreeable to us, and doesn't raise the wages of labour in any employment. It is otherwise with dangers against which courage and skill can be of no avail. In trades that are known to be very unhealthy the wages of labour are always remarkably high. Unhealthiness is one sort of •disagreeableness, and its effects on the wages of labour are to be classified under •that general heading.

In all the different employments of stock, the ordinary rate of profit varies roughly with the certainty or uncertainty of the returns. These are generally less uncertain in inland than in foreign trade, and in some branches of foreign trade than in others, e.g. in the trade to North America than in trade to Jamaica. The ordinary rate of profit always rises with the risk, but it doesn't seem to rise in proportion to it, i.e. so as to make up for it completely. Bankruptcies are most frequent in the most hazardous trades. The most hazardous of all trades is that of a smuggler; when the adventure succeeds, it is the most profitable trade, but over-all smuggling is the infallible road to bankruptcy. The presumptuous hope of success seems to act here as it does everywhere, enticing so many adventurers into those dangerous trades that their competition reduces the profit below what is sufficient to make up for the risk. . . .

The difference between the earnings of a common labourer and those of a well employed lawyer or physician is obviously much greater than that between the ordinary profits in any two branches of trade. The *apparent* difference in the profits of different trades is generally a deception, arising from our not distinguishing what ought to be considered as wages from what ought to be considered as profit. ·I shall explain this.·

'Apothecaries' profit' has become a byword, a way of saying that something is uncommonly extravagant. This great apparent profit, however, is often merely the reasonable wages of labour. The skill of an apothecary [= 'pharmacist'] is

a much more precise and delicate matter than that of *any* artificer, and the trust placed in him is of much greater importance. He is the physician of the poor in all cases, and of the rich when the distress or danger is not very great. His reward therefore ought to be suitable to his skill and his trust, and it arises generally from the price at which he sells his drugs. All the drugs that the best employed apothecary in a large market-town sells in a year may not cost him above £30 or £40. If he sells them for 300% or 400% or 1000% profit, this may often be no more than the reasonable wages of his labour, charged in the only way in which he can charge them, namely on the price of his drugs. Most of the apparent profit is real wages disguised as profit.

In a small sea-port town, a little grocer will make 40% or 50% on a stock of £100, while a considerable wholesale merchant in the same place will scarce make 8% or 10% on a stock of £10,000. The trade of the grocer may be necessary for the convenience of the inhabitants, and the narrowness of the market may not admit the employment of a larger capital in the business. But the man must not only live by his trade but live by it suitably to the qualifications it requires. Besides having a little capital, he must be able to read, write, and keep accounts, and must be a tolerable judge of fifty or sixty sorts of goods, their prices, qualities, and the markets where they are to be had cheapest. In short, he must have all the knowledge that a great merchant needs; all that hinders him from becoming a great merchant is his lack of sufficient capital. £30 or £40 a year can't be considered as too large a recompense for the labour of such an accomplished person. Deduct this from the seemingly large profits of his capital and little more will remain, perhaps, than the ordinary profits of stock. This is another case where most of the apparent profit is real wages.

[After a long paragraph on the grocery trade in London and in 'small towns and country villages', comparing and contrasting the profit (real and apparent) in the two locales, Smith continues:]

Though the profits of stock in the wholesale and retail trades are generally less in London than in small towns and country villages, large fortunes are often acquired from small beginnings in the former and hardly ever in the latter. In small towns and country villages, because of the smallness of the market, trade can't always be extended as stock extends. In such places, therefore, though the •rate of a person's profits may be high their •amount can never be very great. . . . In large towns, on the other hand, trade can be extended as stock increases, and the •credit of a frugal and thriving man increases even faster than his •stock. His trade is extended in proportion to the amount of both; and the amount of his profits is in proportion to the extent of his trade, and his annual accumulation in proportion to the amount of his profits. It seldom happens, however, that even in large towns any regular, established, and well-known branch of business makes a great fortune except through a long life of industry, frugality, and attention. Sudden fortunes are sometimes made in such places by the trade known as 'speculation'. The speculative merchant doesn't pursue any one regular, established, or well-known branch of business; he is a corn merchant this year, a wine merchant the next, and a sugar, tobacco, or tea merchant the year after. He enters into any trade when he foresees that it is likely to be more than commonly profitable, and he leaves it when he foresees that its profits are likely to return to the level of other trades. So his profits and losses can bear no regular proportion to those of any one established and well-known branch of business. A bold adventurer may acquire a considerable fortune by two or three successful speculations, but he's just as likely to lose a fortune by two or three unsuccessful ones. . . .

The five circumstances **(a)**–**(e)** that I have listed, though they bring about considerable inequalities in

- the wages of labour and profits of stock,

don't create any inequalities in

- the whole of the advantages and disadvantages (real or imaginary) of the different employments of labour and of stock.

The nature of those circumstances is such that they make up for a small pecuniary gain in some ·employments· and counterbalance a large one in others.

Even where there is the most perfect freedom, however, this equality in over-all advantages and disadvantages can't occur unless three conditions are satisfied, **(i)** The employments must be well known and long established in the neighbourhood; **(ii)** they must be in their ordinary state, or what may be called their 'natural state'; **(iii)** they must be the sole or principal employments of those who occupy them.

(i) This equality can occur only in employments that are well known and have been long established in their neighbourhood.

Other things being equal, wages are generally higher in new trades than in old ones. When a projector [see Glossary] tries to establish a new manufacture, he must first entice workmen from other employments by offering wages that are

- higher than they can earn in their present trades, and
- higher than than the nature of *his* work would otherwise require;

and a considerable time must pass before he can risk reducing them to the common level. Manufactures for which the demand arises entirely from fashion and whim are continually changing, and seldom last long enough to count as old and established. Those for which the demand arises chiefly from use or necessity are less liable to change, and the same products may continue in demand for centuries. So the wages of labour are likely to be higher in manufactures of the former kind than in those of the latter. . . .

The establishment of any new •manufacture, •branch of commerce or •practice in agriculture is always a speculation from which the projector promises himself extraordinary profits. These profits are sometimes very great, and sometimes—more often, perhaps—quite otherwise. . . .

(ii) This equality in the whole of the advantages and disadvantages of the different employments of labour and stock can occur only in the ordinary or 'natural' state of those employments.

The demand for almost any kind of labour is sometimes greater than usual and sometimes less. In the one case the advantages of the employment rise above the common level, in the other they fall below it. The demand for country labour is greater at hay-time and harvest than during most of the yea,; and wages rise with that demand. In time of war, when up to 50,000 sailors are forced from the merchant service into that of the king, the demand for sailors for merchant ships necessarily rises with their scarcity; and their wages, on such occasions, commonly rise enormously. In a declining manufacture, on the other hand, many workmen, rather than quit their own trade, settle for smaller wages than would otherwise be suitable to the nature of their employment.

The profits of stock vary with the price of the commodities in which it is employed. As the price of any commodity rises above the ordinary rate, the profits of at least some of the stock that is employed in bringing it to market rise above their proper level, and as it falls they sink below it. All commodities are liable to variations of price, some more so than others. In all commodities that are produced by human industry, the quantity of industry annually employed is regulated by the annual demand in such a way that the

average annual •product will be as nearly as possible equal to the average annual •consumption. In some employments, I have already observed, the same quantity of industry will always produce nearly the same quantity of commodities: the same number of hands, for example, will produce nearly the same quantity of linen and woollen cloth each year. Variations in the market price of such commodities can arise only from some accidental variation in the demand, as when public mourning raises the price of black cloth. . . . But in some other employments the same quantity of industry will not always produce the same quantity of commodities. The same quantity of industry, for example, will in different years produce very different quantities of corn, wine, hops, sugar, tobacco, etc. The price of such commodities, therefore, varies not only with variations in •demand but with the much greater and more frequent variations in •quantity, and is consequently extremely fluctuating; but the profit of some of the dealers is bound to fluctuate with the price of the commodities. The operations of the speculative merchant are principally employed about such commodities. He tries to buy them up when he foresees that their price is likely to rise, and to sell them when it is likely to fall.

(iii) This equality in the whole of the advantages and disadvantages of the different employments of labour and stock can occur only in ones that are the sole or principal employments of those who occupy them.

When a person derives his subsistence from one employment that doesn't occupy most of his time, in the intervals of his leisure he is often willing to work at another for less wages than would otherwise suit the nature of the employment.

There still subsists in many parts of Scotland a set of people called 'cottagers', who are a sort of out-servants of the landlords and farmers. The usual reward they receive from their master is a house, a small garden for pot-herbs, as much grass as will feed a cow, and perhaps an acre or two of bad ploughable land. When their master needs their labour, he also gives them two pecks of oatmeal a week, worth about 16d. During much of the year he has little or no need for their labour, and the cultivation of their own little possession is not sufficient to fill the time they have at their disposal. When such cottagers were more numerous than they are now, they are said to have been willing to give their spare time to anybody for a very low wage—less than other labourers. They seem in ancient times to have been common all over Europe. In countries that were poorly cultivated and had smaller populations, most landlords and farmers *needed* cottagers if they were to have the extra hands that country labour requires at certain seasons. The daily or weekly payment they occasionally received from their masters was obviously not the whole price of their labour. Their small tenement constituted a considerable part of it. [Smith comments sharply on 'many' recent writers who got this wrong.]

The product of such labour often comes cheaper to market than would otherwise be suitable to its nature. [He illustrates this with the price of stockings and linen in Scotland, which are mostly made] by servants who are chiefly hired for other purposes. . . .

In affluent countries the market is generally so extensive that any one trade is sufficient to employ the whole labour and stock of those who pursue it. It is mainly in poor countries that we find people living by one trade while also getting some little advantage from another. But something of the same kind is to be found in London, the capital of a very rich country. There is no city in Europe, I believe, where house-rent is dearer than it is in London, and yet I know of no other capital city in which a furnished apartment can be hired so cheap!. . . . The expensiveness of house-rent

in London arises not only from the factors that make it expensive in all large capitals, namely the high cost

- of labour,
- of all the materials of building, which must generally be brought from a great distance, and above all
- of ground-rent, with every landlord acting as a monopolist, and often demanding a higher rent for a single acre of bad land in a town than can be had for a hundred of the best in the country;

but also in part from the peculiar manners and customs of the people, which oblige every master of a family to hire a whole house from top to bottom. A 'dwelling-house' in England means everything that is contained under the same roof. In France, Scotland, and many other parts of Europe it often means no more than a single floor. A tradesman in London is obliged to hire a whole house in the part of the town where his customers live. His shop is on the ground floor, and he and his family sleep in the garret; and he tries to pay a part of his house-rent by letting the two middle floors to lodgers. He expects to maintain his family by his trade, not by his lodgers. Whereas in Paris and Edinburgh people who let lodgings have commonly no other means of subsistence, so that the price of the lodging must pay not only the rent of the house but the whole expenditure of the family.

Part 2. Inequalities caused by the policy of Europe

Such are the inequalities in the over-all advantages and disadvantages of the different uses of labour and stock which that are bound to arise when there is a lack in any of the requisites **(i)**–**(iii)** that I have mentioned, even where there is perfect liberty [see Glossary]. But the policy of Europe, by not leaving things at perfect liberty, causes other inequalities of much greater importance.

It does this chiefly in three ways: **(a)** by restraining the competition in some employments to a smaller number than would like to pursue them; **(b)** by increasing it in others beyond what it would naturally be; and **(c)** by obstructing the free circulation of labour and stock from employment to employment and from place to place.

(a) The policy of Europe gives rise to a very important inequality in the over-all advantages and disadvantages of the different employments of labour and stock, by restraining the competition in some employments to a smaller number than would like to pursue them.

The exclusive privileges of corporations are the principal means it makes use of for this purpose.

The exclusive privilege of an incorporated trade restricts the competition, in the town where it is established, to those who are free to pursue the trade. What is commonly required for obtaining this freedom is to have served an apprenticeship in the town under a properly qualified master. The by-laws of the corporation sometimes regulate how many apprentices a master is allowed to have, and almost always regulate how many years each apprentice is obliged to serve. Both regulations are aimed at restricting the competition to a much smaller number than might otherwise be disposed to enter into the trade. . . .

[Smith gives examples of restrictions on the number of apprentices in various trades in various English cities.]

For many years the usual required duration of apprenticeships in most incorporated trades all over Europe seems to have been seven years. All such incorporations used to be called 'universities', which is indeed the proper Latin name for any incorporation whatever. The 'university of smiths', the 'university of tailors' etc. are expressions we commonly find in the old charters of ancient towns. When the particular

incorporations that are now exclusively called 'universities' were first established, the number of years one had to study to obtain the degree of *master of arts* clearly seems to have been copied from the term of apprenticeship in common trades, whose incorporations were much more ancient. Just as in a common trade:

> someone had to work for seven years under a properly qualified master if he was himself to become a master in that trade and have apprentices to work under him,

so also in a university (in our present sense of the word):

> someone had to work for seven years under a properly qualified master if he was himself to become a master, teacher, or doctor (words originally synonymous) in the liberal arts and have scholars or apprentices (words also originally synonymous) to study under him.

By 1563, under Queen Elizabeth, it was enacted that from then on no-one could exercise any trade or craft that was at that time practised in England unless he had previously served an apprenticeship in it of seven years at least; so what had before been the by-law of many corporations became in England the public law of all trades. . . . In practice the law has been limited to market towns, because it has been thought not to be practicable in country villages, which may need one person to practise several trades. . . . The application of this statute has been limited to trades that were established in England before 1563, and has never been extended to ones introduced since then. This has led to some distinctions which, considered as rules of policy, appear as foolish as can be imagined. It has been adjudged, for example, that a coach-maker can neither make his coach-wheels nor employ journeymen to make them, but must buy them from a master wheel-wright; this latter trade having been exercised in England before 1563. But a wheel-wright, without having served an apprenticeship to a coach-maker, may himself make coaches or employ journeymen to make them! Why? Because the trade of coach-maker wasn't exercised in England at the time when the statute was made. The same applies to many of the manufactures of Manchester, Birmingham, and Wolverhampton, for the same reason.

[In France and Scotland, Smith says, rules of apprenticeships are not laws of the land. He concludes:] I know of no country in Europe in which corporation laws are so little oppressive ·as they are in Scotland·.

·Smith's case against having laws of apprenticeship·

The property that every man has in his own labour is the basis of all other property, so that it is the most sacred and inviolable. The inherited wealth of a poor man lies in the strength and dexterity of his hands; and to hinder him from employing this strength and dexterity in whatever way he thinks proper, without injury to his neighbour, is clearly a violation of this most sacred property. It is an open encroachment on the legitimate freedom of the workman and of those who might wish to employ him, hindering one from working at what he thinks proper, and hindering the others from employing whom they think proper. Is he fit to be employed? Answering that, surely, can be trusted to the discretion of the employers, whose interest it so much concerns. The lawgiver's affected anxiety that they might employ an unsuitable person is obviously as impertinent as it is oppressive.

The institution of long apprenticeships can't guarantee that inadequate workmanship won't often be offered for public sale. When this does happen it's generally because of •fraud and not of •inability; and the longest apprenticeship is no guarantee against fraud! Quite different regulations are necessary to prevent this abuse. The sterling mark on

·silver· plate and the stamps on linen and woollen cloth give the purchaser much greater security than any law about apprenticeship. He generally looks at these ·marks· but never thinks it worthwhile to enquire whether the workman served for seven years as an apprentice.

The institution of long apprenticeships has no tendency to make young people industrious. A journeyman who is paid by the piece is likely to be industrious because he gets a benefit from every exertion of his industry. An apprentice is likely to be idle—and almost always is so—because he has no immediate interest in being otherwise. In lower-level employments the pleasures of labour consist solely in what is paid for it. Those who are soonest able to enjoy the pleasures of labour are likely soonest to develop a taste for it and to acquire the early habit of industry. A young man naturally comes to dislike labour when for a long time he receives no benefit from it. . . .

Apprenticeships were unknown to the ancients. The reciprocal duties of master and apprentice figure conspicuously in every modern code, but the Roman law is perfectly silent about them. I think I can say that there is no Greek or Latin word that expresses the idea we now link to the word 'apprentice'. . . .

Long apprenticeships are altogether unnecessary. The arts that are much superior to common trades—e.g. the art of making clocks and watches—contain no mystery requiring a long course of instruction. The first invention of such beautiful •machines must have been the work of deep thought and long time, and may justly be considered as among the happiest efforts of human ingenuity; and the same is true even of some of the •instruments used in making them. But when both have been invented and are well understood, it can't well require more than the lessons of a few weeks to explain *completely* to any young man how to apply the •instruments and how to construct the •machines. A few weeks? Perhaps a few days might be sufficient. In the common mechanical trades a few days might certainly be sufficient. It's true that even in those trades the dexterity of hand can't be acquired without much practice and experience. But a young man would work more diligently and attentively if from the beginning he worked as a journeyman [see Glossary], being paid in proportion to the little work he could complete and paying in his turn for any materials he spoiled through awkwardness and inexperience. This education would generally be more effective, and would always be less tedious and expensive, ·than that of a standard apprenticeship·. The master indeed, would be a loser. He would lose all the wages of the ·journeyman-·apprentice for seven years, wages that he now doesn't have to pay. In the long run the apprentice himself might be a loser. In a trade so easily learned he would have more competitors, so that his wages, when he came to be a complete workman, would be much less than at present. The same increase of competition would also reduce the profits of the masters; the trades and the crafts would all be losers. But the public would be a gainer because in this way the work of all artificers would come much cheaper to market.

·Town versus country·

The aim in establishing all corporations and most corporation laws is to prevent his reduction of price, and consequently of wages and profit, by restraining the free competition that would most certainly cause it. In many parts of Europe in earlier times all that was needed to establish a corporation was the permission of the town-corporate—·the self-governing town·—in which it was established. In England a charter from the king was also needed, but the purpose of this seems to have been to

extort money from the subject rather than to defend the common liberty against oppressive monopolies. . . . The government of towns-corporate was altogether in the hands of traders and artificers, and it was obviously in the interests of every particular class to 'prevent the market from being overstocked', as they commonly express it, which is actually to keep it always understocked. Each class was. . . . obliged to buy the goods they needed from others within the town at a higher price than they otherwise might have had to pay; but in recompense for this they were able to sell their own just as much dearer; so that in the mutual dealings of the different classes **within the town** none were losers by these regulations. But in their dealings with **the country** they were all great gainers; and the whole trade that supports and enriches every town consists in its dealings with the country.

Every town gets from the country its whole subsistence and all the materials of its industry. It pays for these chiefly in two ways:

(i) by sending back to the country a part of those materials in the form of manufactured articles;

(ii) by sending to the country raw materials and manufactured products that have been imported into the town from other countries or from distant parts of the same country.

In the case of **(i)** their price is increased by the wages of the workmen and the profits of their masters or immediate employers; this is the advantage the town gets by its manufactures. In the case of **(ii)** the original price of those goods is increased by the wages of the carriers or sailors, and by the profits of the merchants who employ them; this is the advantage the town gets by its inland and foreign trade. The wages of the workmen and the profits of their various employers make up the whole of what is gained in both. So any regulations that tend to increase those wages and profits tend to enable the town to purchase the product of a quantity of the country's labour with a smaller quantity of its own labour. They give the traders and artificers in the town an advantage over the landlords, farmers, and labourers in the country, and break down the natural equality there would otherwise be in the commerce between them. The whole annual product of the society's labour is annually divided between those two sets of people. those regulations increase the share of it that goes to the inhabitants of towns, at the expense of those who live in the country. . . .

Without needing any complex computations, we may satisfy ourselves by one obvious observation that work done in towns is, everywhere in Europe, more advantageous than work done in the country. Compare •the number of people who have acquired large fortunes from small beginnings through trade and manufactures, the industry that properly belongs to towns, with •the number who have made fortunes through the raising of rude [see Glossary] product by the improvement and cultivation of land, the industry that properly belongs to the country. It is about a hundred to one! So industry must be better rewarded, the wages of labour and the profits of stock must be greater, in towns than in the country. . . .

The inhabitants of a town, being collected into one place, can easily combine together. The most insignificant trades in towns have been incorporated in some place or other; and even where they haven't yet been incorporated, the corporation-*spirit*—the jealousy of strangers, the reluctance to take apprentices or to communicate the secret of their trade—generally prevails in them. They learn how by voluntary associations and agreements to prevent the free competition that they can't prohibit by by-laws. The trades that employ only a few hands enter most easily into such combinations. Half-a-dozen wool-combers, perhaps, are

needed to keep a thousand spinners and weavers at work. By combining not to take apprentices they can not only capture all the employment but reduce the whole manufacture into a sort of slavery to themselves, raising the price of their labour far above what is due to the nature of their work.

·FARMING VERSUS OTHER TRADES·

The inhabitants of the country, dispersed in distant places, cannot easily combine together. Not only have they never been incorporated, but the incorporation spirit never has prevailed among them. No apprenticeship has ever been thought necessary to qualify for husbandry, the great trade of the country. After the fine arts and the liberal professions, however, there is perhaps no trade that requires such a variety of knowledge and experience ·as husbandry does·. The innumerable volumes that have been written on it in all languages can satisfy us that among the wisest and most learned nations it has never been regarded as an easily understood matter. And from all those volumes we can't collect the knowledge of its various and complicated operations that is commonly possessed even by the common farmer, no matter how contemptuously the very contemptible authors of some of those books may sometimes affect to speak of him. There is hardly any common mechanic trade whose operations can't be completely and distinctly explained in a pamphlet of a very few pages. . . . Also, the direction of operations that must be varied with every change of the weather as well as with many other events requires much more judgment and discretion than those that are always near enough to the same.

Not only the art of the farmer (the general direction of the operations of husbandry) but many lower branches of country labour require much more skill and experience than most mechanic trades. The man who works on brass and iron works with instruments, and on materials, whose physical properties are always nearly the same. But the man who ploughs the ground with a team of horses or oxen works with instruments whose health, strength and physical properties are very different at different times. The condition of the *materials that he works on* is as variable as that of the *instruments that he works with*; both have to be managed with much judgment and discretion. The common ploughman, though generally regarded as the pattern of stupidity and ignorance, is seldom defective in this judgment and discretion. He is indeed less accustomed to social intercourse than is the mechanic who lives in a town. His voice and language are more uncouth, and harder for those who are not used to them to understand. But his understanding, being accustomed to consider a greater variety of objects, is generally much superior to that of the urban mechanic workman whose whole attention is commonly occupied in performing one or two simple operations. How much the lower ranks of people in the country are really superior to those of the town is well known to everyone whose business or curiosity has led him to converse much with both. In China and India, accordingly, both the rank and the wages of country labourers are said to be superior to those of most artificers and manufacturers. They would probably be so everywhere if corporation laws and the corporation spirit didn't prevent it.

·OTHER REGULATIONS·

The superiority that the industry of towns in Europe has over that of the country is not altogether owing to corporations and corporation laws. It is supported by many other regulations. The high duties on foreign manufactures, and on all goods imported by alien merchants, all tend to the same purpose. Corporation laws enable the inhabitants

of towns to raise their prices without fear of being undersold by the free competition of their own countrymen, and those other regulations secure them equally against the competition of foreigners. The higher prices caused by both ·kinds of regulations· are eventually paid by the landlords, farmers, and labourers in the country, who have seldom opposed the establishment of such monopolies. They usually have neither the inclination nor the ability to enter into combinations themselves; and the clamour and false logic of merchants and manufacturers easily persuade them that the private interest of a subordinate part of the society is the general interest of the whole.

In Great Britain the superiority of the industry of the towns over that of the country seems to have been greater in earlier times than it is now. The wages of country labour are closer to those of manufacturing labour, and the profits of stock employed in agriculture are closer to those of trading and manufacturing stock, than they are said to have been in the last century or at the start of the present century. This change can be seen as the inevitable—though very *late*—consequence of the extraordinary encouragement given to the industry of the towns. The stocks accumulated in them come to be so great that it can no longer be employed with the former profit in the kind of industry that is exclusive to them. Each industry has its limits; and the increase of stock, by increasing the competition, reduces the profit. The lowering of profit in the town forces stock out into the country, where it creates a new demand for country labour and thus raises its wages. It then spreads itself over the face of the land, and by being employed in agriculture it is in part restored to the country, at whose expense it had in a great measure originally been accumulated in the town. I'll try to show later that

> throughout Europe the greatest improvements of the country have come from such overflows of the stock originally accumulated in the towns,

and at the same time to demonstrate that

> though some countries have in this way reached a considerable level of affluence, the process is in itself necessarily slow, uncertain, liable to be disturbed and interrupted by countless accidents, and in every way contrary to the order of nature and of reason.

The interests, prejudices, laws, and customs that have given rise to it I shall explain as fully and clearly as I can in Books III and IV of this Inquiry.

Whenever people of the same trade meet together, even for pleasure and relaxation, the conversation ends in •a conspiracy against the public, i.e. in •some contrivance to raise prices. Such meetings can't be prevented by any law that could be enforced or would be consistent with liberty and justice. But though the law can't hinder people of the same trade from sometimes getting together, it ought to do nothing to make such assemblies easier to form, much less to make them necessary.

A regulation that obliges all those in the same trade in a town to enter their names and places of residence in a public register does make such assemblies easier to form. It connects individuals who otherwise might never be known to one another, and gives every man in the trade a direction where to find every other man in it.

A regulation that enables those of the same trade to tax themselves, in order to provide for their poor, their sick, their widows and orphans, by giving them a common interest to manage, makes such assemblies necessary.

An incorporation not only makes them necessary but makes the act of the majority binding on the whole. In a *free* trade an effective combination can be established only by

the unanimous consent of all the traders, and it can't last longer than every single trader continues of the same mind. The majority of a corporation can enact a by-law, with proper penalties, which will limit the competition more effectively and more durably than any voluntary combination.

There is no foundation for the claim that that corporations are necessary for the better government of the trade. The real and effective discipline that is exercised over a workman is not that of his corporation but that of his customers. It's the fear of losing their custom that restrains his frauds and corrects his negligence. An exclusive corporation necessarily weakens the force of this discipline ·by dictating that· a particular set of workmen must be employed, however well or badly they behave. That is why in many large incorporated towns no tolerable [see Glossary] workmen are to be found, even in some of the most necessary trades. If you want your work to be tolerably done it must be done in the suburbs, where the workmen—having no exclusive privilege—have nothing but their character to depend on; and you must then smuggle it into the town as well as you can. . . .

(b) The policy of Europe, by *increasing* the competition in some employments beyond what it naturally would be, gives rise to an inequality of an opposite kind in the over-all advantages and disadvantages of the different employments of labour and stock.

·THE PAY OF THE CLERGY·

It has been considered as so important that a proper number of young people should be educated for certain professions that many pensions, scholarships, exhibitions, bursaries, etc. have been established for this purpose, drawing many more people into those trades than could otherwise pursue them. These have sometimes been established by the public and sometimes by the piety of private founders. In all Christian countries, I believe, the education of most churchmen is paid for in this manner, very few being educated entirely at their own expense. So the long, tedious, and expensive education of those who are thus educated won't always get them a suitable reward, the church being crowded with people who, in order to get employment, are willing to accept much lower wages than such an education would otherwise have entitled them to; and in this way the competition of the poor takes away the reward of the rich. It would doubtless be improper to compare a curate or a chaplain with a journeyman in any common trade, but *the pay of* a curate or chaplain may properly be regarded as of the same nature as *the wages of* a journeyman. All three are paid for their work according to the contract they have made make with their respective superiors. [After details about this matter in earlier centuries, Smith continues:] In 1714, under Queen Anne, this became law:

> 'Whereas, for lack of sufficient maintenance and encouragement to curates, the cures have in many places been meanly supplied, the bishop is empowered to appoint. . . .an adequate dependable stipend or allowance, not above £50 and not below £20 a year.'

So £40 a year is currently regarded as very good pay for a curate; and yet, despite this act of parliament, there are many curacies under £20 a year. There are journeymen shoemakers in London who earn £40 a year, and there is hardly an industrious workman of any kind in that metropolis who doesn't earn more than £20, and common labourers in many country parishes earn that much. Whenever the law has tried to regulate the wages of workmen, it has always been to lower rather than to raise them. But the law has often tried to raise the wages of curates, and, for the dignity of the church, to oblige the rectors of parishes to give curates more than the wretched maintenance they themselves might

be willing to accept. In both directions the law seems to have been ineffective, and has never been able to raise the wages of curates or sink those of labourers to the level that was intended. It couldn't hinder curates from accepting less than the legal allowance because of their poverty and the multitude of their competitors, or prevent labourers from receiving more because of the contrary competition of those who expect to get profit or pleasure from employing them.

The great benefices [see Glossary] and other ecclesiastical dignities support the honour of the church, despite the poverty-stricken situation of some of its lower members. The respect paid to the profession also makes some compensation even to them for the meanness of their pay. In England, and in all Roman catholic countries, the lottery of the church is actually much more advantageous than it needs to be. The example of the churches of Scotland, of Geneva, and of several other protestant churches show that in such a creditable profession, in which education is so easily procured, the hopes of much more moderate benefices will draw a sufficient number of learned, decent, and respectable men into holy orders.

·Income in other professions·

In professions that have no benefices, such as law and medicine, if a comparable number of people were educated at the public expense the competition would soon be so great that pecuniary rewards in them would sink greatly. It wouldn't then be worth any man's while to educate his son to either of those professions at his own expense. They would be entirely abandoned to people who had been educated by those public charities—people whose numbers and needs would oblige them in general to settle for a very miserable recompense, to the entire degradation of the now respectable professions of law and medicine.

The unprosperous race of men commonly called 'men of letters' are in pretty much the situation lawyers and physicians would probably be in on the foregoing supposition. Most of them throughout Europe have been educated for the church, but have been hindered by different reasons from entering into holy orders [= 'taking up the church as a profession']. So they have generally been educated at the public expense; and their numbers are so large that the price of their labour is commonly very paltry.

Before the invention of the art of printing, the only way a man of letters could make anything by his talents was as a public or private teacher, i.e. by communicating to other people the curious and useful knowledge that he had acquired himself; and this is still surely a more honourable, more useful, and in general more *profitable* activity than writing for a publisher, the employment to which the art of printing has given rise. The time and study, the genius [see Glossary], knowledge, and application required to qualify an eminent teacher of the sciences are at least equal to what is needed for the greatest practitioners in law and medicine. But the usual reward of the eminent teacher is not comparable with that of the lawyer or physician, because the teacher's trade is crowded with poor people who have been brought up to it at the public expense, whereas law and medicine are relatively free of practitioners who haven't been educated at their own. But the usual pay of public and private teachers, small as it may appear, would undoubtedly be even smaller if the competition of those even more poverty-stricken men of letters—the ones who write for their living—weren't taken out of the market. Before the invention of printing, 'scholar' and 'beggar' seem to have been nearly synonymous: the governors of the universities back then appear to have often granted licences to their scholars to beg!

[Smith now has a paragraph about teachers in ancient Greece, 'before any charities of this kind had been established for the education of indigent people to the learned professions'; their the income and social standing, he reports, were much higher than throughout Europe in his time.]

This inequality may on the whole be advantageous rather than hurtful to the public. It may somewhat degrade the profession of a public teacher; but the cheapness of literary education is surely an advantage that greatly outweighs this minor inconvenience. The public might derive still greater benefit from it if the constitution of the schools and colleges in which education is carried on were more reasonable than it is at present throughout most of Europe.

(c) The policy of Europe, by obstructing the free circulation of labour and stock •from employment to employment and •from place to place sometimes causes a very unsatisfactory inequality in the over-all advantages and disadvantages of their different employments.

The statute of apprenticeship obstructs the free circulation of labour from one employment to another, even in the same place. The exclusive privileges of corporations obstruct labour from going from one place to another, even in the same employment.

It often happens that while high wages are paid to the workmen in one manufacture, those in another have to settle for bare subsistence. One is advancing, and has therefore a continual demand for new hands; the other is declining, and its surplus of hands is continually increasing. Those two manufactures may be in the same town, even in the same neighbourhood, without being able to give the least help to one another, because of the statute of apprenticeship and an exclusive corporation. In many different manufactures, however, the operations are so much alike that the workmen could easily change trades with one another if those absurd laws didn't block them. For example: the arts of weaving plain linen and weaving plain silk are almost entirely the same. The art of weaving plain woollen is somewhat different; but the difference is so insignificant that a linen or silk weaver could become a tolerable weaver of wool in a few days. If any of those three manufactures were declining, therefore, its workmen could find a resource in one of the other two that was in a more prosperous condition; and their wages wouldn't rise too high in the thriving manufacture or sink too low in the declining one. By a special law in England the manufacture of linen is open to everyone; but it isn't much cultivated through most of the country, so it isn't in general a resource for the workmen of other declining manufactures. These, wherever the statute of apprenticeship is in force, have no choice but either •to come on the parish [see Glossary] or •to work as common labourers, for which they are much worse qualified than for any sort of manufacture that is at all like their own. So they generally choose to come on the parish.

Anything that obstructs the free circulation of labour from one employment to another similarly obstructs the movement of stock, because the quantity of stock that can be employed in any branch of business greatly depends on the quantity of labour that can be employed in it. But corporation laws give less obstruction to the free circulation of stock from one place to another than to that of labour. It is always much easier for a wealthy merchant to obtain the privilege of trading in a town-corporate than for a poor artificer to obtain the privilege of working in it.

·AGAINST THE POOR LAWS·

The obstruction which corporation laws give to the free circulation of labour is common, I believe, to every part of Europe. That which is given to it by the poor laws is, so far as

I know, exclusive to England. It consists in the difficulty that a poor man finds in being allowed to exercise his industry in any parish but the one he belongs to. Corporation laws obstruct the free circulation only of the labour of artificers and manufacturers; the poor laws obstruct even that of common labour. It may be worthwhile to give some account of the rise, progress, and present state of this disorder, which may be the greatest of any in the policy of England.

When by the destruction of monasteries the poor had lost the charity of those religious houses. . . ., it was enacted in 1601 under Queen Elizabeth that every parish should be bound to provide for its own poor, and that overseers of the poor should be annually appointed who would raise, by a parish rate, competent sums for this purpose.

[Smith now devotes three or four pages to reporting what ensued from this. It obviously became important for each parish to know who to count as *its own* poor; there were barriers to a potentially poor person coming to live in a parish, i.e. having 'settlement' there; there were illegal subterfuges aimed at getting a potentially poor person to leave his parish; there came to be further laws trying—and utterly failing—to make settlement easier to get while still keeping it under control. At the end of this distressing narrative:]

The scarcity of hands in one parish, therefore, can't always be relieved by the excess of them in another, as it is constantly in Scotland, and I believe in all other countries where there is no difficulty of *settlement*. In such countries, though wages may sometimes rise a little in the neighbourhood of a large town or wherever else there is an extraordinary demand for labour, and sink gradually as the distance from such places increases until they fall back to the common rate of the country; yet we never meet with those sudden and unaccountable differences in the wages of neighbouring places that we sometimes find in England, where it is often harder for a poor man to pass the artificial boundary of a parish than to cross an arm of the sea or a ridge of high mountains, *natural* boundaries that sometimes separate different rates of wages in other countries.

To remove a man who has committed no misdemeanour from the parish where he chooses to live is an obvious violation of natural liberty and justice. Yet the common people of England have now for more than a century allowed themselves to be exposed to this oppression without a remedy. They are protective of their liberty, but like the common people of most other countries they don't rightly understand what liberty consists in. Though reflective men have sometimes complained of the law of settlements as a public grievance, it has never been the object of any general popular clamour like the protests against general warrants—an abusive practice undoubtedly, but not one likely to case any *general* oppression. There is hardly a poor 40-year-old man in England, I will venture to say, who hasn't at some time felt himself cruelly oppressed by this ill-contrived law of settlements.

[The chapter ends with two pages on attempts to control wages and/or prices by law. No such law brought any advantages to the public, Smith says; some brought advantages to 'the masters' and few were helpful to 'the workers'. Such attempts 'have now gone entirely into disuse'.]

Chapter 11. The rent of land

Rent, considered as the price paid for the use of land, is naturally the highest the tenant can afford to pay in the actual circumstances of the land. In adjusting the terms of the lease, the landlord tries to leave the tenant no greater share of the product than

- what is sufficient to keep up the stock from which he furnishes the seed, pays the labour, and purchases and maintains the animals and other instruments of husbandry

together with

- the ordinary profits of farming stock in that neighbourhood.

This is obviously the smallest share the tenant can settle for without being a loser, and the landlord seldom means to leave him any more. Whatever part of the product—i.e. whatever part of its price—is over and above this share the landlord naturally tries to reserve to himself as the rent of his land, which is obviously the highest the tenant can afford to pay in the actual circumstances of the land. Sometimes the landlord's liberality (or more often his ignorance) makes him accept somewhat less than this portion; and sometimes, though more rarely, the tenant's ignorance makes him undertake to pay somewhat more, i.e. to settle for somewhat less than the ordinary profits of farming stock in the neighbourhood. But this portion can still be considered as the *natural* rent of land, i.e. the rent at which land is naturally meant to be let for.

The rent of land, it may be thought, is often merely a reasonable interest or profit on the stock laid out by the landlord on the land's improvement. No doubt this is part of the story on some occasions, but it can hardly ever be the whole story. The landlord demands a rent even for unimproved land, and the supposed interest or profit on the expense of improvement is generally an addition to this original rent. Furthermore, those improvements are sometimes made not by the landlord's stock but sometimes by the tenant's, though when the lease comes to be renewed the landlord commonly demands the same increase of rent as if they had been all made by his own stock.

He sometimes demands rent for what is altogether incapable of human improvements. Kelp is a kind of seaweed which when burnt yields an alkaline salt that is useful for making glass, soap, and for several other purposes. It grows in several parts of Great Britain, particularly in Scotland, only on such rocks that lie below the high-water mark—rocks that are covered by the sea twice a day, so that their product was never increased by human industry! But the landlord whose estate is bounded by a kelp shore of this kind demands a rent for it as much as for his corn-fields.

The sea around the Shetland islands is more than commonly abundant in fish, which makes a great part of the subsistence of their inhabitants. But to profit by the product of the water they must have somewhere to live on the neighbouring land. The landlord's rent is in proportion not to what the farmer can make by the land but to what he can make both by land and water. It is partly paid in sea-fish. . . .

So the rent of land, considered as the price paid for the use of the land, is naturally a *monopoly* price. It is not at all based on what the landlord has spent on improving the land, or on what he can afford to take, but on what the farmer can afford to pay.

Usually the only parts of the product of land that can be brought to market are ones whose ordinary price is sufficient to replace the stock that must be employed in bringing them there together with that stock's ordinary profits. If the ordinary price is more than this, the surplus part of it will naturally go to the rent of the land. If it is not more, the commodity may still be brought to market but it can't provide rent to the landlord. How high the price is depends on the demand.

There are some parts of the product of land for which the demand must always be such as to make their price more than what is needed to bring them to market; and there are

others for which the demand may but may not provide this greater price. The former must always yield a rent to the landlord. The latter sometimes does and sometimes doesn't, according to the circumstances.

So rent enters into the composition of the price of commodities in a different way from wages and profit. High or low wages and profit are *causes* of high or low price; high or low rent is an *effect* of it. High or low wages and profit must be paid to bring a commodity to market; that is why its price is high or low. Its price may be much higher, a little higher, or not at all higher than what is needed to pay those wages and profit; that is why it provides a high rent, or a low rent, or no rent at all.

I shall divide this chapter into three parts, looking in detail into **(1)** the parts of the product of land that always provide some rent; **(2)** those which sometimes do and sometimes don't provide rent; and **(3)** the variations that naturally occur in the relative value of those two sorts of rude product when compared with one another and with manufactured commodities.

Part 1. The product of land that always provides rent

Because men like all other animals naturally multiply in proportion to their means of subsistence, food is always more or less in demand. It can always purchase a greater or smaller quantity of labour, and somebody can always be found who is willing to do something to obtain it. The quantity of labour it can purchase is not always equal to what it could maintain if managed in the most economical manner, because high wages are sometimes given to labour; but it can always purchase a quantity of labour that it could maintain according to the rate at which that sort of labour is commonly maintained in the neighbourhood in question.

But land in almost any situation produces more food than is sufficient to maintain all the labour needed to bring it to market, however liberally that labour is paid. The surplus, too, is always more than enough to replace the stock that employed that labour, together with its profits. So there is always something left over for a rent to the landlord.

The most barren moors in Norway and Scotland produce some sort of pasture for cattle, of which the •milk and the •increase are always more than enough

- •to maintain all the labour needed for tending them,
- •to pay the ordinary profit to the farmer or the owner of the herd or flock, and
- •to provide some small rent to the landlord.

The rent increases in proportion to the goodness of the pasture. ·With better pasture· the same area maintains more cattle and—because they can be brought closer together—requires less labour to tend them and collect their product. The landlord gains both ways: by the increase of the product, and by the lessening of the labour that must be maintained out of it.

The rent of land varies not only with its fertility but with its situation. Land near a town gives a greater rent than equally fertile land in a distant part of the country, because it must always cost more labour to bring the product of the distant land to market. So more labour must be maintained out of it, which reduces the surplus from which the profit of the farmer and the rent of the landlord both come. But in remote parts of the country the rate of profit (as I have shown) is generally higher than in the neighbourhood of a large town; so the reduction of the surplus must primarily affect the landlord.

Good roads, canals, and navigable rivers reduce the expense of transport, putting the remote parts of the country more nearly on a level with regions near towns. That is why

they are the greatest of all improvements. They encourage the cultivation of the parts of the countryside that are remote from the towns, which must always be most of it. They are advantageous to the town by breaking down the monopoly of the countryside immediately around it. They are advantageous even to that part of the countryside: though they introduce some rival commodities into the old market, they open many new markets to its product. Anyway, monopoly is a great enemy to good management, because the only way •good management can be universally established is through free and universal competition which forces everyone to have recourse to •it in self-defence. Not more than 50 years ago some of the counties in the neighbourhood of London petitioned the parliament against the extension of turnpike roads into the remoter counties. Those remoter counties, they claimed, would be able (because of the cheapness of their labour) to sell their grass and corn cheaper in the London market than they could, thereby reducing their rents and ruining their cultivation. Their rents, however, have risen and their cultivation has been improved since that time.

A corn field of moderate fertility produces much more food for man than the best pasture of the same size. Its cultivation requires much more labour ·than pasture does·, but the surplus that remains after replacing the seed and maintaining all that labour is likewise much greater. If a pound of butcher's meat, therefore, was never taken to be worth more than a pound of bread, this greater surplus would everywhere be of greater value and constitute a greater fund for the profit of the farmer and the rent of the landlord. It seems to have done so universally in the primitive beginnings of agriculture.

But the comparative values of •bread and •butcher's meat are very different in the different periods of agriculture. In its primitive beginnings, the unimproved wilds—constituting most of the country—are all abandoned to cattle [see Glossary]. There is more butcher's meat than bread; so bread is the food for which there is the greatest competition, and which consequently brings the greatest price. [He reports that in Buenos Aires not long ago 'an ox cost little more than the labour of catching him'.] But corn can't be raised anywhere without a great deal of labour; and in a country that lies on the river Plate, at that time the direct road from Europe to the silver-mines of Potosi, the money-price of labour could be very cheap. It is otherwise when cultivation is extended over most of the country. There is then more bread than butcher's meat. The competition changes its direction and butcher's meat costs more than bread.

Because of the spread of cultivation, the unimproved wilds become insufficient to supply the demand for butcher's meat. A great part of the cultivated lands must be employed in rearing and fattening cattle; the price of which must therefore be sufficient to pay not only •the labour needed for tending them but also •the rent that the landlord and the profit that the farmer could have derived from such land if it had been used for growing crops such as corn. The cattle bred on the most uncultivated moors are, in proportion to their weight or goodness, sold in the market at the same price as ones that are reared on the most improved land. The proprietors of those moors profit by this, and raise the rent of their land in proportion to the price of their cattle. Not more than a century ago butcher's meat in many parts of the Highlands of Scotland was at least as cheap as bread—even bread made of oatmeal. The Union ·of England with Scotland in 1707· opened the market of England to the Highland cattle. Their ordinary price today is about three times greater than at the beginning of the century, and the rents of many Highland estates have tripled and quadrupled

in the same time. Almost everywhere in Great Britain a pound of the best butcher's meat is at present generally worth more than two pounds of the best white bread; and in plentiful years it is sometimes worth three or four pounds.

That is how it happens that in the progress of improvement the rent and profit of •unimproved pasture come to be partly regulated by the rent and profit of •what is improved, and these again by the rent and profit of •corn. Corn is an annual crop; butcher's meat is a crop requiring four or five years to grow. Therefore; because an acre of land will produce much less of one of these sorts of food than of the other, the inferiority in quantity must be made up for by the superiority of the price. If it was more than made up for, more corn-land would be turned into pasture; and if it was not made up for, part of what was in pasture would be brought back into corn.

But this equality between the rent and profit of grass and those of corn—of the land whose immediate product is food for cattle and land whose immediate product is food for men—occurs only through *most* of the improved lands of a large country. In some particular local situations it is quite otherwise, and the rent and profit of grass are much superior to what can be made by corn.

Thus, in the neighbourhood of a large town the demand for milk and for forage for horses often combine with the high price of butcher's meat to raise the value of grass above what may be called its 'natural proportion' to that of corn. Obviously this local advantage can't be passed on to the lands at a distance.

Particular circumstances have sometimes made some whole countries so populous that their entire territory—like the lands near a large town—hasn't been sufficient to produce both the grass and the corn needed for the subsistence of the population. Their lands, therefore, have been mainly used to produce grass, the more bulky commodity that can't so easily be brought from a great distance; and corn, the food of most of the people, has been chiefly imported from foreign countries. Holland is at present in this situation; and a considerable part of ancient Italy seems to have been so during the prosperity of the Romans. [He goes into some details about the evidence for the latter claim.]

Also, in an open countryside whose principal product is corn, a well-enclosed piece of grass will often rent higher than any corn-field in its neighbourhood. [An 'enclosed' territory has a fence or wall around it.] It is convenient for the maintenance of the livestock employed in the cultivation of the corn; and strictly speaking its high rent is paid not from the value of its own product but from that of the corn lands that are cultivated by means of it. It is likely to fall if ever the neighbouring lands are completely enclosed. The present high rent of enclosed land in Scotland seems to be due to the scarcity of enclosure, and will probably last no longer than that scarcity. The advantage of enclosure is greater for pasture than for corn. It saves the labour of guarding the cattle, and they feed better when they are not liable to be disturbed by their keeper or his dog.

But where there's no local advantage of this kind, the rent and profit of corn—or whatever else is the common vegetable food of the people—must naturally regulate, on the land that is fit for producing it, the rent and profit of pasture.

The use of the artificial grasses, of turnips, carrots, cabbages, and the other expedients that have been resorted to in an attempt to make a given stretch of land feed more cattle than ·it could· when in natural grass, might be expected to reduce somewhat the superiority that the price of butcher's meat naturally has over that of bread in an improved country. And it seems indeed to have done so. There is some reason to believe that at least in the London market the price of

butcher's meat, in comparison to the price of bread, is a good deal lower today than it was at the beginning of the last century.

[Smith now devotes more than a page to presenting evidence regarding this. Then:]

In all large countries most of the cultivated land is used in producing food either for men or for cattle. The rent and profit of this land regulates the rent and profit of all other cultivated land. If any particular product provided less, the land would soon be turned into corn or pasture; and if any provided more, some part of the land in corn or pasture would soon be turned to that product.

Productions that require **(a)** a greater original expense of improvement or **(b)** a greater annual expense of cultivation in order to fit the land for them, often seem to provide **(a)** a greater rent or **(b)** a greater profit than corn or pasture. This superiority, however, usually amounts to no more than a reasonable interest or compensation for this superior expense.

In a hop garden, a fruit garden, a kitchen garden, the landlord's rent and the farmer's profit are generally greater than in a corn or grass field. But it costs more to bring the ground into this condition, so a greater rent is due to the landlord. It also requires a more attentive and skilful management, so a greater profit is due to the farmer. Furthermore, the crop—at least in the hop and fruit garden—is more precarious. So its price, besides compensating for all occasional losses, must provide something like the profit of insurance. The circumstances of gardeners, generally poor and never luxurious, may satisfy us that their great ingenuity is not commonly over-rewarded. Their delightful art is practised by so many rich people as a pastime that not much can be made out of it by those who practise it for profit; because the persons who would naturally be their best customers supply themselves with all their most precious productions.

The advantage that the landlord gets from such improvements seems never to have been more than enough to compensate for the original expense of making them. In the ancient world a well-watered kitchen garden seems to have been the part of the farm that was supposed to yield—after the vineyard—the most valuable product. But Democritus, who wrote on husbandry about 2000 years ago and was regarded by the ancients as one of the fathers of the art, thought it unwise to enclose a kitchen garden. The profit, he said, would not make up for the expense of a stone wall; and bricks. . . .required continual repairs. Columella ([writing four centuries later]) reports this judgment of Democritus and doesn't quarrel with it, but proposes a very frugal method of enclosing ·a garden· with a hedge of brambles and briars. He reports finding this to be a lasting and impenetrable fence; but it seems not to have been commonly known in the time of Democritus. Palladius ([another four centuries on]) adopts Columella's opinion. Those ancient improvers seem to have regarded the product of a kitchen garden as little more than enough to pay for the special culture and the expense of watering. . . . Through most of Europe today a kitchen garden is not supposed to deserve a better enclosure than the one recommended by Columella. In Great Britain and some other northern countries the finer fruits can be brought to perfection only with the help of a wall. Their price in such countries must therefore be enough to repay the expense of building and maintaining what they have to have. The fruit-wall often surrounds the kitchen garden, which thus enjoys the benefit of an enclosure that its own product could seldom pay for.

It seems to have been an undoubted maxim in ancient agriculture, as it is in modern agriculture through all the

wine countries, that the vineyard, when properly planted and brought to perfection, is the most valuable part of the farm. But we learn from Columella that the ancient Italian husbandmen disputed over whether it was advantageous to plant a new vineyard. He decides, like a true lover of all cultivation that requires high skill, in favour of the vineyard; and tries to show by comparing profit with expense that it was a most advantageous improvement. However, such comparisons between the profit and expense of new projects are commonly very fallacious, and nowhere more so than in agriculture. If the gain actually made by such plantations had commonly been as large as Columella imagined, there could have been no dispute about it! The same question is often, still today, a matter of controversy in the wine countries. Their writers on agriculture—lovers and promoters of high cultivation—seem generally disposed to side with Columella in favour of the vineyard. In France the proprietors of the old vineyards are anxious to prevent the planting of any new ones; and that seems to favour the writers' opinion, indicating that those who must have the relevant experience are aware that this kind of cultivation is at present in France more profitable than any other. But it seems also to indicate the opinion that this superior profit can last no longer than the laws that currently restrain the free cultivation of the vine. In 1731 they obtained an order of council prohibiting •the planting of new vineyards and •the renewing of old ones whose cultivation had been interrupted for two years [except under special very restrictive conditions]. The reason given for this order was the scarcity of corn and pasture and the superabundance of wine. But if the superabundance had been real, that would—without any order of council!—have prevented the plantation of new vineyards by reducing the profits of this kind of cultivation below their natural proportion to the profits of corn and pasture. As for the supposed scarcity of corn caused by the multiplication of vineyards: nowhere in France is corn more carefully cultivated than in the wine provinces, where the land is fit for producing it. . . . The numerous hands employed in the one kind of cultivation necessarily encourage the other by providing a ready market for its product. To reduce the number of those who are capable of paying for it is surely a most unpromising device for encouraging the cultivation of corn. It is like trying to promote agriculture by discouraging manufactures!. . . .

It sometimes happens that the quantity of land that can be fitted for some particular product is too small to supply the effectual demand [that phrase is explained on page 22]. The whole product can be disposed of to customers who are willing to pay somewhat more than what is sufficient to pay for the whole rent, wages, and profit involved in raising it and bringing it to market, according to their natural rates, i.e. the rates at which they are paid for in most other cultivated land. The surplus part of the price that remains after all this naturally goes mostly to the rent of the landlord; and in this case, and *only* in this case, it need bear no regular proportion to the similar surplus in corn or pasture, but may exceed it by almost any amount.

The usual and natural proportion between the rent and profit of wine and the rent and profit of corn and pasture must be understood to occur only with regard to vineyards that produce nothing but good common wine such as can be raised almost anywhere, on any light, gravelly, or sandy soil—wine that has nothing to recommend it but its strength and wholesomeness. It is with such vineyards only that the common land of the country can come into competition; with vineyards that have a unique quality it obviously cannot.

The vine is more affected by the difference of soils than any other fruit-tree. From some it gets a flavour which, it is supposed, no culture or management can equal on any other

soil. This real or imaginary flavour is sometimes exclusive to the product of a few vineyards; sometimes it extends through most of a small district, and sometimes through much of a large province. The whole quantity of such wines that is brought to market falls short of the effectual demand,. . . .and thus can be sold at prices above that of common wine. How big the difference is depends on how eager the buyers have been made by the fashionableness and the scarcity of the ·high-quality· wine. Most of that price, whatever it may be, goes to •the landlord's rent. Such vineyards are in general more carefully cultivated than most others, but the high price of the wine seems to be the cause rather than the effect of this careful cultivation. In such a valuable product the loss caused by negligence is so large as to force even the most careless worker to be careful. So a small part of this high price is enough to pay •the wages for the special labour bestowed on their cultivation and •the profits of the extraordinary stock which puts that labour into motion.

[Smith gives another example: 'the brown or muscovada sugars imported from our colonies', which sell in Europe for more than four times the price there of white sugar grown in Cochin China [= Vietnam].]

In Virginia and Maryland the cultivation of tobacco is preferred to that of corn, as being more profitable. Tobacco could be cultivated with advantage through most of Europe; but almost everywhere in Europe it has become a principal subject of taxation; and to collect a tax from every farm where this plant is cultivated would be more difficult, it has been supposed, than to tax its import at the custom-house. For this reason the cultivation of tobacco has been—*absurdly*—prohibited through most of Europe, which inevitably gives a sort of monopoly to the countries where it is allowed; and as Virginia and Maryland produce the greatest quantity of it, they have a large share, though with some competitors, in the advantage of this monopoly. The cultivation of tobacco, however, seems not to be as advantageous as that of sugar;. . . .our tobacco colonies send us home no such wealthy planters as we see often arrive from our sugar islands. From the fact that in those colonies the cultivation of tobacco is preferred to that of corn it seems that Europe's effectual demand is not completely supplied, but it is probably more nearly so than that for sugar; and though the present price of tobacco is probably more than enough to pay for the whole rent, wages, and profit involved in preparing and bringing it to market, according to the rate at which they are commonly paid in corn land, it can't be as much more as the present price of ·high quality· sugar. So our tobacco planters have shown the same fear of an excess of tobacco ·on the market· that the proprietors of the old vineyards in France have of an excess of wine. [He explains *how* they have shown this, namely by an 'act of assembly' setting limits to how many tobacco plants may be grown. The limits are stated in terms of how many plants 'per negro'—presumably referring to slaves working on the tobacco plantations.]

That is how the rent of the cultivated land that produces human food regulates the rent of most other cultivated land. No particular product can for long provide less, because the land would immediately be turned to another use; and if a particular product commonly provides more, that is because the quantity of land that can be fitted for it is too small to meet the effectual demand.

In Europe corn is the principal product of land that serves immediately for human food. Except in special cases, therefore, the rent of corn land in Europe regulates that of all other cultivated land. Britain need not envy France's vineyards or Italy's olive plantations. Except in special cases the value of these is regulated by that of corn, in which

Britain's fertility is not much inferior to that of either France or Italy.

If the common and favourite vegetable food of the people in any country came from a plant of which the most common land, with near enough to the same culture, produced more of that food than the most fertile land produces of corn; the rent of the landlord—or the surplus quantity of food that would remain to him after paying the labour and replacing the farmer's stock together with its ordinary profits—would necessarily be much greater. Whatever the rate at which labour was commonly maintained in that country, this greater surplus could always maintain more of it, and thus enable the landlord to purchase or command more of it. The real value of his rent, his real power and authority, his command of the necessities and conveniences of life that other people's labour could supply him with, would necessarily be much greater.

A rice field produces much more food than the most fertile corn field. Two crops in the year, from thirty to sixty bushels each, are said to be the ordinary product of an acre. Though its cultivation therefore requires more labour, a much greater surplus remains after maintaining all that labour. Thus, in rice countries where rice is the common and favourite vegetable food of the people, and where the cultivators are chiefly maintained with it, the landlord's share of this greater surplus—his rent—should be greater than landlords get in corn countries. In Carolina, where the planters (as in other British colonies) are generally both farmers and landlords, so that rent is mixed up with profit, the cultivation of rice is found to be more profitable than that of corn, despite the fact that •their rice-fields produce only one crop a year and the fact that •rice is not there the common and favourite vegetable food of the people (who are colonists from *Europe*).

A good rice-field is a bog at all seasons, and at one season a bog covered with water. It is unfit for corn, pasture, vineyard, or indeed any other vegetable product that is very useful to men; and lands that are fit for those purposes are not fit for rice. Even in the rice countries, therefore, the rent of rice lands cannot regulate the rent of the other cultivated land that can never be turned to rice.

The food produced by a field of potatoes is not inferior in quantity to that produced by a field of rice, and much superior to what is produced by a field of wheat. Twelve thousand weight of potatoes from an acre of land is a greater product than two thousand weight of wheat. The solid nourishment that can be drawn from those two plants is not in proportion to their weight, because of the watery nature of potatoes. But allowing half the potato's weight to go to water (a very large allowance), such an acre of potatoes will still produce six thousand weight of solid nourishment, three times the quantity produced by the acre of wheat. An acre of potatoes is cultivated with less expense than an acre of wheat; the fallow that generally precedes the sowing of wheat more than counter-balances the hoeing and other special culture that is always given to potatoes. If the potato ever became the common and favourite vegetable food of the people in any part of Europe (like rice in some rice countries), so as to occupy the same proportion of cultivated lands as wheat and other sorts of grain for human food do at present, the same amount of cultivated land would maintain a much greater number of people; and, the labourers being generally fed with potatoes, a greater surplus would remain after replacing all the stock and maintaining all the labour employed in cultivation. And a greater share of this surplus would belong to the landlord. Population would increase, and rents would rise far above what they are at present.

Land fit for potatoes is fit for almost any useful vegetable. If they occupied the same proportion of cultivated land as

corn does at present, potatoes would regulate the rent of most other cultivated land, as corn does now.

In some parts of Lancashire it is claimed that bread of oatmeal is a heartier food for labouring people than wheaten bread, and I have often heard the same doctrine held in Scotland. I am doubtful of the truth of it. The common people in Scotland, who are fed with oatmeal, are in general neither as strong nor as handsome as people of the same rank in England, who are fed with wheaten bread. They don't work as well or look as well; and as there isn't this difference between the people of fashion in the two countries, experience seems to show that the food of the common people in Scotland is not as suitable to the human constitution as that of their neighbours of the same rank in England. But it seems to be otherwise with potatoes. The chairmen [see Glossary], porters, and coal-heavers in London, and those unfortunate women who live by prostitution—the strongest men and the most beautiful women perhaps in the British dominions—are said to come mostly from the lowest rank of people in Ireland, who are generally fed with this root. No food can provide a more decisive proof of its nourishing quality, or of its being specially suitable to the health of the human constitution.

It is hard to preserve potatoes through the year, and impossible to store them (like corn) for several years. The fear of not being able to sell them before they rot discourages their cultivation, and is perhaps the chief obstacle to their ever becoming in any large country the principal vegetable food of all the ranks of the people, like bread.

Part 2. The product of land that provides rent sometimes but not always

Human food seems to be the only land-product that always and necessarily provides some rent to the landlord. Other sorts of product sometimes do and sometimes don't, according to the circumstances.

After food, clothing and lodging are the two great wants of mankind.

Land in its **(a)** original unimproved state can provide the materials of clothing and lodging for many more people than it can feed. In its **(b)** improved state it can sometimes feed more people than it can supply with those materials, at least in the way they require them and are willing to pay for them. In **(a)** therefore there's always an excess of these materials, so that they have little or no value. In **(b)** there is often a scarcity, which inevitably increases their value. In **(a)** a large part is thrown away as useless and the price of what is used is regarded as equal only to the labour and expense of fitting it for use, and can therefore provide no rent to the landlord. In **(b)** they are all used, and there's often a demand for more than can be had. Somebody is always willing to pay, for any part of them, more than enough to pay the expense of bringing them to market. So their price can always provide some rent to the landlord.

The skins of the larger animals were the original materials of clothing. Among nations of hunters and shepherds, whose food consists chiefly in the flesh of those animals, everyone in providing himself with food provides himself with the materials of more clothing than he can wear. If there were no foreign commerce most of it would be thrown away as things of no value. This was probably the case among the hunting nations of North America before their country was discovered by the Europeans, with whom they now exchange

their surplus pelts for blankets, fire-arms, and brandy, which gives them some value. In the present commercial state of the known world, I believe, the most barbarous nations in which land ownership is established have some foreign commerce of this kind. Their wealthier neighbours present a demand for all the materials of clothing that their land produces and that can't be processed or used consumed at home. This demand is strong enough to raise the price of clothing materials above what it costs to send them to those wealthier neighbours; so it provides some rent to the landlord. [He cites two examples from earlier times: Scotland's profitable trade of exporting the hides of highland cattle, and England's exporting its wool to 'the then wealthier and more industrious country of Flanders'.]

The materials of lodging can't always be transported to as great a distance as those of clothing, and aren't so easy to make an object of foreign commerce. When they are superabundant in the country that produces them it often happens—even in the present commercial state of the world—that they are of no value to the landlord. A good stone quarry in the neighbourhood of London would provide a considerable rent, but in many parts of Scotland and Wales it provides none. Timber for building is of great value in a populous and well-cultivated country, and the land that produces it provides a considerable rent. But in many parts of North America the landlord would be grateful to anyone who took away most of his large trees. In some parts of the Scottish Highlands the only part of the wood that be can be sent to market is the bark; because of the lack of roads and water-transport, the timber is left to rot on the ground. When the materials of lodging are so superabundant, the part of them that used is worth only the labour and expense of fitting it for that use. It provides no rent to the landlord, who generally grants the use of it to anyone who takes the trouble to ask for it; though the demand of wealthier nations sometimes enables him to get a rent for it. The paving of the streets of London has enabled the owners of some barren rocks on the coast of Scotland to draw a rent from terrain that never provided any before. The woods of Norway and of the Baltic coasts find a market in many parts of Great Britain, which they could not find at home, and thereby provide some rent to their proprietors.

Countries are populous not in proportion to how many people their product can clothe and lodge, but in proportion to how many it can feed. When food is provided, it is easy to find the necessary clothing and lodging. But even when these are available it may often be difficult to find food. In some parts of the British dominions what is called a 'house' can be built by one man in one day. The simplest kind of clothing, the skins of animals, require *somewhat* more labour to prepare them for use, but not a great deal more. Among savage or barbarous nations, about one hundredth part of the labour of the whole year will be enough to provide them with clothing and lodging that satisfy most of the people. All the other ninety-nine parts are often barely enough to provide them with food.

But when the improvement and cultivation of land enables the labour of one family to provide food for two families, the labour of half the society becomes enough to provide food for the whole. So the other half (or most of them) can be employed in providing other things, i.e. satisfying the other wants and fancies of mankind. Clothing and lodging, household furniture, and what is called 'equipage' [see Glossary], are the main objects of most of those wants and fancies. The rich man consumes no more food than his poor neighbour. In quality it may be very different, and to select and prepare it may require more labour and art; but in quantity it is very nearly the same. But compare the

rich man's palace and great wardrobe of with the poor man's hovel and few rags, you'll see that the difference between their clothing, lodging, and household furniture is almost as great in •quantity as it is in •quality. Every man's desire for food is limited by the narrow capacity of the human stomach; but the desire for the conveniences and ornaments of building, dress, equipage, and household furniture seems to have no limit. So those who have at their disposal more food than they can consume are always willing to exchange the surplus—i.e. to exchange its price—for gratifications of this other kind. Anything left over from satisfying the limited desire ·for food· is devoted to catering to the desires that can't be satisfied but seem to be altogether endless. In order to obtain food the poor exert themselves to gratify the fancies of the rich; and to obtain it more certainly, they compete with one another in the cheapness and perfection of their work. As the growing improvement and cultivation of the lands increases the quantity of food, the number of workmen also increases; and. . . .the quantity of materials they can work with increases more than proportionately. Hence arises a demand •for every sort of material that human invention can employ—whether usefully or ornamentally—in building, dress, equipage, or household furniture—•for the fossils and minerals contained in the bowels of the earth, the precious metals, and the precious stones.

In this way food is the original source not only of rent but every other part of the product of land that afterwards provides rent. . . .

But those other parts of the product of land that afterwards provide rent do not *always* provide it. Even in improved and cultivated countries, the demand for the other products doesn't always give them a price that is more than enough to pay the labour and replace (together with its ordinary profits) the stock that must be employed in bringing them to market. Whether it does so depends on the circumstances.

Whether a coal mine, for example, can provide any rent depends partly on its fertility and partly on its situation.

A mine of any kind can be called 'fertile' or 'barren' depending on whether the quantity of mineral that can be brought from it by a certain amount of labour is more or less than what can be brought by an equal quantity from most of other mines of the same kind.

Some advantageously situated coal mines can't be worked because of their barrenness. The product doesn't pay the expense. They can't provide profit or rent.

The product of some mines is barely enough to pay the labour and replace (together with its ordinary profits) the stock employed in working them. They provide some profit to the undertaker of the work, but no rent to the landlord. They can't be advantageously worked by anyone but the landlord, who, being himself the undertaker of the work, gets the ordinary profit of the capital he employs in it. Many coal mines in Scotland are worked in this way and can't be worked in any other. The landlord won't let anyone else work them without paying some rent, and nobody can afford to pay any.

Other coal mines in Scotland are sufficiently fertile but can't be worked because of where they are. A quantity of mineral sufficient to defray the expense of working could be brought from the mine by the ordinary quantity of labour or even less than that; but in a thinly inhabited inland region with no good roads or water-transport this quantity couldn't be sold.

Coal is a less agreeable fuel than wood; it is also said to be less healthy. So the cost of coal at the place where it is consumed must generally be somewhat less than the cost of wood.

The price of wood varies with the state of agriculture in nearly the same way and for exactly for the same reason as the price of cattle. Every country in its early primitive state is mostly covered with wood, which is then a mere nuisance, of no value to the landlord who would gladly give it to anyone for the cutting. As agriculture advances, the woods are partly cleared by the spread of farming, and partly go to decay because of the increased number of cattle [see Glossary]. Although these don't increase in the same proportion as corn,. . . .they do multiply under the care and protection of men, who

- store up in the season of plenty food that can maintain them in the time of scarcity;
- through the whole year provide them with more food than uncultivated nature provides for them; and
- by destroying their enemies. give them the free enjoyment of everything that nature provides.

When numerous herds of cattle are allowed to wander through the woods, they don't destroy the old trees but they prevent young trees from coming up; so that in the course of a century or two the whole forest goes to ruin. *Then* the scarcity of wood raises its price. It provides a good rent; and the landlord sometimes finds that he can hardly use his best lands more advantageously than in growing timber, of which the greatness of the profit often makes up for the long wait for it to come in. This seems to be nearly the state of things today in several parts of Great Britain, where the profit of planting ·trees· is found to *be equal to* that of corn or pasture. The advantage the landlord derives from this planting can nowhere *exceed* (at least for any considerable time) the rent that corn or pasture could bring him; and in an inland region that is highly cultivated it often won't fall much short of this rent. On the sea-coast of a well-improved country, indeed, if coals can conveniently be had for fuel, it may sometimes be cheaper to bring timber for building from less intensely farmed foreign countries than to raise it at home. In the new ·parts of the· town of Edinburgh, built within the past few years, there may not be a single stick of Scotch timber.

[We are now given a couple of pages on factors affecting the price and profitability of coal. Most of this is a virtual repetition of things already said.]

The value of a coal mine to its owner often depends as much on its situation as on its fertility. That of a metallic mine depends more on its fertility and less on its situation. Metals when separated from their ore are so valuable that they can generally bear the expense of a very long land transport and of the most distant sea transport. Their market is not confined—·as the market for coal is·—to regions in the neighbourhood of the mine, but extends to the whole world. The copper of Japan is an article of commerce in Europe; the iron of Spain in the commerce of Chile and Peru. The silver of Peru finds its way not only to Europe but also from Europe to China.

The price of coals in Westmoreland or Shropshire can have little effect on their price in Newcastle; and their price in France can have none at all. The productions of such distant coal mines can never be brought into competition with one another. But the productions of the most distant metallic mines can and in fact commonly are.

So the price of coarse metals, and still more of precious ones, at the most fertile mines in the world must have some effect on their price at every other. The price of copper in Japan must have some influence on its price at the copper mines in Europe. The price of silver in Peru. . . .must have some influence on its price not only at the silver mines of Europe but at those of China. After the discovery of the mines of Peru, most of the silver mines of Europe were abandoned:

the value of silver was reduced so much that their product could no longer pay the expense of working them, or replace (with a profit) the food, clothes, lodging, and other necessities involved in that operation; and the same thing happened to silver mines in other parts of the world. Thus, because the price of every metal at every mine is somewhat regulated by its price at the most fertile working mine in the world, it can do very little at most of mines than pay the expense of working, and can seldom provide a high rent to the landlord. Rent accordingly seems at most of mines to have only a small share in the price of coarse metals and a still smaller one in the price of precious metals. Labour and profit make up most of both prices.

The average rent of the tin mines of Cornwall, the most fertile that are known in the world, is $\frac{1}{6}$ of the gross product, according to the vice-warden of the stannaries. Some provide more, he says, and some not so much. Several very fertile lead mines in Scotland also provide rent of $\frac{1}{6}$ of the gross product.

·THE PRICES OF PRECIOUS METALS AND PRECIOUS STONES·

In the silver mines of Peru, we are told by Frezier and Ulloa, the proprietor often demands from the undertaker of the mine nothing but an agreement that he will grind the ore at his mill and be paid the ordinary price of grinding. Until 1736 the tax of the king of Spain amounted to $\frac{1}{5}$ of the standard silver, which until then might be considered as the real rent of most of Peru's silver mines, the richest that have been known in the world. If there had been no tax, this $\frac{1}{5}$ would naturally have belonged to the landlord, and many mines might have been worked that couldn't then be worked because they couldn't afford this tax. The duke of Cornwall's tax on tin is supposed to amount to more than $\frac{1}{20}$ of the value; and his proportion, whatever it is, would naturally also belong to the proprietor of the mine if tin was duty free. But if you add $\frac{1}{20}$ to $\frac{1}{6}$, you will find that the whole average rent of the tin mines of Cornwall was to the whole average rent of the silver mines of Peru as 13 to 12. But the silver mines of Peru are not now able to pay even this low rent; and in 1736 the tax on silver was reduced from $\frac{1}{5}$ to $\frac{1}{10}$. Even this tax on silver gives more temptation to smuggling than the tax of $\frac{1}{20}$ on tin; and smuggling must be much easier in the precious commodity than in the bulky one. The tax of the king of Spain, accordingly, is said to be very ill paid, and that of the duke of Cornwall very well. So rent probably makes a greater part of the price of tin at the most fertile tin mines than it does of silver at the most fertile silver mines. After replacing the stock employed in working those mines, together with its ordinary profits, the residue remaining for the proprietor is greater, it seems, in the coarse metal than in the precious one.

And the profits of the undertakers of silver mines are not commonly very large in Peru. The same well-informed authors tell us that when anyone undertakes to work a new mine in Peru everyone regards him as a man destined to bankruptcy and ruin. . . . Mining seems to be considered there in the same light as as a lottery in which the prizes don't compensate the blanks [presumably = 'in which the sale of tickets brings in more than is paid out in prizes'], though the size of some prizes tempts many adventurers to throw away their fortunes on such unprosperous projects.

But the sovereign derives a considerable part of his revenue from the product of silver mines, so the law in Peru gives every encouragement to the discovery and working of new ones. [He gives some details about this encouragement, and reports that the interests of the duke of Cornwall have led to a similar regulation there, which he describes, concluding:] In both regulations the sacred rights of private

property are sacrificed to the supposed interests of public revenue.

The same encouragement is given in Peru to the discovery and working of new gold mines; and in gold the king's tax amounts only to $\frac{1}{20}$ of the standard rental. It was once $\frac{1}{5}$ and then $\frac{1}{10}$, as in silver; but it was found that the work couldn't bear even the lowest of these two taxes. If it is rare, however, say Frezier and Ulloa, to find a person who has made his fortune by a silver mine and still rarer to find one who has done so by a gold mine. This twentieth part seems to be the whole rent that is paid by most of the gold mines of Chile and Peru. Also, gold is much more liable to be smuggled than silver; not only because of its higher value, pound for pound, but also because of the special way in which nature produces it. Silver is very seldom found virgin; like most other metals it is generally mineralized with some other body from which it it can't be separated in quantities that will pay for the expense except through a very laborious and tedious operation that can't well be carried on except in workshops built for the purpose and, therefore, exposed to the inspection of the king's officers. Gold, on the other hand, is almost always found virgin. It is sometimes found in pieces of some bulk; and, even when mixed in tiny particles with sand, earth, etc. it can be separated from them by a short and simple operation that can be carried on in any private house by anyone who has a small quantity of mercury. If the king's tax, therefore, is not well paid on silver, it is likely to be much worse paid on gold; and rent must be a much smaller part of the price of gold than of the price of silver.

The lowest price at which the precious metals can be sold. . . .is regulated by the same principles that fix the lowest ordinary price of all other goods. The stock that must commonly be employed, the food, clothes, and lodging that must commonly be consumed in bringing them from the mine to the market, determine it. It must at least be sufficient to replace that stock, with the ordinary profits.

But their highest price seems not to be determined by anything but the actual scarcity or plenty of these metals themselves. It isn't determined by the price of any other commodity in the way the price of coal is determined by that of wood, beyond which no scarcity can ever raise it. Increase the scarcity of gold to a certain degree, and the smallest bit of it may become more precious than a diamond, and exchange for a greater quantity of other goods.

The demand for those metals arises partly from their utility and partly from their beauty. They may be more useful than any other metal except iron. Being less liable to rust and impurity, they can more easily be kept clean; and the utensils—whether of the table or of the kitchen—are for that reason often more agreeable when made of them. A silver boiler is cleaner than a lead, copper, or tin one; and the same quality would render a gold boiler even better than a silver one. But their principal merit arises from their beauty, which males them especially fit for the ornaments of dress and furniture. No paint or dye can give as splendid a colour as gilding can give. The merit of their beauty is greatly enhanced by their scarcity. The chief enjoyment of riches for most rich people consists in the *parade* of riches. . . . [He develops that theme at some length.]

The demand for the precious stones arises altogether from their beauty. They are of no use except as ornaments; and the merit of their beauty is greatly enhanced by their scarcity, or by the difficulty and expense of getting them from the mine. So wages and profit usually make up almost the whole of their high price, and rent comes in for a very small share (or none), except in the most fertile mines. A visitor to one of the Sultanates of India was told that the fertile diamond mines of Golconda and Visiapour were being

worked for the benefit of the sovereign of the country, who had ordered all to be closed except those that provided the largest and finest stones. The other, it seems, were to the proprietor not worth working.

The prices of the precious metals and precious stones are regulated all over the world by their price at the most fertile mine in it; so the rent that a mine of either kind can provide to its proprietor is in proportion to what may be called its **relative fertility**, i.e. how much more fertile it is than other mines of the same kind. If new mines were discovered that were as much superior to those of Potosi as *they* are to those of Europe, the value of silver might be lowered so much as to make even the mines of Potosi not worth working. Before the discovery of the Spanish West Indies, the most fertile mines in Europe may have provided as much rent to their proprietors as the richest mines in Peru do at present. Though the quantity of silver was less, it might have exchanged for an equal quantity of other goods, and the proprietor's share might have enabled him to purchase or command an equal quantity either of labour or of commodities.

The value of the product and of the rent—the real revenue they provided to the public and to the proprietor—might have been the same.

The most abundant mines of precious metals or precious stones could add little to the world's wealth. A product whose value comes mainly from its scarcity is necessarily cheapened by its abundance. A set of silver tableware and other frivolous ornaments of dress and furniture could be purchased for less, which is the sole advantage the world could derive from that abundance.

It is otherwise in estates above ground. The value of their product and their rent is in proportion to their **absolute fertility**. The land that produces a certain quantity of food, clothes, and lodging can always feed, clothe, and lodge a certain number of people; and the landlord's proportion, whatever it may be, will always give him a proportional command of •the labour of those people and of •the commodities that labour can supply him with. The value of the most barren land is not diminished by the nearness of the most fertile; indeed, it is generally increased by it. The large number of people maintained by the fertile lands provide a market for many parts of the product of the barren, a market they could never have found among those whom their own product could maintain.

Anything that increases land's fertility in producing food not only •increases the value of that land but also •contributes to increasing the value of many other lands by creating a new demand for their product. The abundance of food that many people have at their disposal beyond what they themselves can consume, because of the improvement of land, is the great cause of the demand for precious metals and precious stones, as well as for every other convenience and ornament of dress, lodging, household furniture, and equipage. Food not only constitutes the principal part of the riches of the world, but the abundance of food is what gives many other sorts of riches the principal part of their value. The poor inhabitants of Cuba and Santo Domingo, when they were first discovered by the Spaniards, used to wear little bits of gold as ornaments in their hair and other parts of their dress. They seemed to value them as we would do any little pebbles of somewhat more than ordinary beauty, and to consider them as just worth picking up but not worth refusing to anyone who asked for them. They gave them to their new guests at the first request, apparently without thinking they had made them a valuable present. They were astonished to observe the Spaniards' intense desire to obtain them; and they had no notion that there could be a country

whose people had at their the disposal so great a superfluity of food—so scanty always among themselves—that for a very small quantity of those glittering baubles they would willingly give enough food to maintain a family for many years. If they could have been made to understand this the Spaniards' passion wouldn't have surprised them.

Part 3. Variations in the proportion between the respective values of the two sorts of product

The increasing abundance of food resulting from increasing improvement and cultivation is bound to increase the demand for every part of the product of land that is not food and can be applied either to use or to ornament. So it might be expected that in the whole progress of improvement there will be only one variation in the comparative values of those two sorts of product. The value of •the sort that sometimes does and sometimes doesn't provide rent should constantly rise in proportion to the value of •the sort that always provides some rent. As art and industry advance,

- •the materials of clothing and lodging,
- •the useful fossils and materials of the earth,
- •the precious metals and the precious stones

should gradually come to be more and more in demand, should gradually become dearer and dearer ·in the market·. This has indeed been the case with most of these things on most occasions, though sometimes particular events have increased the supply of some in a still greater proportion than the demand.

The value of a free-stone quarry, for example, will increase with the increasing improvement and population of the country round about it, especially if it should be the only one in the neighbourhood. But the value of a silver mine won't necessarily increase with the improvement of the country in which it is situated, even if there isn't another within a thousand miles of it. The market for the product of a free-stone quarry can seldom extend more than a few miles round about it, and the demand must generally be in proportion to the improvement and population of that small district; but the market for the product of a silver mine may extend over the whole known world. Unless the world in general advances in improvement and population, therefore, the demand for silver might not be at all increased by the improvement even of a large territory in the neighbourhood of the mine. And even if the world in general *were* improving, so that the demand for silver increased, the discovery of new mines that were extremely fertile could increase the supply so much that the real price of silver fell. . . .

The great market for silver is the commercial and civilised part of the world.

If through the general progress of improvement the demand of this market increased while the supply did not increase in the same proportion, the value of silver would gradually rise in proportion to that of corn. Any given quantity of silver would exchange for more and more corn, i.e. the average money price of corn would gradually go down. Whereas if by some accident supply increased for many years together, in a greater proportion than the demand, silver would gradually become cheaper and cheaper, i.e. the average money price of corn would go up and up, despite all the improvements.

But if the supply of silver were to increase in nearly the same proportion as the demand, it would continue to purchase nearly the same quantity of corn; and the average money price of corn would continue nearly the same, despite all the improvements.

These three seem to exhaust all the possible combinations of events that can happen in the progress of improvement;

and during the course of the four centuries preceding the present, if we may judge by what has happened both in France and Great Britain, each of the three seems to have occurred in the European market, and in nearly the order in which I have set them down here.

[Smith here starts a very long and learned 'Digression concerning the Variations in the value of Silver during the Course of the Four last Centuries'. It is omitted here.]

Different effects of the progress of improvement on three sorts of rude product

These sorts of rude [see Glossary] product may be divided into three classes: **(1)** those which it is hardly in the power of human industry to multiply at all, **(2)** those which it can multiply in proportion to the demand, and **(3)** those in which the effectiveness of ·human· industry is either limited or uncertain. In the progress of wealth and improvement, the real price of **(1)** may rise to any level of extravagance, and seems not to be limited by any certain boundary. The price of **(2)** may rise greatly but has a certain boundary beyond which it can't cross for any considerable period of time. The natural tendency of the price of **(3)** is to rise in the progress of improvement, but with the same level of improvement it may sometimes fall, sometimes to continue the same, and sometimes rise more or less, depending on how different events make the efforts of human industry in multiplying this sort of rude product more or less successful.

The first sort

The first sort of rude product, of which the price rises in the progress of improvement, is the sort that it's hardly in the power of human industry to multiply at all. It consists in things that nature produces only in certain quantities, and that are very perishable so that it's impossible to accumulate the product of many different seasons. Such are most rare and singular birds and fishes, many sorts of game, almost all wild-fowl, all birds of passage in particular, as well as many other things. When wealth, and the luxury that accompanies it, increase, the demand for these is likely to increase also, and no human effort may be able to increase the supply much beyond what it was before the demand went up. With their quantity remaining about the same while the competition to purchase them continually increases, their price may rise to any level of extravagance, and seems not to be limited by any certain boundary. If woodcocks became so fashionable as to sell for twenty guineas each, no effort of human industry could increase much the number of them brought to market. The high price the Romans paid for rare birds and fishes in the time of their greatest grandeur is easy to explain in this way. These prices were not the effects of the low value of silver in those times, but of the high value of rarities and curiosities that human industry couldn't multiply at pleasure. The real value of silver was higher at Rome, for some time before and after the fall of the republic, than it is through most of Europe at present. [Smith goes at some length into his evidence for this statement.]

The second sort

The second sort of rude product whose price rises in the progress of improvement is the sort that human industry can multiply to match the demand. It consists in those useful plants and animals which nature produces in uncultivated countries with such abundance that they are of little value, and which as cultivation advances are forced to give place to some more profitable product. During a long period in the progress of improvement the quantity of these continually goes down while the demand for them continually goes up. So their real value—the real quantity of labour they will purchase or command—gradually rises, eventually getting

so high as to make them as profitable a product as anything else that human industry can raise on the most fertile and best cultivated land. When it has reached that level it cannot well go higher. If it did, more land and more industry would soon be employed to increase the quantity ·of the product, thus lowering its price·.

. . . .The spread of ploughing lessens the quantity of wild pasture and thus lessens the quantity of butcher's meat, which the country naturally produces without labour or cultivation. [He goes on to discuss the matter of where in Europe (and when) the price of butcher's meat, 'and thus of cattle', reached or approached its maximum.]

Until the price of cattle has reached this height it seems hardly possible that most lands—even the lands that are capable of the highest cultivation—can be completely cultivated. Most farms are too distant from any town to carry manure from it, and for them the quantity of well cultivated land must be in proportion to the quantity of manure the farm itself produces; and this must be in proportion to the stock of cattle that are maintained on it. The land is manured •by pasturing the cattle on it or •by feeding them in the stable and carrying their dung from there out to the fields. But unless the price of the cattle is enough to pay the rent *and* the profit of cultivated land, the farmer can't afford to pasture them on it; still less can he afford to feed them in the stable. It's only with the product of improved and cultivated land that cattle can be fed in the stable; because collecting the scanty and scattered product of waste and unimproved lands would require too much labour and ·thus· be too expensive. And if the price of the cattle is not sufficient to pay for the product of improved and cultivated land when they are allowed to pasture it, then it will be even less sufficient to pay for that product when it must be collected with a good deal of additional labour and brought to them in the stable. In these circumstances, therefore, no more cattle [see Glossary] can with profit be fed in the stable than what are needed for ploughing; and these can never provide enough manure to keep constantly in good condition all the land they are capable of cultivating. What they provide, being insufficient for the whole farm, will naturally be reserved for the lands it can most advantageously or conveniently be applied to—the most fertile, or perhaps those nearest the farm-yard. So these will be kept constantly in good condition and fit for ploughing. Most of the rest will be allowed to lie waste, producing nothing but some miserable pasture just sufficient to keep alive a few straggling, half-starved cattle; the farm, though much *understocked* in proportion to what would be needed for its complete cultivation, may very well be *overstocked* in proportion to its actual product. A portion of this waste land, after being pastured in this wretched manner for six or seven years, may be ploughed up; then it may yield a poor crop or two of bad oats or some other coarse grain; and then it must be rested and pastured again as before, and another portion ploughed up etc. This was the general system of management all over the low country of Scotland before the Union [in 1707]. The lands that were kept constantly well manured and in good condition were seldom more than a quarter of the whole farm, and sometimes didn't amount to a sixth of it. The rest were never manured, but a certain portion of them was in its turn regularly cultivated and exhausted. . . . But however disadvantageous this system may appear, the low price of cattle before the Union seems to have made it almost unavoidable. If despite a great rise in the price of cattle it still prevails through much of the country, that is in many places, no doubt, due to ignorance and attachment to old customs; but in most places it's the result of the obstructions that the natural course of things opposes to the speedy

establishment of a better system: **(1)** to the poverty of the tenants, to their not having had time to acquire a stock of cattle sufficient to cultivate their lands more completely, because the rise of price that would make it advantageous for them to *maintain* a greater stock also makes it harder for them to *acquire* it; and **(2)** to their not having had time to put their lands in condition to maintain this greater stock properly, even if they were capable of acquiring it. The increase of stock and the improvement of land are two events that must go hand in hand; nowhere can either of them much outrun the other. Without some increase of stock there can be hardly any improvement of land, and there can't *be* a considerable increase of stock except through a considerable improvement of land, because otherwise the land couldn't maintain it. These natural obstructions to the establishment of a better system can be removed only through a long course of frugality and industry; it may take another century before the old system—which is wearing out gradually—can be completely abolished through all parts of Scotland. Of all the commercial advantages that Scotland has derived from the Union with England, this rise in the price of cattle may be the greatest. It has not only raised the value of all highland estates, but it has perhaps been the principal cause of the improvement of the low country.

In all new colonies, the great quantity of waste land, which can for many years be applied to no other purpose but the feeding of cattle, soon makes them extremely abundant; and in everything great cheapness is the necessary consequence of great abundance. Though all the cattle of the European colonies in America were originally carried from Europe, they soon multiplied so much there, and became of so little value, that even horses were allowed to run wild in the woods, without any owner thinking it worthwhile to claim them. It cannot become profitable to feed cattle on the product of cultivated land until long after the first establishment of such a colony. So the same causes—the lack of manure, and the disproportion between the stock employed in cultivation and the land it is destined to cultivate—are likely to introduce there a system of husbandry not unlike the one that is still followed in so many parts of Scotland. [He reports a Swedish traveller's 'account of the husbandry of some of the English colonies in North America', which had allowed good land to be 'exhausted by continual cropping', in the manner of the Scottish lowlands.]

Though it is late in the progress of improvement before cattle can bring a price that makes it profitable to cultivate land for the sake of feeding them, they are perhaps the first among all the kinds of this second sort of rude product to bring this price; because until they bring it, it seems, improvement can't be brought near even to the level it has reached in many parts of Europe.

The last kind of this sort of rude product to bring this price may be venison. The price of venison in Great Britain, high as it may appear, is nowhere near high enough to repay the expense of a deer park. . . . If that were not so, the feeding of deer would soon become a part of common farming, as the feeding of the small birds called 'turdi' was among the ancient Romans. Varro and Columella say that it was a most profitable activity. The fattening of ortolans—birds of passage that arrive lean in the country—is said to be profitable in some parts of France. If venison continues to be in fashion, and the wealth and luxury of Great Britain increase as they have done for some time past, its price may well rise even higher than it is at present.

Between •the period in the progress of improvement that brings to its height the price of something as necessary as cattle and •the period that brings to it the price of something as superfluous as venison, there is a very long interval during

which many other sorts of rude product gradually reach their highest price—some sooner and some later, depending on circumstances.

Thus, in every farm the offal of the barn and stable will maintain a certain number of poultry. These are fed with what would otherwise be lost, so that they're a mere save-all [see Glossary]; so they cost the farmer hardly anything, and he can afford to sell them for very little. Almost all that he gets for them is pure gain, and their price can hardly be so low as to discourage him from feeding this number. But in regions that are badly cultivated and therefore thinly inhabited the poultry that are in this way raised without expense are often enough to supply the whole demand, and are often as cheap as butcher's meat or any other sort of animal food. But the quantity of poultry that the farm produces in this way without expense must always be much smaller than the quantity of butcher's meat that is reared on it; and in times of wealth and luxury, what is rare is always preferred—other things being equal—to what is common. As improvement and cultivation bring about an increase in wealth and luxury, therefore, the price of poultry gradually rises above that of butcher's meat, until at last it gets so high that it becomes profitable to cultivate land for the sake of feeding them. It cannot well go higher than this; if it did, more land would soon be converted to this purpose. In several provinces of France, the feeding of poultry is considered as an important article in rural economy, and profitable enough to encourage the farmer to raise a considerable quantity of Indian corn and buckwheat for this purpose. A middling farmer may have four hundred fowls in his yard. . . . In the progress of improvements, the period when any particular sort of animal food is dearest must be that which immediately precedes the general practice of cultivating land for the sake of raising it. For some time before this practice becomes general, the scarcity must raise the price. After it becomes general, new methods of feeding are commonly adopted that enable the farmer to raise on the same area a greater quantity of that particular sort of animal food. The abundance obliges him to sell cheaper, but he can afford to sell cheaper; for if he couldn't afford it the abundance wouldn't last long. This is probably how the introduction of clover, turnips, carrots, cabbages, etc. helped to reduce the common price of butcher's meat in the London market below what it was about the beginning of the last century.

The hog finds its food among ordure, greedily devours many things rejected by every other useful animal, and (like poultry) is originally kept as a save-all. A farm can raise a certain number of such animals at little or no expense; and if the number is high enough to meet the demand, pork comes to market at a much lower price than any other sort of butcher's meat. When the demand rises beyond what can be provided in this way—when it becomes necessary to raise food on purpose for feeding and fattening hogs, as for feeding and fattening other cattle—the price necessarily rises. . . .

The great rise in the price of hogs and poultry in Great Britain has often been attributed to the shrinking number of cottagers [see page 52] and other small occupiers of land; an event which has in every part of Europe been the immediate forerunner of improvement and better cultivation, but which at the same time may have contributed to raising the price of hogs and poultry somewhat sooner and faster than it would otherwise have risen. Just as the poorest family can often maintain a cat or a dog without any expense, so the poorest occupiers of land can usually maintain a few poultry, or a sow and a few pigs, at very little expense. The wastes from their own table—their whey, skimmed milk, and butter-milk—supply those animals with a part of their food, and they find the rest in the neighbouring fields without

doing noticeable harm to anyone. So a reduction in the number of those small occupiers must have reduced the quantity of this sort of provisions (the sort that is produced at little or no expense), and their price must consequently have risen sooner and faster than it would otherwise have done. However, the progress of improvement will eventually raise the price to the highest level it is capable of, i.e. the price that pays for the labour and expense of cultivating the land that provides them with food, as well as these are paid for on most other cultivated land.

The business of the dairy, like the feeding of hogs and poultry, is originally carried on as a save-all. The cattle necessarily kept on the farm produce more than enough milk for the rearing of their own young and the consumption of the farmer's family; and they produce most at one particular season. But of all the productions of land, milk is perhaps the most perishable. In the warm season when it is most abundant it will hardly keep for 24 hours. The farmer, by making it into

- fresh butter, stores a small part of it for a week;
- salt butter, stores some for a year;
- cheese, stores much more of it for several years.

Some of this is set aside for the use of his own family; the rest goes to market, looking for the best price that is to be had; which can hardly be so low as to discourage him from sending to market whatever is not useful to his own family. If the price is very low he will be likely to manage his dairy in a slovenly and dirty manner, and may hardly think it worthwhile to dedicate a particular room to it, but will allow the business to be carried on amid the smoke, filth, and nastiness of his own kitchen. (This was the case with almost all the farmers' dairies in Scotland 30 or 40 years ago, and is the case with many still.) The same causes that gradually raise the price of butcher's meat, namely

> the increase of the demand, and—because of the improvement of the land—the reduction in the quantity that can be fed at little or no expense,

raise the price of dairy products in the same way; their price naturally connects with that of butcher's meat, i.e. with the expense of feeding cattle. The increase of price pays for more labour, care, and cleanliness. The dairy becomes more worthy of the farmer's attention, and the quality of its product gradually improves. The price at last gets so high that it becomes worthwhile to use some of the most fertile and best cultivated land to feed cattle merely for the purpose of the dairy; and when it has reached this height it cannot well go higher. If it did, more land would soon be turned to this purpose. It seems to have reached this height through most of England, where much good land is commonly used in this way. Apart from the neighbourhoods of a few considerable towns, it seems not yet to have reached this height anywhere in Scotland, where common farmers seldom use much good land to raise food for cattle, merely for the purpose of the dairy. . . .

No territory can ever be completely cultivated and improved until the price of every product that human industry is obliged to raise on it has become high enough to pay for the expense of complete improvement and cultivation. In order to do this, the price of each product must be sufficient **(1)** to pay the rent of good corn land, because that is what regulates the rent of most other cultivated land, and **(2)** to pay for the labour and expense of the farmer at as good a rate as is commonly paid for good corn land—i.e. replace with the ordinary profits the stock he employs on this. Obviously, this rise in the price of each product must happen *before* the improvement and cultivation of the land that is intended for producing it. The purpose of all improvement is *gain*; and nothing counts as 'gain' if loss is an inevitable consequence

of it! But loss *is* the inevitable consequence of improving land for the sake of a product whose price could never repay the expense. If the complete improvement and cultivation of territory is—as it most certainly *is*—the greatest of all public advantages, this rise in the price of all those sorts of rude product ought to be regarded not as a public calamity but as the necessary forerunner and attendant of the greatest of all public advantages. . . .

THE THIRD SORT

The third sort of rude product whose price naturally rises in the progress of improvement is the sort in which human industry's effectiveness in increasing the quantity is either limited or uncertain. Though the real price of this sort of rude product naturally tends to rise with the progress of improvement, it may happen sometimes to •continue the same in very different periods of improvement, sometimes to •rise more or less in the same period, and sometimes even to •fall—all depending on whether events happen to make the efforts of human industry more or less successful in increasing the quantity.

There are some sorts of rude product that nature has made a kind of appendages to other sorts; so that the quantity of one that a country can provide is necessarily limited by the quantity of the other. For example: the quantity of •wool or of •raw hides that any country can provide is necessarily limited by how many small and large cattle are kept in it. The state of its improvement, and the nature of its agriculture, again necessarily determine this number.

You might think that the causes which in the progress of improvement gradually raise the price of butcher's meat would have the same effect on the prices of wool and raw hides, raising them in nearly the same proportion. That would probably be right if in the early stages of improvement the market for wool and hides was as narrow as the market for butcher's meat; but in fact these two markets usually have extremely different extents.

The market for butcher's meat is almost everywhere confined to the country that produces it. Ireland and some part of British America do indeed conduct a considerable trade in salt provisions, exporting to other countries a considerable part of their butcher's meat; but I believe they are the only countries in the commercial world that do so.

The market for wool and raw hides, on the other hand, is in the early stages of improvement seldom confined to the country that produces them. They can easily be transported to distant countries—wool with no preparation, raw hides with very little—and because they are the materials of many manufactures, the industry of other countries may create a demand for them while the industry of the country that produces them doesn't.

In countries that are poorly cultivated and therefore thinly inhabited, the price of wool and hide is always a bigger fraction of the price of the whole beast than it is in countries where there is more demand for butcher's meat because improvement and population are further advanced. Mr Hume observes that in Saxon times the fleece was estimated at $\frac{2}{5}$ of the value of the whole sheep, whereas now it is much less. [He gives comparable details regarding the price-ratio in parts of Spain and 'Spanish America', where the market value of the whole animal apart from wool or hide is almost zero.]

Although in the progress of improvement and population the price of the whole beast must rise, the price of the carcase is likely to rise much more than that of the wool and the hide. In the rude state of society the market for the carcase must always be confined to the country that produces it,

and is bound to get bigger in proportion to the improvement and population of that country. But the market for the wool and the hides, even of a barbarous country, often extend to the whole commercial world, so it can seldom be enlarged in the same proportion: the state of the whole commercial world can't be much affected by the improvement of any one country; so the market for such commodities may remain about the same after such improvements as it was before. But it should in the natural course of things be somewhat extended because of them. If the manufactures of which those commodities are the materials ever come to flourish in the country ·in question·, the market for them would at least be brought nearer to the place of growth, and their price might at least be increased by what had usually been the expense of transporting them to distant countries. Though it might not rise in the same proportion as that of butcher's meat, it ought naturally to rise somewhat, and it certainly ought not to fall.

In England, however, despite the flourishing state of its woollen manufacture, the price of English wool has fallen very considerably since the time of Edward III. [He goes into detail about the size of the fall and the evidence for it.]

This degradation in the real and the nominal value of wool resulted not from the *natural* course of things but from violence and *artifice*. It was caused by

(1) the prohibition of exporting wool from England,
(2) the permission to import it from Spain, duty free, and
(3) the prohibition of exporting it from Ireland to any country but England.

Because of these regulations the market for English wool, instead of being extended as a result of the improvement of England, has been confined to the home market, where the wool of other countries is *allowed* to compete with it and that of Ireland is *forced* into competition with it. The woollen manufactures of Ireland are as much discouraged as is consistent with justice and fair dealing, so that the Irish can process only a small part of their own wool at home and are therefore obliged to send most of it to Great Britain, the only market they are allowed.

I have not been able to find any such authentic records concerning the price of raw hides in ancient times. [But he cites and intricately analyses one bit of evidence from 1425, argues that since then the nominal price of hides has gone up while their real price has gone down, and concludes:] The price of cow hides, as stated in the above account, is nearly in the common proportion to that of ox hides. That of sheep skins is a good deal above it. They had probably been sold with the wool. That of calves' skins, on the other hand, is greatly below it. In countries where the price of cattle is very low, the calves—which are not intended to be reared in order to keep up the stock—are generally killed very young, as happened in Scotland 20 or 30 years ago. It saves the milk, which their price would not pay for. Their skins, therefore, are commonly good for little.

The price of raw hides is a good deal lower at present (February 1773) than it was a few years ago, probably because •the duty on seal skins was taken off and •for a limited time raw hides from Ireland and from the ·colonial· plantations could be imported duty free, which was done in 1769. The average real price of raw hides over the present century has probably been somewhat higher than it was in those earlier times. They aren't as proper for being transported to distant markets as wool is; they suffer more by being kept; a salted hide is regarded as inferior to a fresh one, and sells for a lower price. This circumstance must tend to reduce the price of raw hides produced in a country that doesn't make things from them and is thus obliged to export them, and comparatively to raise the price of hides produced in

a country that does manufacture them. It must tend to lower their price in a barbarous country and raise it in an improved and manufacturing one, and must therefore have tended to lower it in ancient times and to raise it in modern times. Also: our tanners haven't been quite as successful as our clothiers in convincing the wisdom of the nation that the safety of the commonwealth depends on the prosperity of their particular manufacture! They have accordingly been much less favoured. [He gives details of how.]

In an improved and cultivated country, regulations tending to lower the price of wool or raw hides below what it would naturally be must tend to raise the price of butcher's meat. The price both of the large and small cattle that are fed on improved and cultivated land must be sufficient to pay the rent that the landlord (and the profit that the farmer) has reason to expect from such land. If it is not, they will soon cease to feed them. Thus, whatever part of this price is not paid by the wool and the hide must be paid by the carcase: the less there is paid for the one, the more must be paid for the other. It makes no difference to the landlords and farmers how this price is to be divided among the different parts of the beast, provided it is all paid to them. In an improved and cultivated country, therefore, their interests as landlords and farmers can't be much affected by such regulations, though their interest as consumers may be affected by the rise in the price of provisions. Things would be different in an unimproved and uncultivated country where most of the land could be be used for nothing but the feeding of cattle, and where wool and hide made the principal part of the value of those cattle. In this case their interests as landlords and farmers would be deeply affected by such regulations, but their interests as consumers very little. The fall in the price of wool and hide would not raise the price of the carcase, because most of the country's land wasn't usable for anything but the feeding of cattle, so that the same number would still be fed. The same quantity of butcher's meat would still come to market. The demand for it would be no greater than before. So its price would be the same as before. The whole price of cattle would fall, and along with it the rent and the profit of all the lands of which cattle was the principal product, i.e. of most of the lands of the country in question. The perpetual prohibition of the export of wool, which is commonly but wrongly ascribed to Edward III, would, in the circumstances of the country in the mid-14th century, have been an utterly destructive regulation. It would not only have reduced the actual value of most of the lands in the kingdom, but by reducing the price of the most important species of small cattle it would have greatly retarded its subsequent improvement.

The price of the wool of Scotland fell considerably because of the union with England, by which Scotland was excluded from the large market of Europe and confined to the small one of Great Britain. The value of most of the lands in the southern counties of Scotland, which are chiefly sheep country, would have been deeply affected by this event if the rise in the price of butcher's meat hadn't fully made up for the fall in the price of wool. . . .

·Limited and uncertain·

Just as human industry's effectiveness in increasing the quantity of wool or of raw hides is **(i)** *limited*, because the quantity depends on the product of the country where the work is done, so also it is **(ii)** *uncertain* because the quantity depends on the product of other countries—not so much on the quantity they produce as on the quantity they don't manufacture, and on whatever restraints they think proper to impose on the export of this sort of rude product. . . .

In multiplying another important sort of rude product, the quantity of fish that is brought to market, the effectiveness of human industry is likewise both limited and uncertain. **(i)** It is limited by *where* the country is, by distance of its various provinces from the sea, by the number of its lakes and rivers, and by how rich those seas, lakes, and rivers are in fish. As population increases, as the annual product of the country's land and labour grows ever greater, there come to be more buyers of fish; and those buyers have a greater quantity and variety of other goods—i.e. the price of a greater quantity and variety of other goods—to buy with. But. . . .a market which goes from requiring only 1,000 tons of fish a year to requiring 10,000 tons a year can seldom be supplied without employing more than ten times the quantity of labour that had previously been enough to supply it. The fish must generally be sought at a greater distance, larger vessels must be used, and more expensive machinery of every kind made use of. So the real price of this commodity naturally rises with the progress of improvement, and I think it has done so in virtually every country.

Though the success of a particular day's fishing maybe an uncertain matter, the general effectiveness of industry in bringing a given quantity of fish to market over a year or a stretch of several years together is certain enough. But it depends more on where the country is than on the state of its wealth and industry; so it may be the same in countries that are at very different stages of improvement, and different in countries that are at the same stage. This means that its connection with the state of improvement is **(ii)** uncertain; and that is the sort of uncertainty I am speaking of here.

In increasing the quantity of the minerals and metals that are drawn from the bowels of the earth, especially the more precious ones, the efficacy of human industry seems not to be **(i)** limited but to be altogether **(ii)** uncertain.

The quantity of the precious metals to be found in a country is not limited by any geographical factors such as the fertility of its own mines; those metals are often abundant in countries that have no mines. Their quantity in any country seems to depend on

- **(a)** that country's power of purchasing, the state of its industry, the annual product of its land and labour, enabling it to afford to employ more or less labour and subsistence in bringing such superfluities as gold and silver from its own mines or purchasing them from those of other countries; and on
- **(b)** the fertility or barrenness of the mines that happen at a given time to supply the commercial world with those metals.

The quantity of those metals in the countries furthest from the mines must be somewhat affected by this fertility or barrenness, because of the easy and cheap transportation of those metals, their small bulk and great value. Their quantity in China and Indostan must have been somewhat affected by the abundance of the mines of America.

So far as their quantity in a given country depends on **(a)** the power of purchasing, the real price of gold and silver, like that of all luxuries and superfluities, is likely to rise with the wealth and improvement of the country and to fall with its poverty and depression. . . .

So far as their quantity in a given country depends on **(b)** the fertility or barrenness of the mines that happen to supply the commercial world, their real price—the real quantity of labour and subsistence they will purchase or exchange for—will sink in proportion to the fertility of those mines, and rise in proportion to their barrenness.

[Smith writes about the impossibility of knowing what if any new mines will be discovered, and of knowing how fertile a new mine is in advance of actually working it. He

continues:] In the course of a century or two **[A]** new mines may be discovered that are more fertile than any yet been known; and it is equally possible that **[B]** the most fertile mine then known may be more barren than any that were worked before the discovery of the mines of America. Which of those two events happens to occur is of very little importance to the real wealth and prosperity of the world, i.e. to the real value of the annual product of mankind's land and labour. Its *nominal* value, the quantity of gold and silver in terms of which this annual product could be stated, would no doubt be very different; but its *real* value, the real quantity of labour it could purchase or command, would be precisely the same. A shilling might in **[A]** represent no more labour than a penny does at present; and a penny in **[B]** might represent as much as a shilling does now. But in **[A]** the man with a shilling in his pocket would be no richer than one who has a penny at present; and in **[B]** the man who had a penny would be just as rich as one who now has a shilling. The cheapness and abundance of gold and silver plate would be the sole advantage the world could derive from **[A]**, and the dearness and scarcity of those minor superfluities would be the only inconvenience it could suffer from **[B]**.

·Relations between prices and national wealth·

Most of those who have written about the money price of things in ancient times seem to have regarded the low money price of corn and of goods in general—i.e. the high value of gold and silver—as showing not only the scarcity of those metals but also the poverty and barbarism of the country in question at the time in question. This notion is connected with the theory of political economy that equates national wealth with the abundance of gold and silver and equates national poverty with their scarcity. In Book IV below I shall try to expound this theory and examine it at great length. Here I shall only remark that the high value of the precious metals in country x at time t can't show •the poverty or barbarism of x at t, but only •the barrenness of the mines that happened to supply the commercial world at t. A poor country. . . .can't afford to pay more for gold and silver than a rich one does, so the value of those metals isn't likely to be higher in the poor country than in the rich one. China is much richer than any part of Europe, yet the value of the precious metals in China is much higher than in any part of Europe. The wealth of Europe has increased greatly since the discovery of the mines of America, and at the same time the value of gold and silver in Europe has gradually gone down. But this lowering of their value was caused not by the increase of the real wealth of Europe, i.e. of the annual product of its land and labour, but by the accidental discovery of mines more abundant than any that were known before. The •increase in the quantity of gold and silver in Europe, and the •increase in Europe's manufactures and agriculture, are two events that had very different causes, having almost no natural connection with one another, although they occurred at about the same time. One arose from a mere accident, in which neither prudence nor policy could have had any share; the other arose from the fall of the feudal system, and from the establishment of a government that gave industry the only encouragement it needs, namely some tolerable security that it will enjoy the fruits of its own labour. Poland, where the feudal system is still in place, is today as beggarly as it was before the discovery of America. The money price of corn has risen, and the real value of the precious metals has fallen in Poland just as in other parts of Europe. So their quantity must have increased there as in other places, and in nearly the same proportion to the annual product of its land and labour. This increase in the quantity of those metals, however, seems

not to have •increased that annual product, •improved the manufactures and agriculture of Poland, or •mended the circumstances of its inhabitants. [He makes the same point in relation to Spain and Portugal, the countries that actually have gold and silver mines but are 'two of the most beggarly countries in Europe'.]

Thus, just as the low value of gold and silver in country x at time t is no proof of the wealth and flourishing state of x at t, so also their high value—i.e. the low money price of goods in general, or of corn in particular—is no proof of the country's poverty and barbarism.

But though the low money price of goods in general or of corn in particular is not a proof of the poverty or barbarism of the times, the low money price of some particular sorts of goods—e.g. cattle, poultry, game of all kinds, etc.—in comparison with that of corn *is* a most decisive proof of poverty. It clearly demonstrates **(1)** the great abundance of those goods in comparison to that of corn, and thus the great extent of the land that they occupied in comparison with what was occupied by corn; and **(2)** the low value of this land in comparison with the value of corn land, and thus the uncultivated and unimproved state of most of the lands of the country. It clearly demonstrates that the stock and population of the country didn't have the same proportion to the extent of its territory that they commonly do in civilised countries; and that at that time in that country society was still in its infancy. From the high or low *money* price of goods in general or of corn in particular, we can infer only that the mines which at that time happened to supply the commercial world with gold and silver were barren or fertile, not that the country was rich or poor. But from the high or low money price of *some* sorts of goods in proportion to that of others we can infer, with near certainty, that it was rich or poor, that most of its lands were improved or unimproved, and that it was in a somewhat barbarous state or a somewhat civilised one.

Any rise in the money price of goods that came entirely from the lowering of the value of silver would affect all sorts of goods equally, raising the price of all of them by $\frac{1}{3}$, $\frac{1}{4}$ or $\frac{1}{5}$ according as silver happened to lose a third, or a fourth, or a fifth part of its former value. But the rise in the price of provisions, which has been the subject of so much reasoning and conversation, doesn't affect all sorts of provisions equally. In the present century on average the price of corn has risen much less than that of some other sorts of provisions. The rise in the price of those other sorts of provisions, therefore, cannot be entirely due to the admitted lowering of the value of silver. Some other causes must be taken into the account; and those I have assigned may sufficiently explain this rise in the particular sorts of provisions whose price has risen more than corn's.

The price of corn itself has, during the first 64 years of the present century and before the recent extraordinary sequence of bad seasons, been somewhat lower than it was during the last 64 years of the preceding century. . . . The evidence for this [he cites it] is surprisingly complete, given that this is a matter that is naturally difficult to be ascertained.

As for the high price of corn during these last ten or twelve years, that can be sufficiently explained by the badness of the seasons, without supposing any lowering in the value of silver.

So the opinion that silver is continually sinking in value seems not to be founded on any good observations on the prices of corn or on those of other provisions.

It may be said:

> The same quantity of silver today will purchase a much smaller quantity of various sorts of provisions

> than it would have done during some part of the last century. To ascertain whether this change comes from a rise in the value of those goods or from a fall in the value of silver is only to establish an empty and useless distinction, which can't be any use to the man who has only a certain quantity of silver to go to market with, or a certain fixed income in money.

I certainly don't claim that the knowledge of this distinction will enable him to buy cheaper. But still it may not be altogether useless.

It may be of some use to the public by providing an easy proof of the prosperous condition of the country. If the rise in the price of some sorts of provisions is entirely due to a fall in the value of silver, it is due to a fact from which nothing follows except the fertility of the American mines. The real wealth of the country—the annual output of its land and labour—may be gradually declining as in Portugal and Poland, or gradually advancing as in most other parts of Europe. But if this rise in the price of some sorts of provisions comes from a rise in the real value of the land that produces them—its increased fertility or its having been cultivated so as to be more fit for producing corn—then it is due to a fact that *clearly* indicates the prosperous and advancing state of the country. The land constitutes by far the greatest, most important, and most durable part of the wealth of every extensive country. It may surely be of some use—or at least give some satisfaction—to the public to have such a decisive proof of the increasing value of what is by far the greatest, most important, and most durable part of its wealth.

It may also be of some use to the public in regulating the monetary wages of some of its lower servants. If this rise in the price of some sorts of provisions is due to a fall in the value of silver, their monetary wages (provided they weren't too large before) certainly ought to be correspondingly increased. If it isn't increased their real reward for their labour will be correspondingly decreased. But if this rise of price comes from the increased value of the provisions because of the improved fertility of the land that produces them, it becomes a much more delicate matter to judge how much the monetary wages ought to be increased or whether they ought to be increased at all. Just as the extension of improvement and cultivation raises (in proportion to the price of corn) the price of every sort of animal food, so it lowers (I believe) the price of every sort of vegetable food. It raises the price of animal food because much of the land that produces it, being made fit for producing corn, must provide to the landlord and farmer the rent and profit that corn land provides. It lowers the price of vegetable food because it increases its abundance by increasing the fertility of the land. Also, improvements in agriculture introduce many sorts of vegetable food that come much cheaper to market because they need less land and no more labour than corn. Examples are potatoes and maize ('Indian corn'), the two most important improvements that European agriculture—perhaps that Europe itself—has received from the great extension of its commerce and navigation. Furthermore, many sorts of vegetable food that in the rude state of agriculture are confined to the kitchen-garden, and raised only by the spade, come in its improved state to be introduced into common fields and raised by the plough; examples are turnips, carrots, cabbages, etc. When the real price of one sort of food rises and that of another falls, it becomes an even more delicate matter to judge how far the rise in one may be compensated for by the fall in the other. Once the real price of butcher's meat has reached its peak (which it seems to have done through much of England more than a century ago, except perhaps the price of hog's flesh),

any subsequent rise in the price of any other sort of animal food can't much affect the circumstances of the lower ranks of people. The circumstances of the poor in much of England surely can't be as much distressed by any rise in the price of poultry, fish, wild-fowl, or venison as they must be relieved by the fall in the price of potatoes.

In the present season of scarcity, the high price of corn no doubt distresses the poor. But in times of moderate plenty, when corn is at its ordinary or average price, the natural rise in the price of any other sort of rude product cannot much affect them. They suffer more, perhaps, by the artificial rise that *taxes* have caused in the price of some manufactured commodities, e.g. salt, soap, leather, candles, malt, beer, ale, etc.

Effects of the progress of improvement on the real price of manufactures

It is the natural effect of improvement to lessen gradually the real price of almost all manufactures. The cost of labour in manufacturing workmanship lessens, perhaps, in all without exception. Because of better machinery, greater dexterity, and a better division and distribution of work—all of which are natural effects of improvement—a much smaller quantity of labour comes to be needed for doing any particular piece of work; and though the flourishing circumstances of the society should raise the real price of labour considerably, the great lessening in the •quantity will generally more than make up for the greatest rise that can happen in the •price.

In a few manufactures, such as carpentry, joinery and the coarser sort of cabinet work, the rise in the real price of the rude materials will outweigh all the advantages that improvement can introduce into the execution of the work. The inevitable rise in the real price of raw timber, in consequence of the improvement of land, will outweigh all the advantages that can be derived from the best machinery, the greatest dexterity, and the best division and distribution of work.

But in all cases where the real price of the rude material rises little or not at all, the price of the manufactured commodity sinks considerably.

Over the past two centuries this lessening of price has been most remarkable in manufactures of that the materials are the coarser metals. A watch that would have cost £20 in the middle of the last century might now cost 20/-. In

- •the work of cutlers and locksmiths,
- •all the toys made of the coarser metals, and
- •all the goods commonly known as 'Birmingham ware' and 'Sheffield ware'

there has been during the same period a great reduction of price. Though not quite as great as in watch-making, it has been enough to astonish the workmen of every other part of Europe, who in many cases admit that they can't produce work as good for double or even for triple the price. There may be no manufactures in which the division of labour can be carried further, or in which the machinery admits of a greater variety of improvements, than the ones whose materials are the coarser metals.

[Smith now devotes about three pages to a complex discussion of how and why the prices of manufactured clothing were so much lower in his time than three centuries earlier.]

Conclusion of the chapter

I shall conclude this very long chapter by observing that every improvement in the circumstances of a society tends, either directly or indirectly, to raise the real rent of land and thus to increase the landlord's real wealth—his power of purchasing the labour, or the product of the labour, of other people.

The extension of improvement and cultivation tends to raise it **directly**. The landlord's share of the product necessarily increases with the increase of the product. [He explains why, through an example. A rise in the price of cattle increases the total income of the dairy farm without increasing the labour or other costs of running it; so the rent of the land increases.]

Every increase in the real wealth of the society, every increase in the quantity of useful labour employed within it, tends **indirectly** to raise the real rent of land. A certain proportion of this labour naturally goes to the land. A greater number of men and cattle are employed in its cultivation, the product increases with the increase of the stock which is thus employed in raising it, and the rent increases with the product.

The contrary circumstances—

- the neglect of cultivation and improvement,
- the fall in the real price of any part of the rude product of land,
- the rise in the real price of manufactures from the decay of manufacturing art and industry,
- the decline of the real wealth of the society

—all tend to lower the real rent of land, to reduce the real wealth of the landlord, to diminish his power of purchasing either labour of other people or the product of their labour.

The price of the annual product of the land and labour of a country naturally divides (I repeat) into three parts:

(a) the rent of land,
(b) the wages of labour, and
(c) the profits of stock;

and constitutes income for three orders of people:

(a) those who live by rent,
(b) those who live by wages, and
(c) those who live by profit.

These are the three great, original, constituent orders of every civilised society, from whose income that of every other order is ultimately derived.

(a) The interest of those who live by rent is, as I have shown, strictly and inseparably connected with the general interest of the society. Whatever promotes or obstructs the one necessarily promotes or obstructs the other. When the public deliberates concerning any regulation of commerce or police, the proprietors of land can never mislead it with a view to promoting the interest of their particular order; at least they won't do that if they have any tolerable knowledge of what that interest is. Too often indeed they *don't*. They are the only one of the three orders whose income costs them neither labour nor care, coming to them of its own accord (as it were), independently of any plan or project of their own. The indolence that is the natural effect of the ease and security of their situation often makes them not only ignorant but incapable of the application of mind needed to foresee and understand the consequences of any public regulation.

(b) The interest of those who live by wages is equally strictly connected with the interest of the society. The wages of the labourer (I have shown) are never as high as when the demand for labour is continually rising, i.e. when the quantity employed increases considerably every year. When this real wealth of the society becomes stationary, the wage-earner's wages are soon reduced to what is barely enough to enable him to bring up a family, i.e. to continue the race of labourers. When the society declines, they fall even below this. The order of proprietors may gain more by the society's prosperity than the order of labourers; but there is no order that suffers so cruelly from society's decline. But though the interest of the labourer is strictly connected with that of the society, he is incapable either of comprehending

that interest, or of understanding its connection with his own. His situation leaves him no time to receive the necessary information, and his education and habits are commonly such as to make him unfit to judge even if he were fully informed. In the public deliberations, therefore, his voice is little heard and less regarded; except on particular occasions when his clamour is animated, set on, and supported by his employers—not for his purposes but for theirs.

(c) His employers are those who live by profit. The stock that is employed for the sake of profit is what puts into motion most of a society's useful labour. The plans and projects of the employers of stock regulate and direct all the most important operation of labour, and the goal of all those plans and projects is profit. But unlike rent and wages, the rate of profit does not rise with the society's prosperity and fall with its decline. On the contrary, profit is naturally low in rich countries and high in poor ones, and is always highest in the countries that are going to ruin fastest. The interest of this order **(c)**, therefore, doesn't have the same connection with the general interest of the society as do the interests of the other two. Merchants and master manufacturers are the two classes of **(c)**-order people who commonly employ the largest amounts of capital, and who by their wealth draw to themselves the greatest share of the public consideration. Spending their whole lives on plans and projects, they have often more acuteness of understanding than most country gentlemen do. But their thoughts are commonly exercised on the •interest of their particular branch of business rather than on •the interest of the society. So their judgment, even when given with the greatest candour (which it has not always been), is much more dependable regarding the former of those two interests than it is regarding to the latter. Their superiority over the country gentleman is not so much in their knowledge of the public interest as in their having a better knowledge of *their* interest than he has of *his*. This has often enabled them to impose on his generosity, persuading him to give up both his own interest and the public's because of a very simple but honest conviction that their interest, and not his, was the interest of the public. In fact, the interest of the dealers in any branch of trade or manufactures is always in some respects different from the interest of the public, and even opposite to it. It is always in the interest of the dealers to widen the market and narrow the competition. Widening the market may often be agreeable enough to the interest of the public; but narrowing the competition must always be against it, enabling the dealers to raise their profits above what they would naturally be, levying for their own benefit an absurd tax on the rest of their fellow-citizens. Any proposal of a new law or regulation of commerce that comes from this order **(c)** ought to be listened to with great precaution, and ought never to be adopted until it has been long and carefully examined with the most scrupulous and *suspicious* attention! It comes from an order of men whose interest is never exactly the same as the public's, who generally have an interest to deceive and even to oppress the public, and who accordingly have often deceived and oppressed it.